



National Lottery  
Commission

Annual Report & Accounts  
2003/2004

Regulate  
Protect  
Secure

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**We will regulate the Lottery so as to ensure that players are treated fairly, protect the nation's interest in the Lottery and motivate the operator to maximise the enjoyment and benefits that the Lottery brings to the nation**

**Ensuring a fair lottery  
for the nation**

Annual Report prepared in compliance with Section 14(1) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998) by the Secretary of State for the Department of Culture, Media and Sport.

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The Commission's responsibilities are governed by the National Lottery etc. Act 1993 as amended. Under Section 4 of that Act, the Commission has a duty to:

## Regulate

We ensure that the National Lottery, and every lottery that forms a part of it, is run with all due propriety.

## Protect

We ensure that the interests of every participant in the Lottery are protected.

## Secure

Subject to these two duties, we do our best to secure that the proceeds of the National Lottery are as great as possible.

In our role as independent regulator of the National Lottery, we ensure that the correct payments are made to the National Lottery Distribution Fund (NLDF). The Commission has no responsibility for the distribution of

grants from the fund; this is the responsibility of the distribution bodies. The Commission is funded by vote from Parliament. Our net expenditure is recovered from the NLDF and licence fees paid by Camelot.

## Key events 2003/2004

2003		2004	
<b>10 April</b>	Harriet Spicer accepts new two-year term as a Commissioner	<b>20 January</b>	Commission gives evidence to the Culture, Media and Sport Committee on the Reform of the National Lottery
<b>25 July</b>	Commission grants class licence for standard Scratchcards	<b>3 February</b>	Commission gives evidence to the Pre-Legislative Scrutiny Committee on the Draft Gambling Bill
<b>22 September</b>	Camelot launches Daily Play	<b>13 February</b>	Camelot launches EuroMillions in conjunction with France and Spain
<b>15 October</b>	Commission imposes a fine of £50,000 on Camelot for breaching the Section 5 Licence	<b>26 March</b>	Timothy Hornsby accepts new four-year term as a Commissioner
<b>16 October</b>	Moira Black CBE succeeds Brian Pomeroy as Chairman of the Commission	<b>1 April</b>	Brian Pomeroy accepts new four-year term as a Commissioner



## Chairman's foreword



**“...the Department for Culture, Media and Sport has announced that it intends to undertake further investigation into proposed legislation governing the National Lottery.”**

**To the Rt Hon Tessa Jowell MP, Secretary of State for Culture, Media and Sport**

On 6 November 2004 the National Lottery will be 10 years old. We are working in a rapidly changing environment, so as well as celebrating the past ten years we are also considering, and safeguarding, the future.

### **The reform of the National Lottery**

Early in the year we gave both written and oral evidence to the Culture, Media and Sport Committee on the Reform of the National Lottery, and to the Pre-Legislative Scrutiny Committee on the Draft Gambling Bill. Both Committees have now published their reports.

We welcomed the conclusion of the Culture, Media and Sport Committee that, due to our unique responsibility to maximise funds for good causes, the regulation of the National Lottery should remain with us. In response to the report, the Department for Culture, Media and Sport has announced that it intends to undertake further investigation into proposed legislation governing the National Lottery. The review is something that we very much support, since it is sensible to test all the options before legislating. We will though, continue to argue strongly for the introduction of greater flexibility and will help the Department with its deliberations in every way possible.

Our concern, which is shared by both the National Audit Office and the Public Accounts Committee, has always been the very real danger that there will be no alternative bidders for the next licence.

**“We will be carrying out extensive research and consultation, taking account of the views of all potential bidders, before we make any decisions on how the next competition will be run.”**

### Sales performance

We are very pleased that Camelot has stabilised sales following the decline experienced in recent years, and that the Lottery is now seeing modest growth.

We expect Camelot to use this stability as a solid base to grow sales further over the remainder of its licence to bring it back towards the £5 billion per annum level achieved on average over the first licence period. Growth in sales will ultimately have a positive impact on the amount of money raised for good causes.

### Preparation for the next licence

For an effective competition in 2007, we need to start work this year. We have requested clarity on what the legislative framework is going to be so that we can thoroughly assess the options available, and start work on the detailed design of the competition.

We will be carrying out extensive research and consultation, taking account of the views of potential bidders, before we make any decisions on how the next competition will be run.

Further information on our preparation for the next licence can be found on page 12.

### Colleagues and staff

I am delighted that the Secretary of State has reappointed Harriet Spicer for a further two years and both Brian Pomeroy and Timothy Hornsby for a further four years in their posts as Commissioners.

On behalf of the Commissioners I would like to thank Brian Pomeroy for all his hard work and his commitment to the Commission during his time as Chairman. I should like to extend our thanks to the Chief Executive and all the staff at the Commission for their continued efforts in ensuring that the National Lottery continues to operate in a well-regulated environment.

*Maira Black .*

**Maira Black**  
July 2004

## Chief Executive's report



**“I am delighted to be celebrating our fifth anniversary in a year that has seen Lottery sales return to growth, the launch of the first multi-country game and players’ first chance to buy tickets over the internet.”**

This was the National Lottery Commission's fifth year. During this short time we have faced some difficult challenges and achieved much. I am delighted to be celebrating our fifth anniversary in a year that has seen Lottery sales return to growth, the launch of the first multi-country game and players' first chance to buy tickets over the internet.

### **Performance of the Lottery**

#### **Propriety and player protection**

Propriety and player protection form a central element of much that we do. We take steps to protect the interests of players, particularly vulnerable groups in society, and to ensure that Camelot provides a good quality of service. Much of this work forms part of our licensing and compliance processes. It includes scrutiny of game rules and procedures, as well as review of all new game proposals to ensure that they are unlikely to lead to excessive play or to appeal to those under 16 years of age. We check compliance regularly, visiting retailers to ensure that required information is available to players.

11 licence breaches were recorded in the year to 31 March 2004. Most were minor, but one involved the failure to maintain properly the software necessary to pay prizes in the event that Camelot went into administration. The Commissioners imposed a fine of £50,000.



**“We actively monitor Camelot's performance and continue to make improvements to our regulatory regime.”**

### Sales performance and returns to the NLDF

We were particularly pleased to see Camelot stabilise sales at £4,615 million, representing growth of some 0.9% on the previous year. Camelot's efforts should be applauded but now, as with any turn-around, the task is to build on these foundations. Three per cent growth per annum over the next three years would take sales back above the £5 billion mark. Camelot's plans for 2004/05 are in line with this target.

Over the course of the year, the National Lottery generated £1,294m for good causes<sup>1</sup>, some £65 million down on the previous year. This was due, in part, to a fall in unclaimed prizes. But the majority of the reduction, some £44 million, was due to increased prize payouts across the portfolio as new games are introduced. Camelot's expectation is that this trend will reverse in 2004/05 as the full year benefit from sales of these new games is experienced. We will keep a close focus on this aspect of Camelot's performance over the coming years.

### Game Portfolio

Camelot launched a number of new games throughout the year. These included the first £3 and £5 Scratchcards in June 2003 and October 2003 respectively and the launch of Daily Play on 22 September 2003.

In February 2004 Camelot launched EuroMillions – a joint venture between the UK, French and Spanish lottery operators. This is the first game in the UK to be linked with games in other countries, with a common format and prize structure, and it posed significant challenges both to Camelot and ourselves. Its successful introduction has demonstrated the ability of the Commission and Camelot to work constructively together in the introduction of new games. We have ensured that we have full rights of access to information on all aspects of the game that could affect UK players, and that Camelot's rights in the venture will pass to its successor should there be a change in operator in the future.

Camelot has also embarked on a strategy to expand the distribution channels through which players can purchase tickets for draw-based games. Players are now able to play a range of draw-based games over the internet and on interactive TV. Plans are underway to make Lotto available via mobile telephones and Electronic Point of Sale (EPOS) in supermarkets later in the year. Camelot has also planned, with our support, to increase the number of all-purpose terminals within its retail estate.

### Relationship with the operator

We actively monitor Camelot's performance and continue to make improvements to our regulatory regime. The Commissioners meet

1. Via the National Lottery Distribution Fund (NLDF). The percentage of ticket sales which goes to good causes varies slightly depending on the prize payout ratio for a particular game, so cannot be directly derived from overall sales levels.

**“Over the last year we have agreed trigger levels for each game, and Camelot has agreed to review the performance of any game where sales fall below the agreed level.”**

with Camelot twice a year to review sales performance and forward plans. We undertake a quarterly review of the performance of the portfolio and of forward plans for marketing, game development and distribution channels.

Over the last year we have agreed trigger levels for each game, and Camelot has agreed to review the performance of any game where sales fall below the agreed level. This assisted with the early identification of accelerated decline of Lotto sales early in 2003. Early joint corrective action was very effective in addressing the decline. We are also developing non-sales performance measures, which cover a broader range of strategic indicators such as brand health, customer satisfaction, product development and delivery, and reputation.

A class licence was issued for the first time in February 2003, covering Instant Win Games over the internet. A second class licence was granted for standard Scratchcard games in July 2003. This allows the operator greater flexibility to introduce games within clearly defined guidelines, rather than having to seek our approval each time. We have also introduced a code on top prize management for Scratchcards, which gives the operator greater freedom while ensuring that players' interests are protected.

#### **Relationship with stakeholders**

We adopted a three-year communications strategy that will raise our profile with our main stakeholder groups. Within this framework we are developing our relationships with Government, the media, the regulatory community and with a variety

of organisations concerned with responsible gambling, including GamCare and the churches. We also recognise the interests of our staff, through our first internal communications programme.

A major step forward last year was the establishment of the National Lottery Promotions Unit (NLPU) which has taken on the task of promoting awareness of how Lottery funding has benefited the nation. We have been involved with the work of the NLPU and are fully in support of its aims.

#### **Policy development**

We have also provided support both to Camelot and to DCMS on proposals for policy development. We undertook a significant piece of work for DCMS in assessing Camelot's estimates of the contribution that could be generated to support the staging of the 2012 Olympic Games in London, should the bid be successful. We have also reviewed proposals by Camelot for changes in the wider regulatory framework, and supported these where we considered it appropriate to do so; for example, the potential to introduce a Gross Profit Tax to replace Lottery Duty.

#### **Our own performance**

##### **Financial performance**

Expenditure for the year was £4.1m. The financial statements show a surplus of £265,000. The underspend was due in part to staff salaries being lower than budgeted, as we carried a number of vacancies in the early part of the year. By March 2004

recruitment to posts in our new structure was substantially complete. There was also underspend on our information technology and communication costs as the project to implement electronic records management (see below) was deferred to 2004-05.

These underspends were partially offset by increased expenditure on professional advice – particularly legal advice, due to the significant new developments in National Lottery games such as Daily Play and EuroMillions during the year.

We continue to focus on achieving value for money. During the year we have begun a review of our procurement practices. We are now making greater use of centrally negotiated contracts for IT purchases and consultancy services. We are planning to further modernise our purchasing by making greater use of e-procurement.

### Principles of good regulation

The report from the Better Regulation Task Force in October 2003 made reference to the five principles of good regulation: proportionality; accountability; consistency; transparency, and targeting.<sup>2</sup> I believe that these principles have underpinned our work throughout the year. We are also looking closely at our compliance with the recommendations from the Task Force's report 'Principles of Good Regulation'.

### Progress on Government Initiatives

We have made good progress on the Government target to manage records electronically by December 2004. We have selected a software system that will allow us

not only to manage our documents and records electronically, but will also deliver additional benefits through improved knowledge and workflow management. This will underpin our compliance with Freedom of Information legislation, which comes into force over the coming year.

Last year we completed our pay and grading review and this has already resulted in a significant drop in our level of staff turnover. I am delighted that we achieved liP status in May 2003. We are now using an established excellence model as a tool to help us deliver further organisational improvement.

As formal recognition of our work in the areas of equality and diversity, in February 2004 we became an accredited disability symbol user.

### Thanks

All in all, our fifth year as regulator of the National Lottery has been a memorable one. I would like to thank all staff, past and present, for their hard work, humour and commitment to ensuring a fair lottery for the nation.



**Mark Harris**  
July 2004

2. For more details, please see our website [www.natlotcomm.gov.uk](http://www.natlotcomm.gov.uk)

## Investing in our people



INVESTOR IN PEOPLE

The National Lottery Commission has always encouraged its staff by investing in their personal development. This was officially recognised in May 2003 when we achieved the Investors in People (IiP) award.

