
NATIONAL LOTTERY COMMISSION

**MINUTES OF THE MEETING HELD ON TUESDAY 14 SEPTEMBER 2010,
1100-1400HRS 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 13 July 2010 were agreed as a correct record, subject to the following amendments:

Points 2 - 5 [Minutes redacted S43 (2) Commercial]

- Paragraph 5: to be amended to refer to the former Deputy Chair of Ofcom, and to the fact that initial contact will be made by Sarah Thane.
- Paragraph 60: the second sentence should be deleted.
ACTION: MB.

3. With regard to the matters arising from the minutes of 13 July 2010:
 - a. Commissioners reiterated their request for copies of the DCMS consultation document on Tote Pool Betting and the Commission's response **ACTION: BH**
 - b. Commissioners noted that that the Commission Effectiveness Report had not been the subject of discussion at the Strategy Day. Joy Watkins agreed to develop proposals for consideration. **ACTION: JW**
4. The minutes of the Special Commission Meeting on 22 July 2010 were agreed as a correct record.
5. With regard to matters arising from the minutes of 22 July 2010, Commissioners noted that it had not been necessary for the Chair to meet with Lee Sienna of OTPP in order to discuss Camelot's proposed name change. On receipt of a letter from the Chief Executive, Camelot withdrew its original proposal. With the

Restricted - Commercial

Commission's consent, it has now amended its name to Camelot UK Lotteries Limited.

ITEM 3: CHAIR'S UPDATE

Public Chairs' Forum

6. The Chair advised Commissioners that she had attended a meeting of the Public Chairs' Forum, which exists to improve the efficiency and effectiveness of the delivery of public services. The meeting, which concerned the ongoing reforms of public sector organisations, was held under the Chatham House Rule. Further meetings of the Forum will be arranged in the next few months. The Chair advised Commissioners that she would attend meetings where possible.

Merger

7. The Chair advised Commissioners that she had a meeting with Brian Pomeroy, Chair of the Gambling Commission, and DCMS on 20 September.
8. The Chair invited the Chief Executive to feedback to Commissioners on the latest Project Board meeting on 7 September.
9. Mark Harris reported that the Project Board had signed off the outline business case in a form which included the amendments suggested by Commissioners. The Project Board had also indicated that it was broadly supportive of the Commission's proposal that it should project manage the relocation of the Commission as a separate work strand to the potential merger. It was likely that a final decision on the Commission's proposal would be taken on 27 September. Commissioners requested sight of the final version of the business case.
ACTION: MH to circulate on receipt.
10. Mark Harris also reported that the person appointed by DCMS to project manage the merger review had recently left DCMS.

ITEM 4: FEEDBACK FROM AUDIT COMMITTEE

11. Deep Sagar reported on the Audit Committee meeting held from 0900 – 1045 on 14 September 2010.

Merger issues and risks

12. He advised that the Committee had discussed the merger and relocation proposals with particular emphasis on the systems in place to ensure the continuity of operations, and the policies being adopted to identify and manage risks. He reported that the Committee had concluded that issues were being managed appropriately. The Committee would revert to this issue at its November meeting.
13. Commissioners noted that, once decisions had been taken by DCMS on the relocation proposals, initial actions for the Commission would include determining the appropriate governance structures to oversee the project and establishing the required project management systems.

Internal Audit status report

14. He reported that the Committee had considered the progress of internal audits. From the Committee's perspective, the key issue was whether the work plans remained appropriate in view of the changes facing the organisation.

IT Operations Review

15. He reported that the Committee had received a considered and comprehensive response from the Director of Compliance to the internal audit's recommendations.

NAO Audit Completion Report

16. The Chair reported the NAO report had recorded two significant findings, which concerned the valuation of Olympic Intellectual Property and the understatement of provisions for lease dilapidations. The report's recommendations had been accepted and implemented as appropriate.
17. He pointed out that a new Director had been appointed at the NAO. It was expected that he would attend the next Audit Committee meeting.

Strategic Risk Register

18. He advised Commissioners that the Audit Committee had discussed proposed revisions to the Commission's Strategic Risk Register. It was also noted that the Commission would appoint 'Risk Champions' who would monitor and report on risks in their area of operations.

Topics of interest

19. The Audit Committee had received interesting updates on the Compliance Team's monitoring of trust funds; the Compliance Team's review of Camelot's audit and risk framework; and the recent public sector spending controls.

ADDITIONAL ITEM: REX STATUS UPDATE

20. Sarah Thane reported on the REx Reference Group meeting on 22 July 2010. The meeting had provided an opportunity to review the progress made to date in relation to the six strands of the Regulating with Excellence (REx) programme. Work in relation to some strands of the programme had been successfully completed. In the case of other work strands, key tasks had been identified and progressed, but some proposals had yet to be implemented. The element of the programme that presented the greatest challenge, and where further impetus was required to achieve the desired gains, was outcome based regulation.
21. Commissioners noted that further work was required to ensure that the Commission and Camelot had a common understanding of outcome based regulation and were working to achieve common goals. It was noted that Camelot might adopt a cautious approach to outcome based regulation, on the basis that, while it allowed the operator greater operational freedom, it also involved a transfer of risk to the operator.

Restricted - Commercial

22. Sarah Thane reported that, in future, the Reference Group would meet every six months. The issues for discussion at the next meeting would include how REx could be embedded in organisation-wide objectives that applied to all Commission staff, rather than just those members of staff who had had operational responsibilities for the implementation of REx to date.
23. Commissioners requested sight of the draft report that summarised the achievements of the REx programme to date. **ACTION: MH to circulate.**

ITEM 5: CHIEF EXECUTIVE'S REPORT

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

Pay policy changes

25. Commissioners approved the amendments to the Commission's pay policy as discussed and agreed by the Remuneration Committee.

Paras 26-32 [Minutes redacted S43 (2) Commercial]

Overseas Play

33. Mark Harris reported that Camelot had accepted the need to amend the Interactive Terms and Conditions, but had yet to reach a view as to how those amendments should be brought to the attention of players. The Commission was awaiting proposals from Camelot on how and when the changes would be introduced.
34. Commissioners noted that changes had been introduced to the software used on the interactive system so that a message was displayed to players warning them of the consequences of overseas play. However they expressed concern at the delays in the implementation of changes to the player documentation.

Para 35 [Minutes redacted S43 (2) Commercial]

Thunderball play slips

36. Mark Harris explained Camelot had taken steps to contact all of its retailers in response to the problem of out of date playslips remaining in stores. Camelot was giving further consideration to the steps to be taken in relation to players with play cards or subscriptions.
37. Commissioners noted that the Director of Compliance would be undertaking an investigation to gather evidence on why the problem occurred, the extent of the problem and the corrective action taken. The review would also consider whether there were lessons to be learned from the Commission's perspective. Commissioners noted that the outcomes of that review would be presented at a future meeting.

Paras 38-39 [Minutes redacted S43 (2) Commercial]

Wincheckers

40. Mark Harris referred Commissioners to the 'Retail Win Checker Pilot' report submitted to the Commission by Camelot. Commissioners noted that, based on the findings of the pilot, Camelot had decided to postpone any rollout of Win Checkers at this time. Commissioners further noted that Camelot had indicated that it would review its retail win checking facilities in the light of further developments in the National Lottery, to ensure that they continued to protect National Lottery players and to meet the needs of retailers.
41. Commissioners accepted Camelot's position on this issue.

Para 42 [Minutes redacted S43 (2) Commercial]

GPT

43. Mark Harris explained that Camelot has argued that, at present, Lottery Duty acts as a restriction on the prize payout percentage that can be adopted for scratchcard games. Camelot has maintained that a change in the taxation regime, will allow it greater flexibility in setting prize payout percentages and that this, in turn, should lead to an increase in sales. Such sales will generate a return to the Treasury equivalent to, or in excess of, the sums currently payable as Lottery Duty. There will also be increased returns to the Good Causes.
44. Mark Harris explained that, before agreeing any changes to the taxation regime, the Treasury needed to be satisfied that the Third Licence can be amended to reflect GPT and that Camelot will not derive a windfall benefit from the change.
45. Commissioners noted that Camelot had promised to provide the Commission with full details of its modelling, so that the Commission can assess the risks associated with its proposals.
46. Mark Harris also highlighted that Camelot had written to the Minister regarding the proposal that it guarantee returns to good causes would not fall as a consequence of GPT. DCMS had requested his views on Camelot's letter and he was writing to the Minister accordingly.

ITEM 6: CAMELOT RESTRUCTURING PROPOSALS

47. Mark Harris explained that the report had been presented to Commissioners to provide them with a preliminary view of Camelot's proposals to clarify the segregation of its regulated and non-regulated activities.
48. Following discussion, Commissioners agreed that they had no fundamental objection to the restructuring proposals, but confirmed that a number of issues needed to be resolved to the Commission's satisfaction before the new arrangements could be finalised.

Restricted - Commercial

49. In addition to the list of issues identified in the paper, Commissioners indicated that clarification was required in relation to:
- a. How Camelot would identify any conflicts of interest between group companies and
 - b. How Camelot would provide ongoing assurance regarding the issues identified in the report as being of concern to the Commission.
50. Commissioners agreed to authorise the Chief Executive to extend the existing waiver of the requirements of Condition 6 of the Third Licence for a further 2 months, until 31 December 2010.

ITEM 7: RETURNS PERFORMANCE UPDATE

51. 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.
52. Ben Haden pointed out that sales of Lotto had fallen to below 50% of overall sales for the first time.
53. He reported that sales had achieved budget overall and remained well ahead of the same period last year. He noted that there had been fewer rollovers than average during August but that the EuroMillions guaranteed jackpot in October was likely to drive increased sales.
54. Commissioners noted the contents of the report.

ITEM 8: CORPORATE PLAN

55. Joy Watkins presented the report, which was tabled at the meeting. The report summarised the decisions taken by Commissioners, during the Strategy Day on 7 September, in relation to the Commission's planning and strategic objectives.
56. Joy Watkins advised Commissioners that the Senior Management Team would develop suitable wording for the Commission's revised strategic objectives and key deliverables and submit a further paper to Commissioners in October.
- ACTION: JW**

57. Commissioners noted the contents of the report.

ITEM 9: ONLINE COMMUNITY BOUNDARIES REPORT

58. Ben Haden presented the report to Commissioners. The report provided Commissioners with an overview of the Online Community project which had been undertaken by the Commission to explore public perspectives on the boundaries of the National Lottery.

Restricted - Commercial

59. It was agreed that Ben Haden would provide copies of the full report to Commissioners who required sight of it. **ACTION: BH**
60. Commissioners recognised that the Online Community had proved to be a powerful tool which provided a valuable insight into attitudes to the National Lottery.
61. Mark Harris reported that the Commission's online community would be drawing to a close. It had been of significant benefit to the Commission to understand the view of people who were not familiar with the detailed operation of the National Lottery. The risk of losing that fresh perspective decreased over time as participants became increasing familiar with National Lottery related issues.
62. Mark Harris reported that there would be a full evaluation of the success of the scheme. This would include a review of the information gained by the Commission and how that information had subsequently been applied, as well as proposals for the future.
63. Commissioners noted the contents of the report.

ITEM 10: KPIs

64. Joy Watkins presented the report to Commissioners. The purpose of the report was to provide Commissioners with an assessment of the overall performance of the Commission.
65. Commissioners noted the contents of the report.

ITEM 11: LIST OF PARTIES

66. The report provided the contact details for Commissioners and Commission staff for ease of future reference.

ITEM 12: FUTURE COMMISSION BUSINESS

67. Commissioners noted the key meeting dates in 2011.

ITEM 13: SUGGESTED MEETING DATES FOR 2011

68. Commissioners noted the proposed meeting dates for 2011. Commissioners indicated which meetings they would be unable to attend.

ITEM 16: DATE OF NEXT MEETING

69. The next meeting would take place on 12 October 2010, 1000-1400.

Confirmed as an accurate record by the Chair:

Signed:

Dated: