
NATIONAL LOTTERY COMMISSION

**MINUTES OF THE MEETING HELD ON TUESDAY 12 OCTOBER 2010,
1000-1400HRS AT WIGMORE STREET**

PRESENT:

Commissioners

Dr Anne Wright, Chair
Mark Harris, CE
James Froomberg
Mary Chapman
Sarah Thane
Deep Sagar
Robert Foster

Officers

Joy Watkins
Ben Haden
Simon D'Arcy
Marcia Boys - Secretariat

ITEM 1: APOLOGIES

1. No apologies were received.

ITEM 2: APPROVAL OF MINUTES AND MATTERS ARISING

2. The minutes of 14 September 2010 were agreed as a correct record. The redactions were agreed. It was noted that the reason for the redactions had not been stated and that this should be corrected. **ACTION: MB**
3. With regard to the actions list:
 - a. Item 186: Mark Harris to check whether the document had been circulated to all Commissioners. **ACTION: MH**
 - b. Item 174: It was noted that a meeting had been arranged with Richard Hooper, the former deputy Chair of Ofcom on 13 October 2010. Action now completed.
 - c. Item 180: Joy Watkins to discuss with Deep Sagar. **ACTION: JW**
 - d. Items 68 and 70: Mark Harris explained that these issues would be progressed by staff, and were not issues that needed to be referred back to Commissioners. On that basis it was agreed that they could be deleted from the actions list.
 - e. Item 115: Mark Harris noted that the Commission had not received feedback from DCMS regarding the Management Statement or the Financial Memorandum. He suggested that the Commissioners' Handbook should be reissued shortly, without updated versions of these documents. **ACTION: Secretariat**
 - f. Item 146: It was agreed that Mark Harris would raise this issue again with DCMS. **ACTION: MH**

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- g. Item 150: It was agreed that this item could be deleted from the actions list.
- h. Item 165: Ben Haden explained that further clarification would be provided in the November Performance Report. **ACTION: BH**

ITEM 3: CHAIR'S UPDATE

Meeting with John Penrose on 20 September 2010

- 4. The Chair advised Commissioners that she had attended a meeting with the Minister on 20 September to discuss the business case concerning the potential merger of the Commission and the Gambling Commission.
- 5. The Minister acknowledged that, because the Commission's lease of its premises is due to expire in January 2012, the Commission needs to relocate, and that cost savings will flow from that relocation. The Minister also acknowledged that such cost savings were not dependent on the merger going ahead, and that a merger would not realise significant cost savings over and above those achieved through the relocation.
- 6. The Chair also advised Commissioners that the Minister had shown interest in the work being undertaken by the Commission to reduce the regulatory burden on Camelot, including the outcomes of the Regulating with Excellence programme. The Minister had requested a statement as to what the Commission had achieved to date in this area, and what more could be achieved during the remaining period of the Third Licence.
- 7. Mark Harris noted that he had previously explained to the Minister that:
 - a. if the Third Licence is perceived as a simple grant of rights to Camelot, it might appear to be lengthy and complex. However it is more appropriate to regard the Third Licence as a form of outsourcing agreement. The clarity and brevity of the Third Licence, in terms of regulatory objectives, contrasted favourably with other outsourcing agreements such as rail franchise agreements.
 - b. The Third Licence has a dual purpose; to ensure the proper running of the National Lottery during the period of the Third Licence and to protect the position of the Commission in preparation for the competition for the fourth licence.

It was agreed that it would be helpful to provide further clarification for the Minister on both these points, and to seek to quantify the extent to which the Third Licence focuses on the Commission's longer-term goals. **ACTION: MH**

- 8. Commissioners queried whether the Minister had expressed any views as to the form of the next competition process and, in particular, whether it should mirror the process adopted for the third licence competition. Mark Harris replied that the Minister had not expressed any views on this issue to date, but it was clear that he appreciated the need to ensure a level playing field for bidders, and the need to preserve the right to require a transfer of assets from Camelot to a successor licensee if appropriate.