### Recruitment

Following the organisational review, and the review of pay and grading policies last year, there has been real progress in implementing change. We have completed the recruitment of a Performance and Communications directorate, ensuring that we have the skills and talent necessary to meet our objectives. We also improved our recruitment processes by introducing psychometric and ability testing methods.

### Pay and grading

There has been a 90 per cent reduction in staff turnover and we have recruited to all new posts within the scales set out in the pay policy. We have been able to reward performance and development through the use of a competence-based pay progression system, as well as using one-off recognition awards up to a maximum of £250. Three members of staff received such awards this year.

### Equal opportunities

The Commission takes diversity seriously, ensuring that recruitment, training and appraisals are carried out fairly. We provide equal opportunities training for all staff and insist that everyone attends.

We have taken our work on equality further this year, making adjustments to our recruitment materials and training to address disability in the workplace. The work we have done in this area was formally recognised in January 2004 when we achieved the Positive About Disability standard.

### Training and personal development

We have made significant investment in the development of staff over the year, as detailed in Appendix F.

Internal training courses on essential areas, such as health and safety, equal opportunities and the appraisal process have been provided. We have also delivered a 'self-development for managers' programme, focusing on providing refresher training, guidance and coaching on essential management skills throughout the organisation.

The Commission is committed to ensuring that staff are recognised for their personal development. We continue to support staff studying for professional, academic and vocational qualifications with several members of staff achieving qualifications in areas such as accountancy, audit and personnel.

We have started to build on all that we have achieved over the last two years using the EFQM Excellence model. The model is a framework for organisational self-assessment widely used in both the private and public sectors as a means of reviewing performance against best practice. The output of the self-assessment exercise will be an action plan, which will be the first step in a programme of continuous improvement.

## Open Learning Centre



In addition to formal training events, we provide an Open Learning Centre, offering facilities for web-based learning as well as numerous publications, aimed at increasing skills and knowledge. A review of the facility was carried out this year, showing that 75 per cent of staff have used the resource and found it a valuable

development tool. We have also used staff awaydays, coffee-break briefings, internal updates and newsletters to keep all staff informed of developments both within the Commission and in the broader world of lottery regulation and stakeholder management.

Members of the resources team – Finance, HR and IT.

“Since its launch in 1994, over £45 billion worth of tickets have been sold and £15 billion has been raised for good causes, benefiting over 165,000 individual projects across the UK.”

## Competition for the next licence period



The UK National Lottery is one of the most successful in the world – but we cannot afford to become complacent. The Commission has a responsibility to ensure that the Lottery continues on an upward path and a key factor in securing the best returns for good causes will be a healthy competition to run the National Lottery after 2009.

We share the concerns expressed by the National Audit Office and Public Accounts Committee, among others, that there may be little competition for the next licence. This is not being overly pessimistic: there were eight bidders for the first licence and only two for the second. For this reason, we are starting work early to ensure that we do everything within our power to address this issue.

### Legislative change

The Government is considering the framework under which the next Lottery licence will be awarded. In our response to the Department for Culture, Media and Sport (DCMS) consultation in 2002 we proposed that there should be greater flexibility in the number of licences we can grant. We have made no decision, at this stage, whether to grant more than one licence, but believe that we should have the flexibility to do so if we consider, in the light of market conditions nearer the time of the competition, that this would attract a stronger competition and better returns. We would not envisage more than a small number of licences – two or three – structured to maintain the natural monopoly of jackpot games and to minimize competition between licensees during the term of their licences.

The Government adopted this proposal in its decision document in July 2003. Since then, the proposal has been reviewed by the Culture, Media and Sport Select Committee and by the Joint Scrutiny Committee on the Gambling Bill. Both expressed concerns at how such arrangements will operate. The Government is now undertaking further work to assess its policy. At the time of writing, no final decision on licence flexibility has been made. We will need clarity on the Government's plans soon if we are to make effective use of any new powers.

### Our forward work programme

Although the next licence starts in 2009, we need to run the competition in 2007 to allow sufficient time for handover. For the second licence, we only had eight months from our creation to design the competition and issue a final invitation to bidders to apply for the licence. For the third competition, we intend to do much more than we were able to in 1999 to assess the market and all the options available to us.

We recognize that putting a bid together is both complex and expensive and we must give bidders the certainty they need to participate. We must also recognize that operating the Lottery is a much more complex than it was: technology has moved on rapidly, the game portfolio has expanded considerably and new distribution channels have been introduced. All these factors indicate that substantial changes to the licence structure may be required, regardless of whether we are given the flexibility to grant more than one licence.

“...operating the Lottery is a much more complex arrangement than it was: technology has moved on rapidly, the game portfolio has expanded considerably and new distribution channels have been introduced.”

Our indicative timetable is set out in the box opposite. This demonstrates the importance of starting work now to research the state of the market and the reasons why potential licensees might not find the prospect of bidding attractive. This will allow us to assess our options during 2005, consulting widely with potential licensees to understand how we might structure the competition to best effect with the powers available to us.

### Preparation

As a first step we have commissioned independent research to assess likely market interest in bidding for the next National Lottery licence. This will involve detailed analysis of the economic and commercial incentives to bid for the Lottery as well as an audit of interested parties. We will ask potential bidders about their perceptions of the current licensing arrangements and what the attractions and potential barriers are likely to be for them in submitting a bid. This will help us to understand what we need to do to promote a healthy competition for the next licence, in order to increase returns to good causes. The results of this research will be published in late Autumn 2004.

We would be happy to hear from any interested parties directly, if they have views we should be aware of. If there are other options that would allow for strong competition, whether within a single licence or not, we would be pleased to hear them.

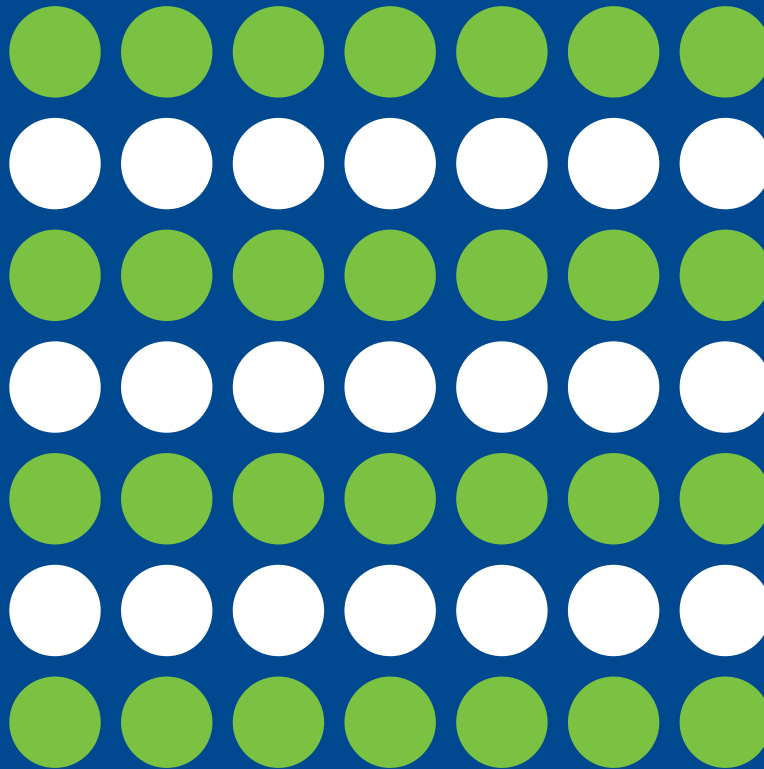
### Indicative timetable

<b>2004</b>	Research the state of the market and the reasons why potential licensees might not find the prospect of bidding attractive, in order to have a thorough understanding of the issues and constraints.
<b>2005</b>	Identify the broad options available to address the issues and constraints identified, assess them (including wide consultation with interested parties) and select a preferred structure for the competition and licence(s) by early 2006.
<b>2006</b>	Undertake the detailed design of the competition and licence(s), including consultation with interested parties on key issues as the design progresses, and consultation on a draft Invitation to Apply (ITA) and licence(s) in the latter part of the year.
<b>2007</b>	Issue the final ITA at the start of the year. The competition will involve preparation of bids, evaluation of those bids and finalisation of the terms of the licence.
<b>2008</b>	Handover period.
<b>1 February 2009</b>	New licence period to operate the National Lottery comes into effect.



# Regulate

We ensure that the National Lottery, and every lottery that forms a part of it, is run with all due propriety.



The UK Lottery is well regulated. We check that all parties involved with the Lottery are fit and proper persons; have rules to protect prizes to players and procedures to secure draw integrity.



Kingsley Jones, Director of Licensing and  
Marta Phillips, Director of Compliance.



## Licensing

### Granting a licence

Under the legislation setting up the National Lottery, there is a Section 5 licence for its operation and Section 6 licences for the various games. After the selection of the operator, the granting of licences is the foundation of the Commission's work: the various licences lay down the boundaries within which the operator works and set the terms of the Commission's compliance activity.

"The Commission has changed previous practice to make the licensing process more conducive to innovation"

#### Types of licence

**Section 5 licence:** the main licence to operate the National Lottery as specified in the 1993 National Lottery Act. Currently awarded to Camelot.

**Section 6 licence:** Awarded to licensees for the running of each game. All are currently held by Camelot but independent operators may apply with Camelot's agreement

**Class licence:** a form of Section 6 licence, which covers a class of games, such as Scratchcards.

### Licence variations – Section 5

The current licence was granted to Camelot in January 2002 to run until January 2009. Significant variations made to the licence in 2003/04 included:

- improving access by players to National Lottery games by increasing the number of all-purpose terminals that Camelot is required to provide at retailers in return for a reduction in the number of terminals equipped only to validate Scratchcards;

- allowing Camelot to base its weekly payments to the NLDF on sales percentages calculated using actual sales and payments for prizes. Before percentages were based on forecast averages for the year that did not take account of the incidence of Superdraws. The change involved putting the annual factors in Schedule 1 to the licence onto a weekly basis. The total amount paid by Camelot in the course of a year is not affected and there is no adverse bias in terms of its timing; and
- the implementation of the new media sales adjustment described in our last Annual Report.

These and other licence changes are listed in Appendix B.

### Licence variations – Section 6

National Lottery games are promoted under Section 6 licences. Until recently these were granted for each game individually, but the legislation does not require this and the Commission has made changes to previous practice as part of its efforts to make the licensing process more conducive to innovation. Significant variations made to the licence in 2003/04 included:

- Lotto and Daily Play – licences were changed to allow for the availability of tickets on the internet and through interactive digital television.

We agreed new sets of rules that strengthened the provisions on underage play and that covered the payment, under certain conditions, of prizes on paper tickets that claimants have found.

## EuroMillions

EuroMillions broke new ground for the National Lottery. The game is linked with others in France and Spain that have the same format and share the same prize structure. While the Commission could only license a UK game within the National Lottery, our concerns included the possible impact of arrangements in the other countries on UK players and what would happen once the present licence expires in 2009. The Commission's aim was to enable Camelot to take an active part in devising a potentially Europe-wide game that promised to benefit good causes, while ensuring we were able to fulfil our statutory duties.

The key provisions include giving the Commission information on operations conducted for the joint company set up with Camelot's partners to run the multinational game. There is also a right of access via Camelot to relevant EuroMillions data that is equivalent to our rights of access to other National Lottery games. In addition, the Section 6 licence enables the Commission to require Camelot to obtain approval for decisions it takes with its partners, including key procedures, such as those relating to the EuroMillions draw.



“While the Commission could only license a UK game within the National Lottery, our concerns included the possible impact of arrangements in the other countries on UK players and what would happen once the present licence expires in 2009.”

Scratchcards with top prizes of £100,000. The change was accompanied by Camelot accepting a Code of Practice on the Availability of Top and Major Prizes. This stipulates when Camelot should announce that all such prizes have been won and when games should be withdrawn.

### Licence breaches

During the last twelve months the National Lottery Commission has recorded 11 licence breaches, most of which were minor contraventions. When we uncover or are made aware of a possible licence contravention, we investigate the circumstances and, on the basis of the information available, make a decision as to whether or not to record a licence breach.

A summary of all licence breaches can be found in Appendix C.

### Vetting

We ensure that individuals and companies are ‘fit and proper’ to be involved in the National Lottery. During the financial year we have added steps to our procedures to encourage the people that we vet to complete their forms in a timely and accurate manner. This has helped reduce backlogs in vetting and increase the efficiency of the system. Additionally a matrix has been developed to identify more clearly whether contractors and suppliers require vetting.

