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**NATIONAL LOTTERY COMMISSION**

**MINUTES OF THE MEETING HELD ON TUESDAY 9 NOVEMBER 2010,  
1000-1400HRS AT WIGMORE STREET**

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**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 12 October 2010 were, with one amendment, agreed as a correct record. The redactions were discussed and, with two amendments, were agreed.

**ACTION: MB to amend**

3. With regard to the actions list:

- a. Item 192: It was noted that this action had been completed and that the action list should be amended accordingly. It was agreed that Mark Harris would meet with James Froomberg to discuss the background to the GPT issue. **ACTION: MH**
- b. Items 193 - 198: It was noted that these actions were addressed in a paper to Commissioners for today's meeting, and that the action list should be amended accordingly.

**ACTION: MB to amend the actions list**

**ITEM 3: CHAIR'S UPDATE**

***Meeting with Richard Hooper, Deputy Chair of Ofcom***

4. The Chair advised Commissioners that she, Sarah Thane and Mark Harris had had a very useful meeting with Richard Hooper, the former Deputy Chair of Ofcom. Mr Hooper had been involved in the merger of a number of organisations and was able to provide useful insights for the Commission.
5. One topic of discussion had been how functions and responsibilities could be divided between the main board of a new entity formed by the merger of the Gambling Commission and the Commission, and a 'Lottery board' which was

tasked with taking decisions or making recommendations on National Lottery related issues. Mr Hooper had emphasised the need to ensure a clear scheme of delegation from the main board to the 'Lottery board' and the need to avoid potential conflicts of interest.

6. Mr Hooper had attached importance to the fact that he was both chair of the sub-board at Ofcom and deputy chair of the main board. This ensured effective interaction between the two boards.
7. Mr Hooper had offered to provide additional support to the Commission, if required, while it considered the implications of the merger.
8. Commissioners noted that DCMS was aware of the governance arrangements adopted at Ofcom, and had referred to the possibility of a main board and a 'Lottery board' in the outline business case.

#### ***Meeting with Brian Pomeroy***

9. The Chair advised Commissioners that she had had a brief meeting with Brian Pomeroy, Chair of the Gambling Commission, who had confirmed that he was pleased with the progress being made in relation to the merger.

#### ***Public Chairs' Forum***

10. The Chair advised Commissioners that she had received an email from the Public Chairs' Forum regarding the Public Bodies Bill, which was receiving its second reading in the House of Lords on 9 November. The Chair agreed to circulate the email to Commissioners. **ACTION: AW**
11. Commissioners asked to be sent a link to debates in the House of Lords on the Bill, as recorded in Hansard. **ACTION: BH**

### **ITEM 4: FEEDBACK FROM AUDIT COMMITTEE**

12. Deep Sagar reported on the Audit Committee meeting held from 0930 – 1100 on 8 November 2010.

#### ***Half Year Financial position***

13. Deep Sagar noted that the report was included as an item for discussion at the Commission meeting. He highlighted two issues arising from the Audit Committee's discussions:
  - a. The cost of the Commission's premises appeared higher than last year. This was probably due to the phasing of payments.
  - b. It had been agreed that Mark Harris would draft a short paper to the Committee setting out the Commission's strategy with regard to commissioning legal advice. In light of the merger, it was agreed that the paper should also detail any discussions with the Gambling Commission regarding their approach to seeking advice. **ACTION: MH**

#### ***Report on the work of Internal Audit***

14. Deep Sagar reported to Commissioners that five audits had been completed; none had resulted in any significant recommendations to the Commission.

#### ***Corporate Risk Register***

15. The risk register had been reviewed by the Audit Committee. The Committee had noted that the auditors had recommended that the register should specify how and from which source the Commission gained assurance in each risk area, and that this would be actioned shortly.
16. The Committee had queried whether Camelot's restructuring proposals presented a risk to the Commission and had suggested that this should be recorded in the register.
17. The Committee had also debated the Commission's increased spend on legal services in order to evaluate Camelot's commercial services proposals. The Committee had noted that this posed a reputational risk to the Commission which needed to be managed.

#### ***NAO Self Assessment Checklist***

18. He reported that members of the Executive undertook a self assessment of the Commission's Audit Committee using the NAO self assessment checklist. The completed checklist showed that the Audit Committee is effective and applies good practice. However it raised a small number of issues for further consideration by Committee members. On review the Audit Committee decided that:
  - a. A review of the skills of Audit Committee members and any training requirements should be postponed until the merger.
  - b. The draft annual accounts should be sent to the Audit Committee members at the same time as they are sent to the NAO. Audit Committee members should also be sent a high level briefing report summarising any significant issues arising in the annual accounts and any issues discussed with the auditors.
  - c. The Annual Report of the Audit Committee should be expanded to encompass a range of additional points, including issues considered by the Committee to be pertinent to the Statement on Internal Control.

#### ***Audit Committee Terms of Reference***

19. He reported that the amended Terms of Reference had been approved by the Audit Committee and would be submitted to a future Commission meeting.
20. Commissioners asked for clarification on when membership of the Audit Committee should be reviewed. **ACTION: MB to confirm.**

### ***NAO Audit Plan***

21. He reported that the Audit Committee had reviewed the plan and had noted that it focused on the key risks to the Commission as identified by the NAO.