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9. Commissioners also queried whether the point had been made to the Minister that the National Lottery bore a greater burden than other forms of gambling, in that Lottery Duty and contributions to good causes together amounted to 40% of sales. The view had therefore been taken in the past that the National Lottery should be subject to a degree of protection, particularly with a view to ensuring the ongoing flow of funds to the good causes. Mark Harris confirmed that the point had been made.
10. Mark Harris also updated Commissioners on discussions with the Minister regarding GPT. He explained that the Commission had sent the Minister a copy of a paper prepared by NERA, prior to the third licence competition, to explain the retention structure. The Minister had raised some queries regarding this issue. The Commission's response was due to be submitted to the Minister shortly.

DCMS Chairs' Forum

11. The Chair advised Commissioners that she had attended the DCMS Chairs' Forum, following a meeting in June. The discussion had focused on:
 - a. the spending cuts proposed within DCMS.
 - b. The Public Bodies Bill which is due for publication in late October. It appeared likely that the Commission would be named in the Bill.
12. Mark Harris referred to a list published in the Telegraph citing those bodies that were due to be abolished or merged, and pointed out that the Cabinet had indicated that the list was out of date.

Meeting with Lee Sienna

13. The Chair advised Commissioners that she had met with Lee Sienna in his role as Chair of Camelot UK Lotteries Ltd. He had indicated that OTPP was very pleased with its acquisition of Camelot and with the performance of the business.
14. The Chair informed Commissioners that:
 - a. Camelot was planning to hold a two day strategy and business planning meeting in December.
 - b. Lee Sienna would discuss with Camelot the optimal time for a Board to Board meeting with the Commission. It was likely that this would take place in spring 2011.
 - c. Camelot's new Board appeared to be operating well. This was further confirmed when Gerry Acher joined the meeting.
 - d. Camelot hopes to have a third Non Executive Director in post by December 2010.

Para 14(e) [Minutes redacted S43 (2) Commercial]

ITEM 4: CHIEF EXECUTIVE'S REPORT

15. Mark Harris presented the report to Commissioners. Commissioners focused on the following issues and noted the remaining contents of the report.

Commercial Services

Paras 16 - 20 [Minutes redacted S43 (2) Commercial]

Thunderball playslips

21. Mark Harris reported that the Commission's review of this issue was progressing well, and that detailed findings would be submitted to Commissioners in November.

GPT

22. Having outlined the recent communications with the Minister as part of the Chair's update, Mark Harris focused on the Commission's parallel discussions with the Treasury regarding GPT.

23. Mark Harris explained that, at a meeting in July, the Treasury had indicated that it required further information regarding the proposals from Camelot and from the Commission. It subsequently sent Camelot a range of written queries. Camelot had only sent the Commission its draft response for consideration on Thursday 7 October, although the Treasury's deadline was Friday 8 October.

24. Mark advised Commissioners that, at the same time, Camelot had sent the Commission the financial modelling it had requested on a number of occasions since early August.

25. Given the date that the information was received from Camelot, the Commission had no alternative other than to write to the Treasury stating that the Commission had not been provided with an opportunity to review the information supplied. The Commission was due to meet the Treasury to progress discussions shortly.

26. On the basis that some Commissioners had not joined the Commission when initial decisions were taken regarding GPT, it was agreed that background papers would be circulated as appropriate. **ACTION: MH.**

Budget: Commercial Services

Paras 27 - 34 [Minutes redacted S43 (2) Commercial]

ITEM 5: RETURNS PERFORMANCE UPDATE

35. Ben Haden presented the report to Commissioners. The purpose of the report was to provide Commissioners with information on returns to good causes, sales performance and issues relating to the operator's performance in these areas during the Third Licence. This preceded a presentation by Martin Pugh on Camelot's portfolio trading performance.