We carried out 738 checks on individuals (compared with 373 in 2002/03) and 4 checks on companies (compared with 9 in 2002/03). One individual was found ‘not fit and proper’ (two in the previous year). An individual who is found ‘not fit and proper’ is barred from certain roles in the operation of the Lottery.

- Class licences – The first class licence was granted for Instant Win Games in February 2003 and the second for Scratchcards in July 2003. This allowed Camelot the flexibility to promote standard Scratchcard games with top prizes of up to £99,000, provided certain other conditions are met. At the end of the financial year the Commission granted new class licences of each type, making some changes in each case and aligning the duration of the licences with the financial year. The changes included allowing Camelot not to seek separate licences for the series of

**“We maintained our focus on protecting UK players by ensuring that critical procedures relating to the draw process, the identification of winning wagers and the calculation of prizes were robust and properly tested.”**

### Ensuring compliance

The Commission helps to maintain high levels of public confidence in the integrity and security of the National Lottery. We are responsible for ensuring that Camelot complies with the terms and conditions of its licences and other regulatory obligations.

Our work covers all key areas of Camelot's operations. In the light of our statutory duties, we assess the risks associated with Camelot's operations and undertake checks on an annual, quarterly or monthly basis. Special projects are also undertaken where required. We check that Camelot is operating within the terms of licence conditions and that appropriate controls are in place. When necessary, we require Camelot to make changes or improvements to its systems and procedures.

### Our work

We conduct checks at draw sites, at Camelot's main office and at all regional offices across the country, as well as visiting retailers. The launch of the Daily Game saw Camelot introduce a 'free' ticket if a player does not match any numbers. We ensured that our compliance work accommodated this. The introduction of the EuroMillions game required Camelot to work collaboratively with the French and Spanish lottery operators. We maintained our focus on protecting UK players by ensuring that critical procedures relating to the draw process, the identification of winning wagers and the calculation of prizes were robust and properly tested.



**“We conduct checks at draw sites, at Camelot's main office and at all regional offices across the country, as well as visiting retailers.”**

This year, additional checks have been introduced for Daily Play, EuroMillions and the extension of Lotto and Daily Play via interactive channels. We also amended our checking mechanisms to reflect the licence variation allowing Camelot to pay the NLDF on the basis of actual sales and prizes.

### The draw

We maintain a continuous oversight of the integrity and security of the National Lottery draws. This includes reviewing procedures and reports on the draw itself as well as the arrangements for testing draw machines and ball sets. We attend one Wednesday and one Saturday draw each month at the TV studios to check that approved procedures are followed. Since the introduction of Daily Play in September 2003, we have also attended a daily draw once a month.

As a part of the introduction of EuroMillions, we liaised with Ernst & Young, the independent auditors for that game; in order



“The case of EuroMillions illustrates the range of factors that can arise in the process of granting a licence.”

to satisfy ourselves that the standards established for UK based games were appropriately reflected in the procedures and contingency arrangements for EuroMillions.

The Commission has a rolling research programme in place to check the randomness of the balls drawn.

### Funds

We verify that payments made to the NLDF are correct and timely. We also check that the flows between trust funds are correct to ensure that prizes due to players are adequately protected. This year we verified the accuracy of payments totalling over £1.3 billion made to the NLDF. These payments included the primary contribution from ticket sales, other amounts for unclaimed prizes and charges to retailers in respect of lost and stolen packs of Scratchcards. As new games are introduced, we ensure that the appropriate payments and trust fund movements are made.

### Security

It is vital that Camelot has strong security arrangements over its premises and equipment. We regularly review Camelot's security arrangements in a range of areas. These include:

- the draw;
- the warehouse where Scratchcards are stored; and
- IT and secure areas.

As part of the licensing process for Scratchcards we also look at reports on the security and integrity of Scratchcards printed. In the area of IT security, we undertook a review of the controls in place in the interactive environment.

### IT development

The Commission's independent verification system, which processes and reports the National Lottery financial data at player transaction level, was upgraded to include the new games Camelot launched during the year. This included Daily Play, played both at retailers and via the internet, and the recent launch of the new EuroMillions game.

During the year, we required Camelot to carry out an independent test of major system changes before these were introduced to the live Lottery systems. We have maintained our oversight of the programme releases for new games and delivery channels. We will continue to monitor this area closely for the foreseeable future.

Camelot launched National Lottery Instant Win Games on the internet in February 2003. During the current reporting period Lotto and Daily Play have also been launched on the internet. These developments underwent independent system testing by Deloitte & Touche before the Commission gave launch approval.

The Commission required system testing and certification of the EuroMillions game program by an independent company, Deloitte & Touche, Dublin. This report certified that there were no significant items which could pose a threat to the integrity of the lottery systems. On this basis, and other pre-launch conditions, the Commission gave Camelot approval to launch the EuroMillions game.

“During the year, we required Camelot to carry out an independent test of major system changes before these were introduced to the live Lottery systems.”

## The licensing process

The case of EuroMillions illustrates the range of issues that can arise in the process of granting a licence. We aim to reach decisions in principle on particular topics as early as possible.

The issues with EuroMillions included:

**Legality** – we sought confirmation from legal advisers that a game linked to games in other countries could operate as a legal lottery in the UK.

**The relationship of participating lotteries** – we considered the structure of the relationship between participating lotteries, including the legal documentation establishing rights and responsibilities between them and the timetable for expanding the game to include other European lottery operators.

**Predicted revenue** – we analysed predicted revenue streams, expected incremental returns to the good causes and the potential impact on other National Lottery games.

**Security** – we evaluated procedures for the draw and for the security of equipment to ensure the integrity of the lottery, and ensured the suitable testing of equipment and processes before the first draw was held.

### Player protection

- We satisfied ourselves that the game would not pose a threat to vulnerable groups including under 16s and those at risk of excessive play.
- We clarified arrangements for the conversion of monies between sterling and euros. We ensured UK players were protected against the impact of fluctuations in conversion rates.
- All player documentation, including game rules, procedures, playslips, tickets and guides required careful and detailed scrutiny.
- We ensured that Camelot undertook an appropriate level of retailer training, as retailers form the first point of contact with players.

**Protecting players' funds** – we ensured that appropriate structures were put in place, both in the UK and overseas, to protect UK players' funds and to ensure the payment of prizes.

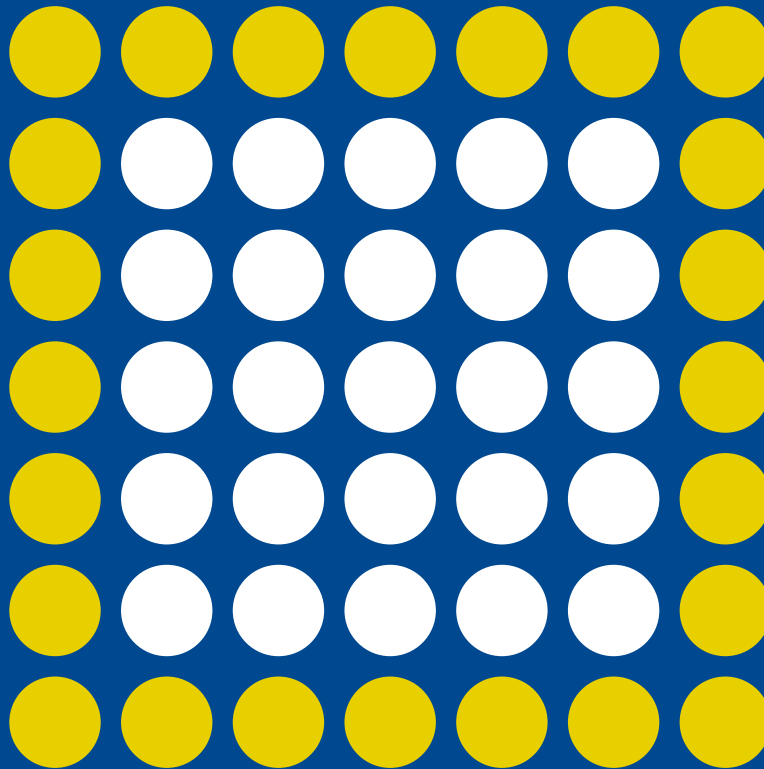
**Marketing** – we clarified the method and manner by which the game would be brought to the attention of players.

**Intellectual property** – we took appropriate steps to ensure the protection of intellectual property rights in the UK.



# Protect

We ensure that the interests of every participant in the Lottery are protected.



We ensure that there are sufficient controls to prevent play by under 16s and that no game which is likely to encourage excessive play is licensed.

“In instances where players are dissatisfied with any aspect of the National Lottery, they have the right to complain to Camelot and receive a timely and comprehensive response. If the player feels that the response does not adequately deal with the issues raised, they can refer the complaint to the Commission. ”

### Our role

The role of the consumer protection team is to:

- protect the interests of players and, in particular, vulnerable groups;
- ensure that Camelot provides a high quality of service to players;
- handle enquiries and complaints regarding the National Lottery; and
- maintain effective co-operation with organisations with an interest in the public impact of gaming.



### Protecting the interests of vulnerable groups

The two main groups considered to be at risk from over-exposure to gambling are those who may become addicted to some types of games and those under the age of 16.

#### New games

The Commission reviews new game proposals to ensure that a game is unlikely to lead to excessive play and does not have particular appeal to under 16s.

Camelot has developed the Game Design Protocol (GDP) to provide an objective measure of whether major new games have the potential to attract excessive or underage play. The tool measures the relative risk of a new game, in terms of spend and frequency of participation, against existing gaming activities. Camelot has stated that it will implement appropriate risk reduction strategies if any game is revealed to be high risk on an initial application of the tool. We commissioned a consultant to review Camelot's work on the GDP. Their report concluded that the GDP is “a unique and groundbreaking tool”. We will be discussing the future development of the GDP with Camelot over the next year.

Analysis has demonstrated that the GDP is a valuable tool. However, in certain instances, we will require measures to be put in place to monitor that actual play confirms research results. We also review the process Camelot has adopted for reducing sales to under 16s.

### Operation Child

This year, we undertook a detailed review of ‘Operation Child’, Camelot's strategy of conducting test purchases in order to reduce sales to under 16s. We were able to confirm Camelot's commitment to reducing under 16 sales and commend its efforts in this area.

Operation Child visits use a test purchaser, who will attempt to buy a Lottery ticket or Scratchcard. The test purchaser must be at least 16 years old, but is chosen because he or she looks younger. As they appear younger than 16 years of age, the retailer is expected to ask for proof of age and when none is produced, to refuse a sale.

If no sale occurs, the retailer will not be made aware of the visit until they are sent a congratulatory letter. If the retailer does sell a ticket they are advised of their failure to follow proper procedures and the need to remain vigilant to under 16 sales. They will receive one, or at most two, follow-up visits. If a sale occurs on both occasions the retailer's lottery terminal will be suspended.

### Ensuring a high quality of service to players

In instances where players are dissatisfied with any aspect of the National Lottery, they have the right to complain to Camelot and receive a timely and comprehensive response. If the player feels that the response does not adequately deal with the issues raised, they can refer the complaint to the Commission. Our consumer protection team will consider the issues raised and will take such action as may be necessary to address the player's grievance and/or to prevent recurrence in future.

## Retailer visits



“During the year we visited over 550 retailers throughout the UK, including those in Edinburgh, Plymouth, Darlington, Newport and Cambridge.”

We undertake visits to retailers across the country. These are aimed at checking Camelot’s compliance with licence requirements relating to information available to players. We aim to visit every postcode where there are Lottery terminals during the period of the Licence. In selecting our sample we take account of any issues that may have come to our attention.

During the year we visited over 550 retailers throughout the UK, including those in Edinburgh, Plymouth, Darlington,

Newport and Cambridge. Our work involves a general review of the information held in the retailers’ premises and using a questionnaire to check that retailers have adequate knowledge of the Lottery, and that they know the rules relating to selling to under 16s. Whilst we find variations across the country, overall, the standard of information available is in line with licence requirements.



“Our work is focussed on ensuring that winners’ confidentiality has been maintained, unless of course, the winner has opted for publicity. We need to be sure that Camelot goes through proper procedures to confirm a winner’s identity and undertakes the appropriate security checks.”