### ***Commission Accounting Policies Update***

22. He reported that the Audit Committee had reviewed a statement of the Commission's current accounting policies.

### ***Presentations by staff***

23. He reported that the Audit Committee had benefitted from two excellent presentations by staff regarding:
- a. the review of the Commission's risk management framework; and
  - b. the handling of player complaints.

### ***Merger/relocation***

24. He reported that the Audit Committee had been updated on discussions with the Gambling Commission regarding the merger/relocation. He noted that the Chief Executive would update Commissioners on this issue as part of his report.

### ***Closed session of Audit Committee members and the NAO***

25. He reported that, following the main meeting, a meeting had been held between Audit Committee members and the NAO. This provided the opportunity to get to know the NAO's new Engagement Director. One of the topics that had been discussed was the need for the Commission to review authorisations on expenditure.

### ***Internal Auditor: appointment***

26. Deep Sagar noted that the current contract between the Commission and its internal auditors was due to expire shortly. The appointment of auditors would need to be considered by Commissioners at a future meeting.

## **ITEM 5: CHIEF EXECUTIVE'S REPORT**

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

### **Para 28 [Minutes redacted S43 (2) Commercial]**

#### ***Better regulation***

29. Mark Harris reported that, as requested, a report had been drafted for the Minister regarding the Commission's approach to Better Regulation. Dr Anne Wright and Sarah Thane would review the final draft before it was published and sent with a covering note (as described in the CE's report), to the Minister.

30. Mark Harris advised Commissioners that a letter had been received from Vince Cable regarding 'sunset clauses' and whether the Commission adopted a 'one in, one out' approach when making changes to licence requirements.
31. Mark Harris informed Commissioners that a meeting had been held with the Department for Business, Innovation and Skills (BIS) on 8 November. The Commission's policy of reviewing and revising the operating licence prior to a licence competition had been commended by BIS as representing good practice. In light of the special nature of the relationship between the Commission and Camelot, BIS had confirmed that it did not expect the Commission to adopt a 'one in, one out' system of regulation.
32. Mark Harris explained that the Commission would be writing to BIS shortly and that the letter would explain further how the Commission negotiated licence amendments with Camelot and its Regulating with Excellence programme.
33. In response to a query from Commissioners, Mark Harris noted that Vince Cable had written to regulators but not to regulated entities, and therefore Camelot would probably not have received a copy of his letter.

#### ***GPT update***

34. Mark Harris advised Commissioners that the Commission was developing a response to the Treasury regarding GPT. It had appointed NERA, its economic advisers, to undertake some analysis. The Commission had already advised Camelot that it was sceptical as to the elasticity of baseline sales, and was likely to communicate this to the Treasury.
35. Mark Harris informed Commissioners that DCMS had decided that Camelot should be required to guarantee that the level of funds flowing to the good causes would be maintained, as a pre-condition of any move to GPT.

#### **Para 36 [Minutes redacted S43 (2) Commercial]**

37. Mark Harris advised Commissioners that the Treasury required a response from the Commission in relation to its queries regarding GPT by the end of November. Following discussion it was agreed that:
  - a. Mark Harris should respond to the Treasury, making it clear that he was acting in his capacity as Chief Executive rather than as a Commissioner;
  - b. The letter sent to the Treasury should subsequently be copied to Commissioners.

**ACTION: MH**

#### **Heading of Para 38 [Minutes redacted S43 (2) Commercial]**

38. Mark Harris advised Commissioners that he would be meeting Martin Pugh next week to discuss next steps.

#### ***Spending Review Letter***

39. Mark Harris referred to a letter from DCMS regarding the Spending Review, which had been copied to Commissioners. He advised Commissioners that the

issue of ring-fenced depreciation did not provide cause for concern.

#### ***Relocation/Common Services update***

40. Mark Harris informed Commissioners that DCMS did not have any concerns regarding the project timetable.
41. He explained that DCMS would start advertising for a new head of the Gambling Commission by the end of November.
42. In response to a query from Commissioners, Mark Harris confirmed that, as far as he was aware, there was no bar on Commissioners putting their name forward for the role.

#### ***Overseas play***

43. Mark Harris advised Commissioners that a letter had been received from the Minister asking the Commission for clarification of whether and, if so, how far members of the armed forces based overseas could participate in the National Lottery. The Commission was considering this as a matter of urgency. Mark Harris informed Commissioners that he had also written to Dianne Thompson, Camelot's Chief Executive.
44. Mark Harris explained to Commissioners that a number of issues arose in relation to servicemen posted abroad including the issue of how an individual could register to play interactively if they only had a BFPO address, and how claims should be handled if someone on active service was unable to return to the UK within the 180 day claim period.

### **ITEM 6: RETURNS PERFORMANCE UPDATE**

45. 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.
46. Ben Haden reported that, following a slight weakness over the summer period, sales figures in October 2010 had been very strong. Initial indications suggested that November was likely to be a strong month too, given the recent triple Lotto rollover and the fact that the Millionaire Raffle guaranteed 10 millionaires on 12 November.
47. Ben Haden advised Commissioners that, as a result, total primary contributions were now significantly ahead of the position at the same time last year.