36. Ben Haden noted the current health and increase of overall sales. With no marked increase in penetration over the last year it would be interesting to see if the levels were sustainable in the current environment. He responded to a

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Commissioner question on Lotto that sales in base weeks were declining over time, reflecting a longer-term trend.

37. Commissioners acknowledged that if Camelot became dependent solely on major high profile events to generate high level sales, there was a risk that base level sales would be weakened over time.
38. Commissioners noted the contents of the report.
39. Ben Haden agreed to provide Commissioners, at the November meeting, with an update of Camelot's performance as compared to its bid projections. **ACTION: BH**

ITEM 6: CAMELOT PRESENTATION – MARTIN PUGH

40. Martin Pugh delivered a presentation titled 'Half-Year Trading Update' and responded to queries posed by Commissioners.

Para 41 [Minutes redacted S43 (2) Commercial]

42. Sales at period 6 were £120m ahead of the previous year, producing a positive variance in terms of the funds to good causes of £24.5m.
 - a. Lotto: The decline in base sales of Lotto had been offset by sales generated when rollovers occurred. There was no evidence that EuroMillions was cannibalising Lotto sales.
 - b. EuroMillions: Sales at period 6 were £79m ahead of the previous year. However quarter 2 produced a 'rollover drought'. This was a result of the fact that number coverage is now so high that rollovers occur less frequently than they used to. To tackle this issue, Camelot is working on Project Wellington.

Martin Pugh advised Commissioners that base level per capita spend on EuroMillions in the UK was below spend in France, Spain and Portugal. Typically UK sales amount to 18% of sales by all EuroMillions partners. However when the jackpot starts to roll, UK spend increases to 28% of total sales.

- c. Thunderball: Sales at period 6 were £36m ahead of the previous year.
 - d. Scratchcards: Sales at period 6 were almost £28m ahead of the previous year.
43. In terms of variance to budget, all games all draw-based games produced positive results apart from EuroMillions.

Para 44 [Minutes redacted S43 (2) Commercial]

45. Martin Pugh highlighted that returns to the Good Causes were:
 - a. £24.5m ahead as compared to last year;

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- b. £28.5m ahead of budget; and

Para 45(c) [Minutes redacted S43 (2) Commercial]

46. Martin Pugh advised Commissioners that this performance should be seen in the context of the following:
- a. Lotteries worldwide had experienced a deceleration in year on year growth. Barring China, most lotteries had experienced a significant decline in sales.
 - b. Net gaming and gambling revenues declined by 10% this year.
47. Martin Pugh explained that Camelot had bucked the trend witnessed in other sectors of gambling as it was more protected from the impact of the recession due to its high level of penetration and lower than average dependence on scratchcards. He noted that Camelot felt that there was considerable opportunity for further growth of the National Lottery.
48. He stated that he felt that Camelot had become stronger as a business in recent years. He noted, in particular, that the business had benefitted by recruiting staff with a background in the sales and marketing of a range of major consumer brands.

Para 49 [Minutes redacted S43 (2) Commercial]

50. Martin Pugh noted that there will not be another Super Minimum Jackpot Guarantee during the current financial year.
51. There would also be a 'root and branch' review of the scratchcards supply chain. Camelot had designed a system to improve the process for determining when and where scratchcard packs are despatched. It was envisaged that this could result in an increase of scratchcard sales of £1m per week.

Para 52 [Minutes redacted S43 (2) Commercial]

Para 53(in part) [Minutes redacted S43 (2) Commercial]

53. In response to a questions posed by Commissioners, Martin Pugh stated that:
- a. Retail and Direct sales were generally sharing growth on a 50/50 basis. However, a Super Minimum Jackpot Guarantee for EuroMillions drove an increase in retail sales to occasional players.
 - b. Camelot had improved its performance in terms of sales to 16 – 25 year olds and would look to ensure that the National Lottery continued to have relevance to that age group.
 - c. Player penetration levels were 70%+ in terms of those who had played during the last year. Camelot had brought in a significant number of new players and had maintained interest in National Lottery games to stop players from dropping out of National Lottery play.