Matthew Daykin, Licensing and Vetting Manager



#### Monitoring performance

The Commission sets performance standards to ensure that Camelot maintains a high quality service to the public and players. The standards are subject to annual review. New standards may also be introduced mid-year, as in the case of EuroMillions, which was launched in February 2004.

#### Player information/documentation

The introduction of interactive versions of Lotto and Daily Play required a comprehensive review of the structure for game rules and procedures.

We clarified the licence requirements with Camelot regarding the availability of player information in Welsh.

#### Prizewinners

We look at a sample of payments made to prizewinners to ensure that Camelot has followed proper procedures. This includes prizes in respect of subscribers and those playing using the interactive channels as well as those prizes won on tickets bought in the retailer estate. Our work is focussed on

ensuring that winners’ confidentiality has been maintained, unless of course, the winner has opted for publicity. We need to be sure that Camelot goes through proper procedures to confirm a winner’s identity and undertakes the appropriate security checks. We also confirmed that the process for dealing with major prizewinners through the interactive service is followed.

#### Co-operation and communication

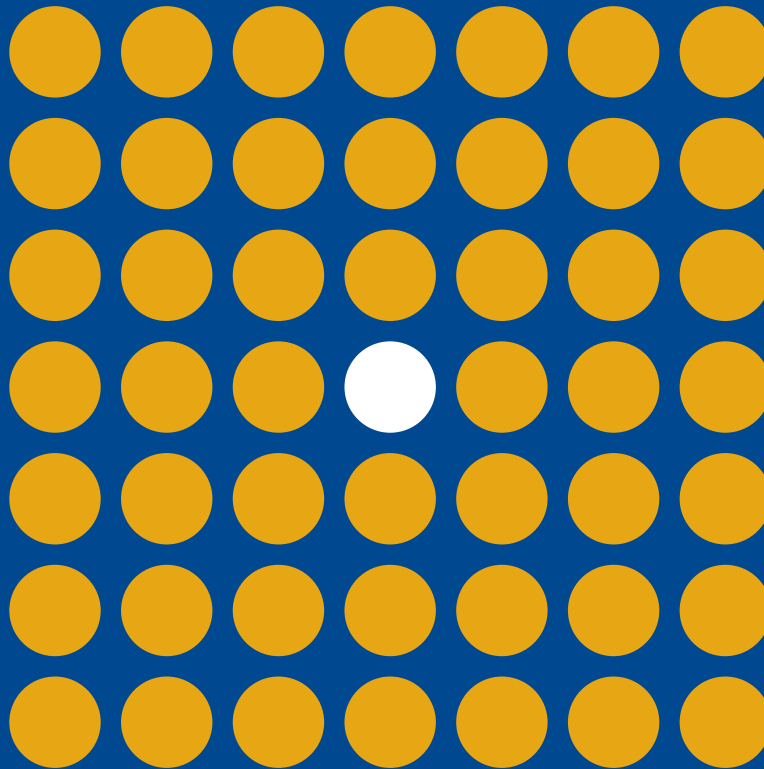
The Commission has developed links with other organisations working in the field of consumer protection. We held regular meetings with GamCare and representatives of the Methodist Church and also gave a presentation to representatives of a number of church groups on the work of the Commission, focusing on the role of consumer protection.

Through our meetings with GamCare we have been able to gain a better understanding of their concerns. As a result we have agreed with Camelot that in future all Scratchcard tickets will have the GamCare telephone number on the reverse.

We will continue to explore opportunities to forge links with organisations with an interest in responsible gambling.

# Secure

We do our best to secure that the proceeds of the National Lottery are as great as possible.



Once we are satisfied that a game can be run safely and will not encourage excessive play, our focus shifts to the benefits that can be delivered to good causes. We are interested in the performance of the games as a portfolio and will seek to understand as far as possible the impact that one game has on another, taking into account developments in other parts of the leisure industry.

## Monitoring sales

Over the past year we have re-vamped our internal weekly sales reporting and instituted a monthly sales report for Commissioners that is designed to support an informed challenge of the operator's plans. As part of this process, we check whether any game has sales below its agreed trigger level and will request the operator to undertake a formal performance review in such instances. This assisted with the early identification of accelerated decline of Lotto sales early in the year. Early joint corrective action was very effective in reversing the decline.

We expect this area to benefit greatly from the research programme approved by Commissioners this year. We will be undertaking various pieces of research to test hypotheses about the interaction of games within the portfolio, as well as to examine changes in the environment in which the National Lottery operates.



## Sales performance

The total value of sales in 2003/2004 was £4,615 million, representing a 1% rise on the previous year. New games launched were Daily Play in September and EuroMillions in February. Buying Lotto and Daily Play over the internet also became possible in December as part of Camelot's strategy to broaden sales channels capability.



### Lotto

Lotto sales of £3,225 million were 4.8% lower than the previous year and accounted for just under 70% of total sales. This was a slower rate of decline than in the previous year but with the introduction of new games, also reflects Camelot's strategy to place less reliance on the main game.

Stronger rates of decline in the early part of the year were countered by four Superdraws over the summer period and higher than average rollover occurrence in the second half. Other initiatives have also included the release of a Syndicate Manager tool which can be downloaded from the website, in order to assist those who organise syndicates.



### Christmas Millionaire Maker

Last year's Christmas Millionaire Maker game performed below Camelot's expectations, achieving sales of £15 million against £25 million the previous year. The timing of the Christmas holiday period, with other games being drawn on the same day may, in part, explain this.



### Lotto Extra

Lotto Extra sales, at £78 million, were 25.4% below the previous year's total, with weekly sales averaging £1.5 million. The highest jackpot through the year was £14.2 million.



### Lotto HotPicks

Lotto HotPicks was launched in July 2002 and initially achieved sales of, on average, £5 million per week. This year, sales have averaged about £4.6 million a week but the game still accounted for £244 million.



### Thunderball

Thunderball sales rose 25.4% on the previous year to £351 million. This was following the first full year of mid-week draw sales, following launch in October 2002. It has maintained a very steady rate of weekly sales of over £6.5 million on average, assisted by two rounds of television advertising during the year.



### Daily Play

Daily Play, with a draw every day apart from Sunday, was launched in September 2003. The opening week's sales were £2.3 million. They ended the year at around £1.3 million and accounted for £45 million for the whole year.



### Scratchcards

Sales of Scratchcard games, at £636 million, were a solid 10% improvement on the previous year. This year included the first £3 and £5 games to be licensed by the Commission.



### EuroMillions

EuroMillions was launched in February 2004. It is the first pan-European game for the National Lottery. Currently with two partners, France and Spain, the expectation is for six more countries to join the game later in 2004. Played on a Friday, the first seven draws produced two winners of this rolling jackpot game. Sales in the UK have averaged £2.1 million a week.

“We have ensured that UK players are fairly treated and that conversions between currencies do not impact negatively on UK players.”

The launch of internet sales of Lotto and Daily Play, to complement the previously launched Interactive Instant Win Games (IWGs) played on the National Lottery website took place in December. Internet sales now regularly account for over 1% of total weekly National Lottery sales. IWGs contributed sales of nearly £275,000 a week by the end of the period, with a cumulative total of £5 million.

### Section 6 licences granted during the year

**EuroMillions** – EuroMillions is innovative in bringing together separate lotteries in the UK, France and Spain to offer a single pooled jackpot. The game requires players to select 5 numbers from 50 and 2 lucky stars from 9. The game offers 12 prize tiers and has overall odds of 1 in 24. In the UK, players pay for tickets and receive prizes in sterling. The current ticket price of £1.50 is subject to change as a result of currency fluctuations between sterling and the euro. We have ensured that UK players are fairly treated and that conversions between currencies do not impact negatively on UK players.

Draws take place every Friday, with the first draw being held on Friday 13 February 2004. Players can watch the draw on Sky One.

**Daily Play** – Tickets for Daily Play went on sale on 22 September 2003, with the first draw being held that night. The game has odds of 1 in 8 and offers players cash prizes ranging from £5 up to £30,000 for matching four numbers or more. It is the first game to offer players a prize of a free £1 Daily Play Lucky Dip ticket for matching no numbers.



“The brand is a key asset of the National Lottery and is held by the Commission; we license Camelot to use it.”

**Christmas Millionaire Maker** – This Christmas game was drawn on 24 December 2003. Four millionaires were created on the night.

**Scratchcards** – in July 2003, we agreed a class licence for Scratchcards. 21 games have been launched under the terms of the class licence, of which 11 were priced at £1 and ten were priced at £2.

In addition, we licensed a further 11 games which fell outside the terms of the class licence. Of these, four were priced at £1, one at £2, four at £3 and two at £5.

Significant Scratchcard game launches during the year included:

- **First £3 and £5 Scratchcard games**  
The first Scratchcard games priced at £3 and £5 were launched. These games enable Camelot to offer players more significant prizes. For example the ‘£30m Spectacular Game’ offered sixteen prizes of between £100,000 and £2m.

“All new trademarks and internet domain names are now applied for and registered on our behalf.”

- **Lord of the Rings**

Camelot launched a number of Scratchcard games featuring licensed properties. These include Connect 4 and Twister. The most popular of these games proved to be Lord of the Rings, which featured imagery from the popular film.

#### New Game Play Mechanisms

**Lotto and Daily Play** – To increase player access to the National Lottery, we have agreed to the introduction of a range of new game play mechanisms.

Entries to Lotto and Daily Play have been available via the National Lottery website since December 2003, while play via iDTV has been available since April 2004. EuroMillions will be the third game to be accessible via these game play mechanisms. Entries to EuroMillions will be available in June 2004.

We have also agreed that players should be able to enter Lotto, Daily Play and EuroMillions via mobile phone. We are currently involved in discussion with Camelot regarding the licence and security implications. The facility will be introduced in late 2004.

#### The future – EPOS

Electronic Point of Sale or EPOS will enable the sale of some Lottery tickets at checkouts in supermarkets. The system will be piloted in a limited number of stores in late 2004 and, once the results of the pilot have been assessed, will be launched early next year.

This new game play mechanism presents a number of unique challenges. We will need to ensure that the system designed for selling Lottery tickets through EPOS terminals



The brand is a key asset of the National Lottery and is held by the Commission; we license Camelot to use it. We have concluded a trademark licence for game-related trademarks and an assignment of Scratchcard ticket designs with Camelot during the year. All new trademarks and internet domain names are now applied for and registered on our behalf.

We have also ensured that the intellectual property rights in the EuroMillions game are protected and we are working with Camelot and the good causes distributors to ensure that the National Lottery logo is used effectively and accurately.

maintains the same level of security and integrity as the standard lottery terminals. In addition, we will need to carefully consider player documentation and access to information.

#### Scratchcards

Camelot has launched one extended play Scratchcard and will be exploring further possibilities for this type of Scratchcard. We are also expecting to see more themed cards that are linked, for example, to a popular film.

#### The Olympics

The National Lottery is committed to raising £750 million towards the costs of staging the Olympics in 2012 in the event that the London bid is successful. We will be watching the bid process with interest.

## Commissioner and Chief Executive biographies



**Moira Black CBE**  
Chairman

Moira Black CBE is Chairman of the National Lottery Commission. She is also a Non-Executive Director of North West London Hospitals NHS Trust (1999 to date), The Financial Services Authority (1998 to date), Octagon Healthcare Limited (1998 to date) and the Warship Support Agency (2003 to date). She is a member of the General Optical Council (1998 to date) and currently its Honorary Treasurer. Prior to this she was the Chairman of Riverside Community Healthcare NHS Trust (1993-1999) and had a career with Price Waterhouse (1972-1993), becoming a partner in 1984.



**Brian Pomeroy**  
Commissioner

Brian Pomeroy has been Chairman of the Commission twice, the first time during the Commission's first year and the second in 2002-2003. He was Senior Partner at Deloitte Consulting and now holds a number of public and non-executive appointments. He is member of the Audit Commission, an independent member of the Council of Lloyd's and a director of the Pensions Protection Investments Accreditation Board. He chaired Centrepont, the charity working for homeless young people from 1993 to 2001 and now chairs Homeless Link, the umbrella body for the homelessness sector.



**Jo Valentine**  
Commissioner

Jo Valentine is the Chief Executive of London First. She has a career spanning City and industry. Prior to joining London First, Jo ran planning and corporate finance at BOC Group PLC for five years. After graduating from Oxford, Jo worked in corporate finance at Barings PLC (1981-1988). She then spent several years in Blackburn, Lancashire where she set up a regeneration partnership.



**Timothy Hornsby**  
Commissioner

Timothy Hornsby was, from 1995 until his retirement on March 23 2001, Chief Executive of the National Lottery Charities Board (NLCB). Prior to this he was Chief Executive of the Royal Borough of Kingston upon Thames from 1991 to 1995. He has held senior appointments at HM Treasury and the Department of the Environment in a civil service career spanning 1965 to 1991. He was also Director General of the Nature Conservancy Council from 1988-1991. He is currently Chairman of the Horniman Museum, a Director of the Charles Darwin Trust, Chairman of the Harkness Fellows Association and Chairman of the Public Fundraising Regulatory Association.



**Harriet Spicer**  
Commissioner

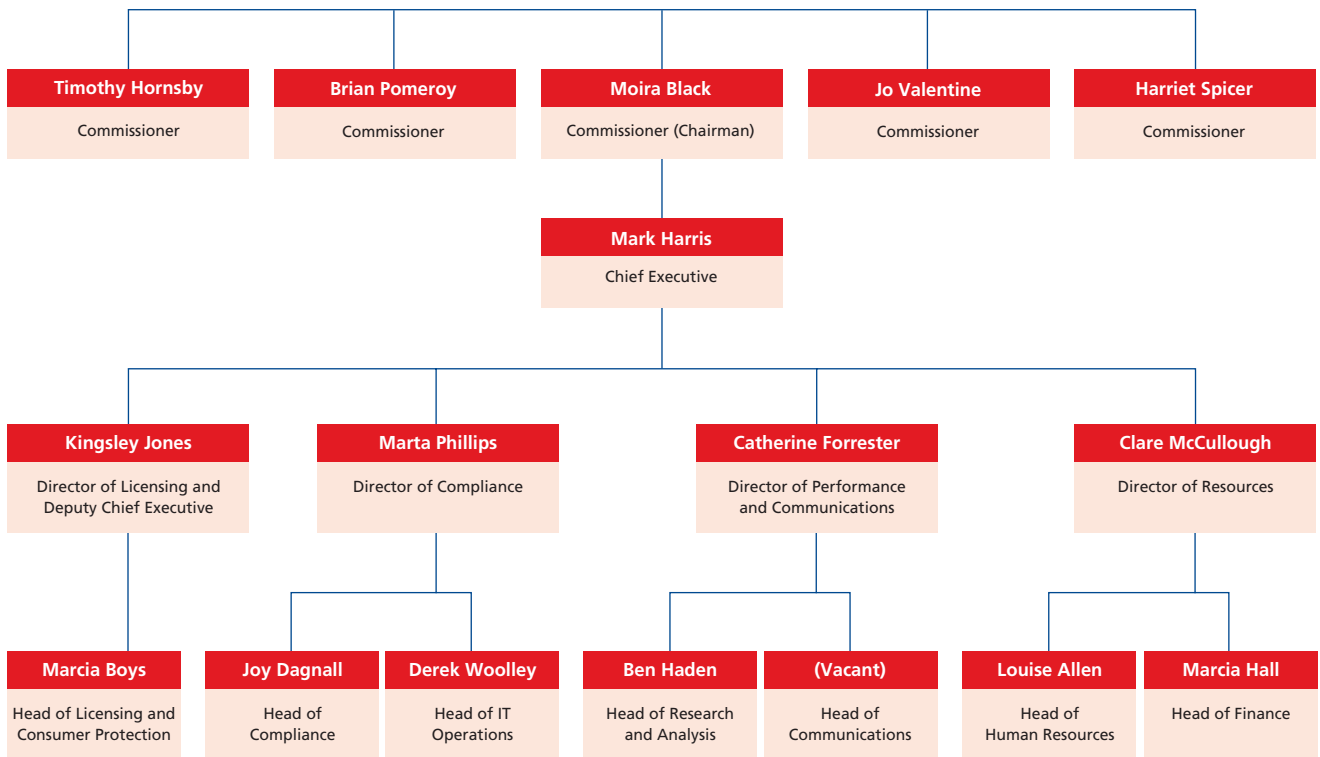
Harriet Spicer was Chairman of the National Lottery Commission between 2001-2002. She also chaired the Commission briefly during 2000. She was Managing Director of Virago Press until 1996, having spent over 20 years with the company. She is currently Chairman of the Friendly Almshouses in Brixton.



**Mark Harris**  
Chief Executive

Mark Harris joined the National Lottery Commission as its first Chief Executive on its creation in April 1999. He has a law degree and is a qualified public sector accountant. He spent his early career in the external audit of local Government and the NHS. He moved to the Audit Commission in 1994, where he worked as Associate Controller. He was seconded for a year to the NHS to work on strategic development, and on his return worked on the development of the Audit Commission's own five year strategy. He is a graduate of the Top Management Programme run by the Cabinet Office, and is a Board Member of the Ashridge Alumni.

# Organisational structure



## Appendix A – Financial performance

Primary contribution based on amount payable to NLDF in respect of ticket sales of £4,615			
Sales	2003-04	2002-03	Since launch
Lotto	3,225	3,387	36,789
Thunderball	351	280	1,308
Lottery Extra	78	89	341
Christmas Millionaire Maker	16	25	183
Scratchcards (including Interactive Instant Win Games)	641	578	6,808
Hotpicks	244	216	460
Daily Play	45	–	45
EuroMillions	15	–	15
Easy Play (Note 1)	–	–	24
<b>Total</b>	<b>4,615</b>	<b>4,575</b>	<b>45,973</b> Based on actual sales receipts (unadjusted sales figures)
<b>Prizes won by players</b> (including unclaimed prizes)	<b>2,294</b>	<b>2,238</b>	<b>22,180</b>

Payments to the NLDF	2003-04	2002-03	Since launch
Primary contribution	1,216 (Note 2)	1,260	12,604 Amount payable in respect of sales
Unclaimed Prizes	73	85	620
Prize Target Shortfall	0	9	667
Ancillary activity income	1	1	6 Rounded up
Interest from trust accounts	3	3	42
Other miscellaneous payments	1	1	5 Rounded up
<b>Total</b>	<b>1,294</b>	<b>1,359</b>	<b>13,944</b>

Other Payments	2003-04	2002-03	Since launch
Lottery Duty	554	549	5,517
Retailers' commission	242	229	2,335
<b>Retentions by licensee</b>	<b>307</b>	<b>289</b>	<b>2,645</b>

Note 1  
Easy Play was a game, operated by Vernons, which ran from August 1998 to May 1999.

Note 2  
This is the figure payable to the NLDF in respect of sales of £4615 with an adjustment to the primary contribution in respect of New Media sales and the NLP (in accordance with schedule 1, appendix 2 of S5 licence).



## Appendix B – Section 5 licence variations in 2003/2004

Section 5 Operating Licence		
Condition, etc	Effect of Variation	Date Effective
9(4), 9(5) and 9(32)	New condition added that requires Camelot to adopt and maintain a code of practice on the availability of top prizes.	30 March 2004
9(31)	Change to protect players using new ways of buying Lottery entries.	9 December 2003
12(1)	Increase in the number of online retailers required in exchange for reducing the number of Scratchcard only retailers.	12 August 2003
12(1)	Further increase in the number of online retailers required in exchange for further reducing the number of Scratchcard only retailers.	29 March 2004
12(1), 12(5), 17(A)(a), 17(A)(b), 17(8), Para 9(1)(a)(ii) of Schedule 1, Paragraph 10(2) of Schedule 1 and the Interpretations	Replaced Instants with Scratchcards in line with changes to current terminology.	15 April 2003
16(4)	In line with changes to prize payout, the limit for retaining validated winning tickets increased from £10,000 to £50,000.	8 March 2004
17, Paragraph 2(5) of Schedule 1 and the interpretations	Changes to Thunderball prize capping.	25 June 2003
17(12)(b)	Minimum amount for Equalisation Trust Account increased from £2m to £4m.	10 July 2003
18A	Provision made for the establishment of the National Lottery Promotions Unit.	8 April 2003
18A	Allows underspends by National Lottery Promotions Unit to be carried forward.	30 March 2004
22(15)	Allows Camelot to register trade marks without having to seek prior approval of the Commission.	25 June 2003
22(15)(b)	Allows Camelot to register internet domain names in its own name to start off before being assigned to the Commission as and when required.	20 November 2003
Schedule 1	Allows for Camelot making payments on the basis of weekly actuals and provides for the New Media Sales Adjustment.	15 January 2004
Schedule 6	Form of sub-licence of regulated Intellectual Property changed.	8 August 2003

## Appendix C – Licence breaches recorded between 1 April 2003 and 31 March 2004

Section 5 Licence breaches	
Condition/Schedule	Description
2	The independent auditor failed to pick up two errors regarding the calculation of prize amounts. The errors were on the Lotto Extra game and the match four numbers on the main Lotto game.
2	Scratchcards for a closed game were destroyed by Camelot without giving notice to the Commission and HM Customs & Excise.
2	Camelot failed to make a periodic assessment of changes required to the system enabling payments to be made to players in the event of licence revocation (for example, in the case of insolvency). As a result, the version of the system available did not meet the full system capability requirements. This resulted in a fine of £50,000 being imposed.
6(4)(b)	A Camelot employee accessed a secure area within the Watford Data Centre without the necessary supervision prior to the Commission giving him fit and proper clearance.
9(6)	National Lottery Commission retailer visits in August and September found that of 128 retailers visited only 51 had Player Guide leaflets available for players.
9(31)	The results panel alongside the video stream on Camelot's website of the Daily Play draw showed one winning number incorrectly.
Paragraph 12(d) of Schedule 1	Camelot failed to make a payment of £222,085.04 to the National Lottery Distribution Fund (NLDF) within the timeframe specified in the Section 5 Licence. Late payment was received.

Section 6 Licence breaches	
Condition/Schedule	Description of breach
Condition 12 of the Daily Play Licence	Camelot issued a news release announcing the launch of Daily Play before the National Lottery Commission had approved the launch date.
Conditions 9 and 10 of Schedule 2	Tickets were sold prior to launch approval. Game 174 'Buried Treasure' Licence.
Condition 14(1) of the Interactive Instant Win Games Licence	Camelot did not supply game information to the Commission within 24 hours of Instant Win Games Licence adding the new game, Cash Machine, to the interactive system.
Condition 1(3) of the Scratchcard class licence	Camelot launched two Scratchcard games with only four top tier prizes.

## Appendix D – Camelot performance standards

Camelot performance standards		
Description of standard	Standard	Year End Actual
<b>1. General matters</b>		
Payments to Secretary of State	100.00%	99.40%
<b>2. Computer systems</b>		
Terminal sales availability	99.50%	99.87%
Terminal validation availability	99.00%	99.94%
<b>3. Retailer matters</b>		
Response to retailer selection request within 10 working days	95.00%	100.00%
Response to retailer correspondence within 10 working days	95.00%	100.00%
<b>4. Player service</b>		
Response to correspondence by National Lottery Line within five working days	95.00%	97.64%
Resolution of complaints by Players within 10 working days	95.00%	95.39%
Access to National Lottery Line Voice Response System [NLL VRS] At all opening times bar Wednesday (20.00 – 23.00) and Saturday (20.00 – 23.00)	97.00%	100.00%
Access to NLL VRS Wednesday (20.00 – 23.00)	90.00%	99.99%
Access to NLL VRS Saturday (20.00 – 23.00)	85.00%	100.00%
Access to NLL Representative at all opening times bar Saturday (20.00 – 23.00)	90.00%	89.43%
Saturday (20.00 – 23.00) Access to NLL Representative	80.00%	86.39%
Failure to select an option on NLL VRS	0.08%	4.13%
<b>5. Prize payment</b>		
<b>5.1 Normal claims</b>		
Prize claims made in person within one hour	92.50%	98.98%
Prize claims made by post within five working days	95.00%	99.32%
<b>5.2 Claims requiring investigation</b>		
<b>5.2.1 Draw based</b>		
Resolution of lost, stolen destroyed tickets within 20 working days	75.00%	91.02%
Resolution of claims in respect of missing multi-draw exchange tickets within 20 working days	90.00%	97.61%
Resolution of claims in respect of damaged tickets within 20 working days	95.00%	99.27%
Resolution of claims in respect of previously validated within 20 working days	90.00%	96.02%
<b>5.2.2 Scratchcards</b>		
Resolution of claims in respect of damaged tickets within 20 working days	95.00%	99.20%
Resolution of claims in respect of stolen tickets/packs within 20 working days	92.50%	99.21%
Resolution of claims in respect of previously validated tickets within 20 working days	95.00%	99.12%
Investigations within 20 working days	75.00%	98.99%

Interactive		
Description of standard	Target	Year End Actual
<b>1. System availability</b>		
Availability to play games	99.00%	99.05%
<b>2. Customer contact</b>		
Voice contact with customer call centre at the end of the VRS message within 20 seconds	80.00%	82.79%
Abandoned call to customer call centre	0.05%	5.10%
Customer contact via email to be answered within 8 working hours of receipt.	80.00%	89.28%
Mail server performance (less than 1% will be bounced by email server due to unavailability)	0.01%	0.00%
Response to letters within 5 working day	95.00%	100.00%
Contact resolution (enquiries)	80.00%	99.77%
Acknowledgement of complaints received in writing	95.00%	100.00%
Effectiveness of complaint resolution at first attempt	75.00%	98.41%
Complaint resolution within 10 working days	90.00%	97.98%
<b>3. Prize payout</b>		
Prizes paid to wallets within 1 hour of win where player opts for this method of payment	100.00%	100.00%
Prizes paid to bank accounts	99.00%	100.00%
Prizes payable by cheque within 5 working days following the player claiming their prize	95.00%	100.00%
<b>4. Resolution of financial disputes</b>		
Resolution of disputed prize claims within 20 working days	95.00%	100.00%
Resolution of financial disputes within 20 working days	75.00%	100.00%

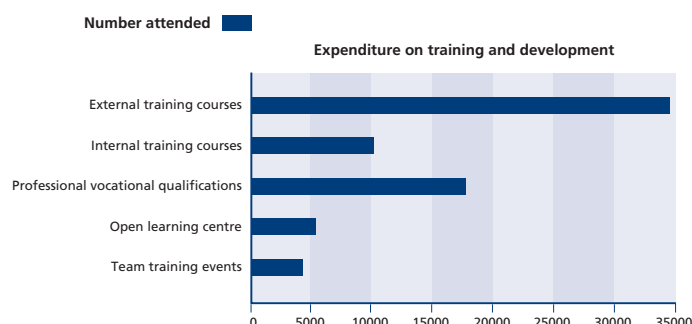
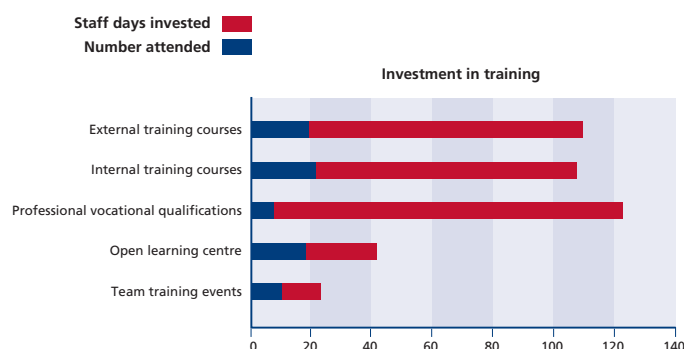
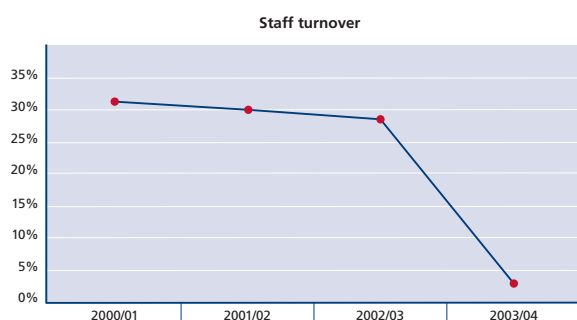
## Appendix E – Our performance

Correspondence		
Performance measure	Target	Achieved
Substantive response or acknowledgement to correspondence within 10 working days	95%	96%
Substantive response or acknowledgement to simple complaint within 10 working days	95%	96%
Substantive response or acknowledgement to internet correspondence within 10 working days	95%	98%
Response to complaints which require investigation within 20 working days	95%	100%

Equal opportunities analysis					
Position	Applications received	Applicants selected for interview			Successful candidate
		Number selected	Ethnic Minority	% of Female	
Head of Research & Analysis	38	7	14%	29%	Male
Analyst	8	4	0%	50%	Male
P&C Administrator	11	7	0%	71%	Female
Resources Administrator	9	4	25%	100%	Female
Compliance Administrator	4	4	0%	100%	Female
Communications Officer External	10	4	50%	100%	Female
Communications Officer Internal	29	5	20%	100%	Female
Director of Resources	26	5	0%	40%	Female
Licensing & IP Manager	12	5	40%	60%	Female
Head of Finance	19	6	67%	33%	Female
IT & Office Assistant	9	4	50%	0%	Male

Other		
Performance measure	Target	Achieved
Payment of undisputed invoices within 30 working days of receipt	95%	95.39%
Payment of remaining undisputed invoices within 40 working days of receipt	100%	100%
Return to work interview held within 5 working days	95%	100%
Sickness absence (Civil Service average = 9.8 days per year)	–	days average 6.16

## Appendix F – Investing in our people



## Appendix G – Visits and conferences 2003/2004

Visits	
24 April 2003	Visit from representative of Finnish National Lottery
28 August 2003	Met representatives from mLotto, Sri Lanka
10 September 2003	Met with French lottery regulators
10 October 2003	Visit from the Bahamas Ministry of Tourism
21 October 2003	Annual meeting with the GTECH Board
29 January 2004	Visit from the Norwegian Gaming Board

Conferences and seminars	
2-3 June 2003	Virtual Gaming Forum 2003, London
12-15 June 2003	Annual GREF (Gaming Regulators European Forum) meeting, Riga, Latvia
3 July 2003	Lottery Monitor Conference, London
23 July 2003	GamCare Annual Conference, London
8-12 September 2003	European Lottery University in Barcelona, Spain
22-24 September 2003	Discovery 2003 Conference organised by the Responsible Gaming Council, Toronto, Canada
5-8 October 2003	World Lottery Association Conference in Granada, Spain
6-10 October 2003	World Lottery Alliance Forum in Grenada
20 November 2003	Salford Seminar on the Gambling Bill, London
29 January 2004	Amusement Trades Exhibition International (ATEI) and International Casino Exhibition (ICE)
27 February 2004	OFT Scam Seminar in London
3-4 March 2004	Lottery Council Conference, Redditch, UK

## Appendix H – Functions

### The Commission has the following functions:

- to issue a licence to authorise a body corporate to run the National Lottery (under Section 5 of the Act). Only one such licence may be in force at any one time;
- to issue licences for each constituent lottery promoted as part of the National Lottery (under Section 6 of the Act). Each game that forms part of the National Lottery is subject to such a licence; and
- to ensure that the provisions of the licences that it grants are complied with. The Commission has a range of remedies available to it, which include publicly recording licence breaches, powers to fine, powers to seek enforcement in the High Court, and, in extreme cases, revocation.

## Accounts 2003/2004

## Commission Information

**Commissioners** Moira Black (Chairman from 16 October 2003)  
Brian Pomeroy (Chairman to 15 October 2003)  
Harriet Spicer  
Timothy Hornsby  
Jo Valentine

**Chief Executive** Mark Harris

**Registered Address** 101 Wigmore Street  
London W1U 1QU

**External Auditors** The Comptroller and Auditor General  
National Audit Office  
157 – 197 Buckingham Palace Road  
London SW1W 9SP

The Comptroller and Auditor General was appointed as the statutory auditor under the National Lottery etc. Act 1993 (as amended).  
Note 7: Notes to the Accounts provides details of the cost of audit services provided by the Comptroller and Auditor General.

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

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

National Westminster Bank  
PO Box 3038  
Victoria Street  
London SW1H 0HN

**Solicitors** Freshfields Bruckhaus Deringer  
65 Fleet Street  
London EC4Y 1HS

Lawrence Graham  
190 Strand  
London WC2R 1JN

## Foreword

### Background

The National Lottery Commission is established as an executive Non-Departmental Public Body and is governed by the National Lottery etc. Act 1993 as amended by the National Lottery Act 1998. It succeeded the Director General and the Office of the National Lottery (OFLOT) as the regulator of the National Lottery on 1 April 1999.

### Functions, duties and powers

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

#### (a) Functions

- By licence to authorise a body corporate to run the National Lottery (section 5)
- By licence to authorise a body corporate to promote lotteries as part of the National Lottery (section 6)

#### (b) Duties

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

#### (c) Powers

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

### Commission Membership

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

Note 5: Notes to the Accounts

### Chief Executive

The Chief Executive was appointed by the Commissioners on a four year fixed term contract, through an open competition process. The process was overseen by the DCMS who have a role in ensuring the Chief Executive is suitable to be Accounting Officer. The fixed term contract has since been renewed. Should the contract be terminated, this would be done in line with the procedures set out in the Civil Service Management Code.

See note 5: Notes to the Accounts

### Register of interests

The Commission maintains a Register of Interests to record any declaration of financial and other interests of Commissioners and close family members which may conflict with their management responsibilities. The Register of Interests is open for inspection at the Commission's offices on request.

### Results for the year

The accounts have been prepared in accordance with the Accounts Direction given by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury in accordance with the National Lottery etc. Act 1993 (as amended). This Direction is reproduced at Appendix 1 to the Accounts. The surplus for the year was £265,000 with a Net Asset position at 31 March 2004 of £414,000 (31 March 2003 as restated £267,000). There are no post balance sheet events which may affect the reader's understanding of the accounts. Greater detail can be found in the Accounts and Notes to the Financial Statements.

### Pension liabilities

The Commission has a pension liability for a former Director General of OFLOT. The liability for this pension passed to the NLC. Full disclosure can be found in Note 6 to the Accounts.

### Review of activities

During the year seven new licences were granted for game launches, the most significant of these were for the EuroMillions game in February 2004 and the class licence for Scratchcards in July 2003. The Commission recorded 11 licence breaches during 2003/2004, and imposed a fine in one case.

The Commission continued its work in protecting the interests of vulnerable groups, ensuring a high quality of service to players of the National Lottery and maintaining effective co-operation with those organisations having an interest in the public impact of gambling.

In May 2003 the Commission was successful in achieving the "Investors in People" standard.

Greater detail about the work of the Commission during 2003/2004 can be found in the annual report.

### Equal opportunities

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

### Disability policy

The Commission achieved the "Positive About Disability" Standard in Jan 2004.

### Staff communication

Staff are kept informed about the work of the Commission and developments which may impact on its aims and objectives by regular briefing sessions and discussions, arranged by the communications team. There is also a staff newsletter.



**Audit Committee**

The Commission has an Audit Committee comprising three Commissioners meeting at least three times a year. During 2003/2004 the Committee comprised Timothy Hornsby (Chair), Harriet Spicer, Moira Black (to September 2003) and Harriet Spicer (Chair), Brian Pomeroy and Jo Valentine (from October 2003).

**Payment performance**

The National Lottery Commission adheres to the Government's "Better Payment Practice Code", which is to settle all valid bills within 30 days of the invoice date, or any other specified terms. In the financial year to 31 March 2004 the Commission settled 95 per cent of invoices within 30 days. No interest was paid during 2003/2004 under the Late Payment of Commercial Debts (Interest) Act 1998.

## Statement of the Commission's and Chief Executive's responsibilities for the financial statements

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

In preparing the accounts the Commission is required to:

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

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



**Mark Harris**  
Chief Executive  
13 July 2004

## Statement on Internal Control 2003/2004

### Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Commission's policies, aims and objectives whilst safeguarding the public funds and Commission's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting and ensuring compliance with the requirements of the National Lottery Commission's Management Statement and Financial Memorandum.

### The purpose of the system of internal control

The system of internal control is based on an ongoing process designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Commission's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

### Capacity to handle risk

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

- The Risk Register is maintained and formally updated throughout the year. Management Group meet and agree the content of the register and identify any new risks that managers have become aware of. For each risk identified the assessment of gross risk is reconsidered, as is the effectiveness of the risk management strategy and the resulting assessment of net risk.
- Leadership is given to the risk management process by the work of the Audit Committee in reviewing at each of their meetings the risks identified by management and the processes by which these risks are mitigated.
- The Chairman of the Audit Committee reports periodically, but at least three times per year, to all Commissioners on the work of the Audit Committee.

On an operational level managers are trained and equipped in a way appropriate to their duties and authority to identify risks which may impact on the aims and objectives of the Commission. Having identified risks by this process of self assessment managers are required to evaluate the effects of these risks and to suggest a means for mitigating those effects. Guidance is provided by the management team who take collective decisions on the reporting of their findings by means of the organisation's Risk Register.

- As part of the annual cycle of their work the Commission's Internal Auditors carry out a risk review during their audit of the operational processes.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and managers within the Commission who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other report. I have

been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Commissioners and the Audit Committee and a plan to address weakness and ensure continuous improvement of the system is in place.

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

- The Commission arranges for a programme of work to be undertaken by Internal Audit. The work of the internal auditors is in accordance with standards defined in the Government Internal Audit Manual.
- The work of the internal auditor is informed by an analysis of the risk to which the Commission is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Commission's Audit Committee and approved by me.
- All Commissioners receive copies of reports undertaken by Internal Audit. The reports include the auditors' opinion on the adequacy and effectiveness of the Commission's systems of internal control together with recommendations for improvement.
- The Audit Committee monitors the implementation by management of recommendations made by the internal auditors to improve the system of internal control.



**Mark Harris**  
Chief Executive  
13 July 2004

## National Lottery Commission

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

I certify that I have audited the financial statements on pages 45 to 58 under the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998). These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 49.

#### Respective responsibilities of the Commissioners, the Chief Executive and Auditor

As described on page 40, the Commissioners and Chief Executive are responsible for the preparation of the financial statements in accordance with the National Lottery etc. Act 1993 (as amended) and directions made thereunder by the Secretary of State for Culture, Media and Sport, with agreement from the Treasury and for ensuring the regularity of financial transactions. The Commissioners and Chief Executive are also responsible for the preparation of the Foreword and other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Commission has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on page 41 reflects the Commission's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Commission's corporate governance procedures or its risk and control procedures.

#### Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Commissioners and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the National Lottery Commission at 31 March 2004 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998) and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn  
Comptroller and Auditor General

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

16 July 2004

## Income and Expenditure Account for the year ended 31 March 2004

	Note	2003/04 £'000	2002/03 (restated) £'000
<b>Income</b>			
Grant-in-Aid	3	4,154	3,129
Other operating income	4	6	0
Transfer from deferred Government grant reserve	14	177	158
		<b>4,337</b>	<b>3,287</b>
<b>Expenditure</b>			
Staff costs	5	1,811	1,439
Administrative expenses	7	1,266	996
Other operating costs	8	986	889
Notional cost of capital	9	12	11
		<b>4,075</b>	<b>3,335</b>
Operating surplus/(deficit) after notional costs		262	(48)
Other finance costs	6	(9)	(9)
Operating surplus/(deficit) after other finance costs		253	(57)
Reversal of notional cost of capital		12	11
Surplus/(deficit) for financial year	14	<b>265</b>	<b>(46)</b>

All activities were continuing in the year  
The notes on pages 49 to 58 form part of these accounts

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2004

	Note	2003/04 £'000	2002/03 (restated) £'000
Surplus/(deficit) for the year		265	(46)
Unrealised surplus/(deficit) on revaluation of fixed assets		0	0
Prior year adjustment		(170)	0
Actuarial Loss		(13)	0
<b>Total unrecognised gains and losses relating to the year</b>		<b>82</b>	<b>(46)</b>

The notes on pages 49 to 58 form part of these accounts



## Balance Sheet as at 31 March 2004

	Note	2003/04 £'000	2002/03 (restated) £'000
<b>Fixed Assets</b>			
Intangible assets	10	40	20
Tangible assets	11	243	371
		<b>283</b>	<b>391</b>
<b>Current assets</b>			
Debtors and prepayments	12	278	226
Cash at bank and in hand		314	105
		<b>592</b>	<b>331</b>
Creditors			
Amounts falling due within one year	13	(289)	(295)
Net current assets/liabilities		<b>303</b>	<b>36</b>
<b>Total Assets less current liabilities (before pension liability)</b>		<b>586</b>	<b>427</b>
Pension liability	6	(172)	(160)
Net Assets including pension liability		<b>414</b>	<b>267</b>
<b>Represented by:</b>			
General Reserve	14	139	(113)
Deferred Government Grant Reserve		275	380
		<b>414</b>	<b>267</b>



**Mark Harris**  
Chief Executive  
13 July 2004

The notes on pages 49 to 58 form part of these accounts

## Cash Flow Statement for the year ended 31 March 2004

	<b>2003/04</b>	<b>2002/03</b>	
	<b>£'000</b>	<b>(restated)</b>	
		<b>£'000</b>	
<b>Net cash inflow/(outflow) from operating activities</b>	219	(447)	
Capital expenditure			
Purchases of tangible fixed assets	(72)	(53)	
Financing			
Grant-in-Aid applied towards purchase of fixed assets	72	53	
Other Payments			
Payment of Pension Benefits	(10)	(10)	
<b>Increase/(decrease) in cash</b>	<b>209</b>	<b>(457)</b>	
<b>Note (i) Reconciliation of operating surplus/(deficit) to net inflow from operating activities</b>			
Operating surplus/(deficit) after notional costs	262	(48)	
Depreciation and impairment of fixed assets	180	158	
Transfer from deferred Government Grant Reserve	(177)	(158)	
(Increase) in debtors	(52)	(141)	
(Decrease) in creditors	(6)	(269)	
Reversal of notional costs	12	11	
Net cash inflow/(outflow) from operating activities	219	(447)	
<b>Note (ii) Analysis of changes in net funds</b>			
	<b>At 31/3/04</b>	<b>Cash flow</b>	<b>At 31/3/03</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash at bank and in hand	314	209	105

The notes on pages 49 to 58 form part of these accounts

# Notes to the financial statements for the year ended 31 March 2004

## 1 Accounting policies

### Basis of accounting

The financial statements are drawn up in accordance with a direction (see Appendix 1) given by the Secretary of State for Culture, Media and Sport, with the approval of the Treasury, in accordance with Schedule 2A section 11(2) of the National Lottery etc. Act 1993 (as amended). The financial statements are prepared in accordance with generally accepted accounting practices in the United Kingdom (UK GAAP) and the Companies Act requirements, the disclosure and accounting requirements contained in *HM Treasury's Fees and Charges Guide*, and the accounting and disclosure requirements given in *Government Accounting* and in *Executive Non-Departmental Public Bodies: Annual Reports and Accounts Guidance*, insofar as these are appropriate to the National Lottery Commission and are in force for the financial year for which the statements are prepared. The financial statements are prepared under the modified historical cost convention by the inclusion of fixed assets at their value to the business by reference to current costs.

### Changes in Accounting Policy – Prior Year Adjustment

Retirement benefits are reported in the Annual Financial Statements in accordance with the requirements of FRS17. This is necessary to bring the accounts into line with the reporting requirements. This has resulted in a reduction of Net Assets of £172,000 in the current period. A prior year adjustment reducing net assets by £170,000 has been actioned, relating to an introduction of £160,000 of pension liabilities and a reduction of debtors by £10,000 as at 31 March 2003. Both adjustments relate to the recognition of the pension liability for the former Director General of OFLOT in line with FRS 17 (Pension Benefits).

### Grants receivable

Grant-in-Aid receivable of a revenue nature is credited to the Income and Expenditure Account in the period in which it is due.

Grant-in-Aid relating to capital expenditure is credited to a deferred Government grant account and is released to expenditure over the expected useful life of the asset it has been used to purchase.

### Fixed assets

Expenditure on tangible and intangible fixed assets is capitalised for each item which costs more than £2,000. All items of computer equipment forming part of our computer network are capitalised.

Fixed assets are revalued annually by reference to indices published by the Office for National Statistics.

### Depreciation and amortisation

Depreciation is provided on all capitalised tangible fixed assets at rates calculated to write off cost or valuation of each asset evenly over its expected useful life as follows:

Computer equipment	3 years
Fitting out costs	7 years
Furniture	3 years
Office equipment	3 years
Telephone equipment	7 years

Amortisation is provided on all capitalised intangible fixed assets at rates calculated to write off cost or valuation of each asset evenly over its expected useful life as follows:

Software licences	3 years
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An inventory of all assets is maintained.

## ../Notes to the financial statements for the year ended 31 March 2004

### Operating leases

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

### Pension policy

The retirement benefit of a former Director General of OFLOT for which the NLC is liable, is provided for under a scheme which is fully analogous to Principal Civil Service Pension Scheme (PCSPS). The retirement benefits of all other eligible staff of the Commission are provided for under the PCSPS.

## 2 Financial instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period, in creating or changing the risks the commission faces in undertaking its role.

### Liquidity risks

In 2003/2004, £4.23 million (100 percent) of the National Lottery Commission's income derived from Grant-in-Aid from the Department for Culture, Media and Sport (2002/2003 £3.18 million, 100 per cent). The Commission is satisfied that there are sufficient liquid resources in the form of cash of £314,000 and the draw down of funds available in the financial year 2004/2005 to cover all current contracted commitments of £289,000 and that the National Lottery Commission is not exposed to significant liquidity risks.

### Interest rate risks

Cash balances, which are drawn down from the Department for Culture, Media and Sport to pay administration and other operating costs, are held in an account with the Office of HM Paymaster General, an Executive Agency sponsored by the Treasury. The account is non-interest bearing. The year-end cash balance held by the Commission in the Office of HM Paymaster General Account was £308,000. The Commission considers that there is no exposure to interest rate risks.

### Foreign currency risk

The Commission is not exposed to any foreign exchange risks.

## 3 Grant-in-Aid

	2003/04 £'000	2002/03 £'000
Total Grant-in-Aid received from Department for Culture, Media and Sport (Request for Resources 1)	4,226	3,182
Applied towards purchase of fixed assets	72	53
<b>Total Grant-in-Aid applied towards revenue expenditure</b>	<b>4,154</b>	<b>3,129</b>

**4 Other operating income**

	2003/04 £'000	2002/03 £'000
Sundry receipts	6	0
	<b>6</b>	<b>0</b>

**5 Staff costs**

	2003/04 £'000	2002/03 £'000
Salaries	1,424	1,048
Employer's NIC	132	82
Pension costs	192	146
Temporary staff costs	63	163
	<b>1,811</b>	<b>1,439</b>

Remuneration paid to the Chief Executive, Directors and Commissioners during the year was as follows. Comparative figures for the previous year for the Chief Executive's, Directors' and Commissioners' salaries are shown in brackets:

Name and designation	Salary	Pension contributions	Bonus
	£	£	£
Mark Harris (Chief Executive)	83,423 (81,393)	15,433	11,750
Kingsley Jones (Director)	76,968 (76,968)	13,684	3,178
Marta Phillips (Director)	71,372 (65,222)	12,036	1,907
Catherine Forrester (Director)	60,858 (14,558)	10,966	1,907
Clare McCullough (Director) (Note i)	56,437 (-)	9,317	1,907
Moira Black (Chairman) (Note ii)	19,521 (6,538)	N/A	N/A
Brian Pomeroy (Chairman) (Note ii)	21,774 (19,127)	N/A	N/A
Harriet Spicer (Commissioner)	6,685 (21,328)	N/A	N/A
Timothy Hornsby (Commissioner)	6,685 (6,538)	N/A	N/A
Jo Valentine (Commissioner)	6,685 (3,520)	N/A	N/A

**Notes**

- i) Clare McCullough was appointed a Director on 2 July 2003.
- ii) Brian Pomeroy was Chairman of the Commission until 15 October 2003. Moira Black took over as Chairman on 16 October 2003.

## ../Notes to the financial statements for the year ended 31 March 2004

The accrued pension rights of the Chief Executive and Directors are shown below.

Name and designation	Real increase in pension	Real increase in lump sum	Pension at end date	Lump sum at end date	Cash equivalent transfer value at 1 April 2003	Cash equivalent transfer value at 31 March 2004	Real pension increase in the year
	£k	£k	£k	£k	nearest £k	nearest £k	£k
Mark Harris (Chief Executive)	0 – 2.5	2.5 – 5	20 – 25	60 – 65	239	263	18
Kingsley Jones (Director)	0 – 2.5	0 – 2.5	30 – 35	95 – 100	556	580	8
Marta Phillips (Director)	0 – 2.5	(0 – 2.5)	10 – 15	20 – 25	133	156	19
Catherine Forrester (Director)	0 – 2.5	2.5 – 5	0 – 2.5	2.5 – 5	1	11	10
Clare McCullough (Director)	2.5 – 5	5 – 10	5 – 10	25 – 30	74	116	41

Additional Disclosures have been made in this year's accounts of the Cash Equivalent Transfer Value (CETV) for senior staff. The CETV is an actuarially assessed capitalised value of the Pensions Scheme Benefits accumulated by a member at a point in time. The real pension increase disclosed has been adjusted to take account of inflation, member contributions and other variations.

The average number of full-time equivalent employees during the year, analysed by function, was:

	2003/04	2002/03
Chief Executive/Director	5	3
Chief Executive's Office	2	2
Resources	8	7
Compliance	11	9
Licensing	8	5
Performance and Communications	7	2
	<b>41</b>	<b>28</b>

The employee numbers represent staff who are in post. There is one temporary staff member. The increase in staff numbers is due to the recruitment of permanent staff during 2003/2004, following the Organisational Review which took place in 2002/2003.

## 6 Pension Disclosures

Pension contributions are paid under the Principal Civil Service Pension (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme but the National Lottery Commission is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)). For 2003/2004, employers' contributions of £192,000 (£146,000 in 2002/2003) were payable to the PCSPS at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will remain the same for the next year, subject to revalorisation of the salary bands, but will increase from 2005/2006. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme. Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. There were no employer contributions paid to stakeholder pension providers during the period. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. There are no additional accrued pension liabilities payable by CSP arrangements to individuals who retired early on health grounds during the year.

### FRS17 Disclosure

On its creation the National Lottery Commission inherited a pension liability for a former Director General of OFLOT from 1993 to 1998. This pension is an unfunded defined benefit scheme which has benefits by-analogy to the PCSPS (for details see [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)) and is paid directly from the Commission's own funds. In 2001, upon the recipient reaching retirement age, pension payments commenced. In 2003/2004, pension payments of £10,455.61 were made (2002/2003 £10,280.84). Under FRS17, the National Lottery Commission is required to show the present value of the liability on its Balance Sheet.

In 2002/2003 FRS17 note disclosures were not made in the Annual Financial Statements owing to the NLC being unable to obtain the necessary information for the disclosure. For FRS 17 disclosure a valuation has been provided by the Government Actuary's Department who have assessed the liabilities of the scheme as at 31 March 2004 and at 31 March 2003. Scheme liabilities and the expected rate of return are:

### Main Assumptions

	<b>31 March 2004 per cent per annum</b>	<b>31 March 2003 per cent per annum</b>
Rate of increase in salaries	3.9	4.0
Rate of increase in pension payment	2.4	2.5
Discount rate	6.0	6.1
Inflation assumption	2.4	2.5
	<b>31 March 2004 £'000</b>	<b>31 March 2003 £'000</b>
Present value of scheme liabilities attributable to the NLC	172	160
Total value of liabilities	172	160
<b>Net pension liability attributable to the NLC</b>	<b>(172)</b>	<b>(160)</b>

## ../Notes to the financial statements for the year ended 31 March 2004

### Amounts included as other finance costs

	31 March 2004 £'000	31 March 2003 £'000
Interest cost on pension scheme liabilities	9	9
<b>Net finance (charge)</b>	<b>9</b>	<b>9</b>

### Analysis of amount included in the Statement of Total Recognised Gains and Losses (STRGL)

	31 March 2004 £'000	31 March 2003 £'000
Actuarial losses arising on pension scheme liabilities	(13)	0
<b>Total actuarial loss recognised in STRGL</b>	<b>(13)</b>	<b>0</b>

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

	31 March 2004 £'000	31 March 2003 £'000
Surplus/(deficit) at 1 April	(160)	(161)
Finance costs	(9)	(9)
Actuarial gains/(losses)	(13)	0
Benefits paid	10	10
<b>Surplus/(deficit) at 31 March</b>	<b>(172)</b>	<b>(160)</b>

### History of Experience gains and losses

	31 March 2004 £'000	31 March 2003 £'000
Actuarial losses on liabilities	13	0
Present value of liabilities	172	160
<b>Percentage of the present value of liabilities</b>	<b>8</b>	<b>0</b>

## 7 Administrative expenses

	2003/04 £'000	2002/03 £'000
Legal advice	637	545
Other consultancy costs	391	207
External auditor's remuneration	21	20
Other administrative costs	217	224
	<b>1,266</b>	<b>996</b>



**8 Other operating costs**

	<b>2003/04</b> <b>£'000</b>	<b>2002/03</b> <b>£'000</b>
Accommodation costs	563	540
Personnel costs	212	150
Depreciation and impairment of fixed assets	179	158
Travel and subsistence	32	41
	<b>986</b>	<b>889</b>

**9 Notional costs**

Notional costs of capital have been calculated at 3.5 per cent (2002/2003 6 per cent) of the average capital employed during the year in line with HM Treasury guidance. Balances held with the Office of HM Paymaster General are excluded from the cost of capital charges.

**10 Intangible fixed assets**

	<b>Software Licences £'000</b>	<b>Total £'000</b>
<b>Fixed assets</b>		
Cost as at 1 April 2003	24	24
Additions	33	33
Disposals	0	0
Revaluation to current cost	0	0
<b>At 31 March 2004</b>	<b>57</b>	<b>57</b>
<b>Amortisation</b>		
At 1 April 2003	4	4
Charge in year	13	13
Disposal	0	0
<b>At 31 March 2004</b>	<b>17</b>	<b>17</b>
<b>Net book value</b>		
At 31 March 2004	40	40
At 31 March 2003	20	20

## ..Notes to the financial statements for the year ended 31 March 2004

### 11 Tangible fixed assets

	Furniture £'000	Fitting out costs £'000	Computer equipment £'000	Telecoms £'000	Total £'000
<b>Fixed assets</b>					
Cost as at 1 April 2003	39	182	391	17	629
Additions	5	0	34	0	39
Disposals	0	0	(1)	0	(1)
Revaluation to current cost	(4)	(20)	3	(1)	(22)
<b>At 31 March 2004</b>	<b>40</b>	<b>162</b>	<b>427</b>	<b>16</b>	<b>645</b>
<b>Depreciation</b>					
At 1 April 2003	13	26	212	7	258
Charge in year	11	20	108	5	144
Disposal	0	0	0	0	0
<b>At 31 March 2004</b>	<b>24</b>	<b>46</b>	<b>320</b>	<b>12</b>	<b>402</b>
<b>Net book value</b>					
At 31 March 2004	16	116	107	4	243
At 31 March 2003	26	156	179	10	371

### 12 Debtors

	2003/04 £'000	2002/03 £'000
Trade debtors	0	24
Other debtors	29	42
Prepayments and accrued income	249	160
	<b>278</b>	<b>226</b>

All debts are payable within one year. Other debtors include a provision for doubtful debts of £12,000 (2002/2003 £0)

**13 Creditors**

	<b>2003/04</b> <b>£'000</b>	<b>2002/03</b> <b>£'000</b>
Creditors due within one year		
Trade creditors	33	15
Other creditors	1	23
Tax and NIC	0	3
Accruals	255	254
	<b>289</b>	<b>295</b>

There are no creditors falling due after one year.

**14 Movement on reserves**

	<b>General</b> <b>Reserve</b> <b>£'000</b>	<b>Deferred</b> <b>Government</b> <b>Grant</b> <b>Reserve</b> <b>£'000</b>	<b>Total</b> <b>£'000</b>
At 1 April 2003 as previously stated	57	380	437
Prior Year Adjustment	(170)	0	(170)
At 1 April 2003 as restated	(113)	380	267
Retained surplus for the year	265	0	265
Actuarial Loss	(13)	0	(13)
Grant-in-Aid received towards purchase of fixed assets	0	72	72
Transfer to Income and Expenditure Account	0	(177)	(177)
<b>At 31 March 2004</b>	<b>139</b>	<b>275</b>	<b>414</b>

The General Reserve includes an amount of £172,000 (£160,000 – 2002/2003 restated) in relation to Pension Liabilities as explained in Note 6 Pension Disclosure.

## Notes to the financial statement for the year ended 31 March 2004

### 15 Operating leases

At 31 March 2004, the National Lottery Commission was committed to making the following payments during the next year in respect of operating leases.

	2003/04		2002/03	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Operating leases due to expire:				
Within one year	0	0	0	2
Between two and five years	0	22	0	7
After five years	423	0	423	0
	<b>423</b>	<b>22</b>	<b>423</b>	<b>9</b>

### 16 Related party transactions

The National Lottery Commission is an executive Non-Departmental Public Body sponsored by the Department for Culture, Media and Sport.

The Department for Culture, Media and Sport is regarded as a related party and during the year the National Lottery Commission has had material transactions with the Department.

These transactions consist of the following:

- (i) Grant-in-Aid received from the Department for Culture, Media and Sport during the year – see Note 3, and
- (ii) The surrender to the Department for Culture, Media and Sport of licence fees and fines in the sum of £550,000.

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

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

### 17 Key corporate financial targets

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

## Appendix 1

### Accounts direction given by the Secretary of State for Culture, Media and Sport

The Secretary of State for Culture, Media and Sport, with the approval of the Treasury and in accordance with Schedule 2A, Section 11(2) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998).

1. The annual accounts shall give a true and fair view of the income and expenditure and cash flows of the National Lottery Commission for the financial year, and the state of affairs at the year end. Subject to this condition, the National Lottery Commission shall prepare accounts for the financial year ended 31 March 2003, and subsequent financial years in accordance with:

- a. *Executive Non-Departmental Public Bodies: Annual Reports and Accounts Guidance*;
- b. other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view; and
- c. any other specific disclosures required by the Secretary of State.

Except where agreed otherwise with the Treasury, in which case the exception will be described in the accounts.

2. Fundamental or material changes in accounting policies, such that they do not confirm with best commercial accounting practice, shall be discussed and agreed with the Department, the National Audit Office and the Treasury before implementation.
3. If the National Lottery Commission has subsidiary undertakings (either currently in existence, or to be established), the annual accounts shall be prepared on a consolidated basis. In addition, there shall be a balance sheet in respect of the National Lottery Commission alone, with relevant notes. When preparing the consolidated accounts, the Commission shall observe all relevant guidance issued by the Treasury and the Department.
4. Clarification of the application of the accounting and disclosure requirements of the Companies Act and additional disclosure requirements are set out in Schedules 1 and 2 attached.
5. The Foreword, Statement of Responsibilities, Statement of Internal Control and Balance Sheet shall be signed by the Accounting Officer and dated, all the other pages initialled.
6. The Accounts Direction shall be produced as an appendix to the accounts, alternatively a reference may be made in the accounts to where a copy of the Accounts Direction can be obtained.

Signed by the authority of the Secretary of State for Culture, Media and Sport



**E A Grant**  
18 February 2002

## Schedule 1

### **Application of the accounting and disclosure requirements of the Companies Act and Accounting Standards**

#### **Companies Act**

1. The National Lottery Commission is not required to provide the additional information required by paragraph 33(3) of Schedule 4 of the Companies Act.

#### **Additional disclosure requirements**

The following paragraphs detail the non-standard accounting policies, any special treatment needed, and any additional disclosure requirements as agreed by the Treasury, the Department and the National Lottery Commission.

2. The Foreword to the accounts shall include a note reflecting the organisational structure of the National Lottery Commission.
3. The Notes to the accounts shall include a note indicating the form of control exercised by the National Lottery Commission over all its trading companies and trust funds.

## Schedule 2

### **Accounting for compliance with provisions in the Management Statement and Financial Memorandum**

1. This schedule, as agreed by the Treasury, the Department and the National Lottery Commission, shall account for compliance with its Management Statement and Financial Memorandum.
  - a. The schedule's provisions will apply to any Management Statements and Financial Memoranda that are in force during the financial year.
2. The Statement of Internal Control (SIC) shall follow Treasury guidance on format and content. In addition to Treasury requirements, the opening paragraph shall include explicit reference to systems to ensure compliance with the provisions of the National Lottery Commission's Management Statement and Financial Memorandum. A suggested wording is:

'As Accounting Officer, I have responsibility for maintaining a sound system of internal control that:

  - supports the achievement of the National Lottery Commission's objectives whilst;
  - safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*; and
  - ensuring compliance with the requirements of the National Lottery Commission's Management Statement and Financial Memorandum.'
3. The SIC should also include coverage of the processes applied in reviewing the effectiveness of the system of internal control to ensure compliance with the requirements of the National Lottery Commission's Management Statement and Financial Memorandum.





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