#### **Para 48 [Minutes redacted S43 (2) Commercial]**

49. Commissioners noted the contents of the report.

### **ITEM 7: CAMELOT CORPORATE RESTRUCTURE**

#### **Paras 50 - 56 [Minutes redacted S43 (2) Commercial]**

## **ITEM 8: STRATEGIC OBJECTIVES REVIEW OF PROGRESS AND FUTURE PLANNING**

57. Joy Watkins presented the paper which set out a review of the Commission's progress against its current strategic objectives and how it proposed to progress the development of its Corporate Plan.
58. Joy explained to Commissioners that the Senior Management Team had undertaken a review of the Commission's progress against the strategic objectives identified at the start of the year. A summary of progress was included in the report.
59. Joy Watkins informed Commissioners that supporting activities had been identified in relation to the new strategic objective for October 2010 – March 2012, which related to the merger/relocation.
60. Joy Watkins explained that, with the identification of the new strategic objective at the half year, the Commission was working to a shorter planning cycle than normal. It therefore proposed, rather than having a Corporate Plan supported by team business plans, to have a single planning document to cover all activities.
61. Joy Watkins explained to Commissioners that staff were set individual performance objectives that related to business and corporate plan objectives; these were being reviewed as part of the mid-year review process. Teams were also being asked to review their business plan objectives for the remainder of the year to confirm whether they remained relevant or whether they should be amended/deleted.
62. Commissioners noted the contents of the report, and agreed that a single planning document should replace separate corporate plan and team business plans. Commissioners also noted that a further update would be provided at the Commission meeting in December and January.

## **ITEM 9: HALF YEAR FINANCIAL POSITION**

63. Joy Watkins presented the report to Commissioners. The report provided Commissioners with information on the Commission's financial position at the end of September 2010.
64. Joy Watkins explained that the report had been considered by the Audit Committee at its meeting on 8 November.
65. Joy Watkins advised Commissioners that, setting aside the costs of legal advice in relation to the evaluation of Camelot's Commercial Services proposals, the Commission was comfortably within its budget and would be forecasting an underspend at year end. However, when such costs were taken into account, the Commission was obliged to conclude that there would be an overspend at year end on the 'Total Running Costs' budget and on the total budget.
66. Joy Watkins advised Commissioners that the Commission had approached DCMS for additional funding to meet the anticipated costs of further legal advice in relation to Commercial Services. DCMS understood the Commission's position and had verbally agreed the additional funding, which was likely to be provided to the Commission in December.

67. Mark Harris pointed out that, as requested by the Audit Committee, the executive would be drafting a note setting out the Commission's strategy on seeking legal advice, and its process for managing expenditure on legal advice. In response to queries from Commissioners, he confirmed that the Commission had carried out a tender exercise before appointing its current advisers and that the selected advisers had offered the Commission a discounted rate. He also confirmed that the system of obtaining advice in future was one of the topics which the Commission intended to discuss with the Gambling Commission

68. Commissioners noted the contents of the report.

#### **ITEM 10: PERFORMANCE ACHIEVEMENT REPORT**

69. Ben Haden presented the report to Commissioners explaining that it was the second full report resulting from the Operator Reporting and Monitoring workstream of the Commission's Regulating with Excellence programme. The purpose of the report was to measure the overall efficiency, effectiveness and efficacy of the operator in running the National Lottery.

70. Ben Haden advised Commissioners that:

- a. The operator was in a sound financial position following the share sale.
- b. It was encouraging to note that the current rate of return is growing in a potentially challenging economic environment.
- c. Fresh insight had been gained into public perceptions of the National Lottery.

71. Ben Haden drew Commissioners attention in particular to a number of sections of the report.

#### ***The past performance of returns to the good causes***

**Paras 72 - 80 [Minutes redacted S43 (2) Commercial]**

#### **ITEM 11: THUNDERBALL PLAYSリップ INVESTIGATION**

81. Simon D'Arcy delivered a presentation to Commissioners regarding the Thunderball playslips issue.

**Paras 82 - 98 [Minutes redacted S43 (2) Commercial]**

#### **ITEM 12: ONLINE COMMUNITY REPORT: EXPLORING EXCESSIVE PLAY**

99. Ben Haden presented the report to Commissioners. The report provided Commissioners with a de-brief on an Online Community project to explore public awareness, and understanding, of 'excessive play' and its relationship to the NLC's duty to protect players.

100. Commissioners commended this helpful report and noted its contents.

**ITEM 13: FUTURE COMMISSION BUSINESS and  
ITEM 14: FUTURE COMMISSIONER ATTENDANCE**

101. Commissioners noted the contents of both reports.

**ITEM 15: REVIEW OF THE MEETING**

102. No issues were raised

**ITEM 17: DATE OF NEXT MEETING**

103. The next meeting would take place on 14 December 2010, 1000-1400.

**ITEM 16: ANY OTHER BUSINESS**

104. 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:***