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- d. Martin Pugh confirmed that Camelot's shareholders were enthusiastic in their support for the business. The new shareholders had a closer relationship to the business than the previous shareholders.
 - e. Martin Pugh acknowledged that Camelot's experience in bidding to operate the Illinois Lottery had provided a number of valuable learnings, both in terms of the bid process and how other lotteries operated.
54. Martin Pugh agreed to provide a further update on sales to Commissioners in around six months time, the date of the presentation to be linked to the next Board to Board meeting.

ITEM 7: STRATEGIC PLAN

55. Joy Watkins presented the paper which set out proposals for the Commission's strategic objectives for the period October 2010 to March 2012. The paper also reflected work undertaken by the Senior Management Team to review the key activities that support each objective.
56. Commissioners discussed the need for specific measurable deliverables to be identified in relation to each of the objectives. **ACTION: JW**
57. In relation to the first strategic objective, which refers to securing the optimum performance from the operator, Commissioners suggested that the objectives should give some specific examples of the issues it encompassed e.g. meeting the stretched sales target and associated level of good causes income. **ACTION: JW**
58. In relation to the activity 'Ensure that morale is maintained...', Commissioners suggested that this should be amended to 'Make every effort to maintain morale.....'
59. In relation to the activity 'Build and deliver a programme for regular liaison with stakeholders...', Commissioners suggested that the word 'regular' should be replaced by 'effective'. **ACTION: JW**
60. In relation to the activity 'Undertake research which is clearly related to, and, underpins our regulatory functions...', Commissioners suggested that reference should be made to carrying out joint research with the Gambling Commission where practicable. **ACTION: JW**
61. In relation to the activity 'Regulatory decisions and our handling of regulatory issues are justified and clearly explained to stakeholders', Commissioners suggested that the words 'and the public' should be added. **ACTION: JW**
62. Commissioners noted that some activities were regarded as essential while others were considered to be desirable. Mark Harris explained that the Commission aimed to deliver all activities, and would certainly seek to do so in the case of those considered to be essential. However, given the limited resources and the challenges facing the Commission at this time, it might not prove possible to complete all of the 'desirable' activities. There had to be a measure of flexibility that allowed management to determine what could be

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delivered in light of increasingly limited resources.

63. Mark Harris also explained that it was the intention to cascade the revised objectives down to teams, for incorporation in business plans, and down to individuals, for incorporation in personal objectives for the year. SMT had yet to determine the process for doing so.

64. Commissioners otherwise noted the contents of the report.

ITEM 8: PROJECT WELLINGTON

Paras 65 - 68 [Minutes redacted S43 (2) Commercial]

ITEM 9: ONLINE COMMUNITY REPORT – TOP PRIZE MANAGEMENT

69. Ben Haden presented the report to Commissioners. The report provided Commissioners with a de-brief on the Online Community project undertaken by the Commission to explore public awareness, and understanding, of the top prize structures of National Lottery scratchcards.

70. Ben Haden explained that this was the final week of the online community. Contact had been made with community members to establish whether they would be willing to participate in further activities in a few months' time. If so, then it would be important to also include some new community members.

71. It was agreed that Ben Haden would provide copies of the full report to Commissioners who required sight of it. **ACTION: BH**

72. Commissioners noted the contents of the report.

**ITEM 10: FUTURE COMMISSION BUSINESS and
ITEM 11: FUTURE COMMISSIONER ATTENDANCE**

73. Commissioners noted the key meeting dates in 2011 and the summary of Commissioner availability for future meetings.

ITEM 12: REVIEW OF THE MEETING

74. No issues were raised

ITEM 14: DATE OF NEXT MEETING

75. The next meeting would take place on 09 November 2010, 1000-1400.

ITEM 13: ANY OTHER BUSINESS

76. A private discussion between Commissioners followed the main meeting. Staff left the room at this point.

Confirmed as an accurate record by the Chair:

Signed:

Dated: