



National Lottery
Commission

A better way to regulate the National Lottery

An update on the progress made to better focus and streamline
Lottery regulation

Report

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1. Introduction

The National Lottery Commission ensures a Lottery that is run in the nation's interest, both for today and the long-term; an operation that is run with propriety, is safe to play, and a national institution that makes as much money for good causes as possible.

The Lottery was set up to benefit the nation as a whole and we are committed to making sure the public interest is safeguarded. We want to make sure that our regulation achieves this. At the same time we appreciate that the operator¹ will only be able to deliver if they are not burdened with unnecessary rules and regulations. Achieving this balance is the key to better regulation.

To better achieve this balance the Commission set up a development programme that we call Regulating with Excellence (REx for short). In January 2009 – after the completion of the third Licence competition - we published a document called *The principles of regulating with excellence* which looked at how the principles of better regulation² apply to the work of the Commission and how we can improve the way we work to better reflect these principles.

This paper looks at the changes we have made to the way in which the Commission works since then. We will show what challenges we have faced, what successes we have had, and what next steps we plan to take.

Some headline examples of changes we have made are:

- Reduced the number of reports we ask Camelot to send us by 40%. Camelot has estimated that this will save them around 600 hours of work a year.
- Published a transparent enforcement policy so that Camelot and other stakeholders know how we would deal with any breaches of their Licence.
- Developed performance metrics and tools over the last two years designed to enable us to assess Camelot's overall performance more vigorously and, should it prove necessary, address under-performance swiftly. We can, therefore, focus on performance of the game portfolio as a whole, and involve ourselves less in the commercial rationale for individual game proposals.
- Saved ourselves and Camelot the equivalent of around 9 weeks of work each per year by cutting unnecessary monitoring of Scratchcards.
- Planning to save around 10 weeks of work by not undertaking a programme of direct retailer visits and instead reviewing Camelot's internal processes for managing the retail network and undertaking site visits.
- Achieved progress in changing the culture of the Commission, moving from a process based regulatory system to an outcome based system where we focus our regulatory efforts on important outcomes, backed by a system of risk assessment to help us identify which outcomes matter most in any individual set of circumstances.

The steps we have taken so far have given us the appetite, experience and impetus to continue to move to a cutting edge regulatory approach.

¹ The operator, Camelot UK Lotteries Ltd (Camelot)

² Better regulation should be transparent, accountable, proportionate, consistent and targeted.

2. Background: Our three roles

When looking at how we can implement better regulation principles we have to remember that our activities go beyond those associated with a traditional regulator. We represent the interest of the good causes which, as they receive around £1.5 billion annually from Lottery proceeds, have a significant stake in the future success of the Lottery. Protecting players and ensuring that the Lottery is run with due propriety are traditional regulatory activities; our duty to maximise good causes is rather different. It means that unlike most regulators we have a direct interest in the long term financial success of the Lottery.

In particular, the responsibility to maximise returns gives us two roles beyond traditional regulation. The Commission is, in effect, the 'client' for delivery of the Licence. It holds the interest in the commercial performance of Camelot through the Licence terms and conditions, alignment of incentives, and delivery of Camelot's business plan. As 'client', the Commission also protects the public interest in the potential for an effective competition for the next, fourth, Licence from 2019. Many features of the Licence are key to the ability to conduct an effective competition, and so maximise the returns that bidders are prepared to offer good causes. Many elements of the present Licence were carefully designed to allow effective competition for future Licences.

Our Licence is made up of 29 conditions (77 pages) and 14 schedules (82 pages). Of the 29 conditions, nine relate to technical legal matters such as grant, definitions and governing law; two relate to commencement; four relate to preserving the Commission's long term interests in the National Lottery (including handover, intellectual property and information rights); six relate to preserving the Commission's interests over the Licence period (eg investment provisions, ancillary activities and contracting arrangements); two protect the interests of players and seven place performance obligations on Camelot.

Whilst the Licence is a substantial document, it is considerably shorter than many other outsourcing agreements, such as rail franchise agreements. For example, the rail franchise agreement for Chiltern Railways runs to 45 conditions and 15 schedules, amounting to over 400 pages.

In addition, we undertake considerable work over the life of the Licence to ensure that the public interest is maintained in the light of changing circumstances and developments in the commercial environment. For example, we have taken significant steps to protect the public interest during the sale of shares in Camelot from the five previous shareholders to a new owner. A major objective has been to ensure that there is no significant increase in the risk of deterioration in returns to good causes under the new ownership arrangements.

The Licence itself also provides for critical 'public benefit' functions to be undertaken in the public interest; these include:

- the ability to extend the Licence itself if there is a sound business case to do so;
- the ability to make decisions which will encourage Camelot to make further investments in the Lottery infrastructure to the benefit of returns for good causes; and
- the negotiation of returns for good causes from any ancillary activity which Camelot proposes (as these are dealt with on a case by case basis).

We also monitor Camelot's overall financial performance and have the ability to intervene, by ordering third-party reviews, if we have reason to believe that performance is not as good as it

might be. Finally, policy changes to the regulatory environment need to be reflected in the Licence (as will be the case if a Gross Profit Tax regime is introduced) and our role is to make sure that the public interest is safeguarded in the introduction of Licence amendments necessary to implement such changes.

The value of this role has already been evident in the first year of the third Licence, in which the significantly improved generosity rate inherent in the Third Licence has resulted in an increase to returns of £90 million, an increase which will continue throughout the life of the Licence. Any diminution of the Commission's client role and interest in commercial outcomes could put at risk future levels of returns to good causes.

This can be explained in the diagram below that shows how our traditional role as a regulator is connected to our other roles of acting like a client and maximising public benefit.

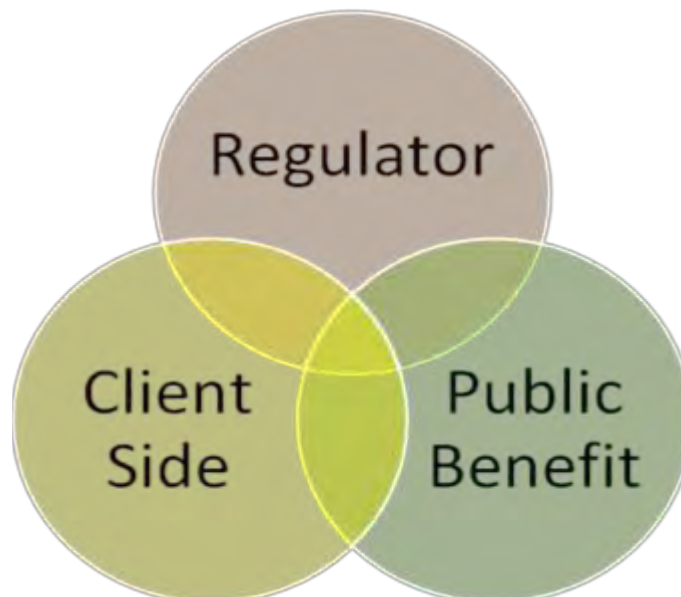
2.1 Our three roles

Social Responsibility provisions:

- Propriety
- Player protection
- Minimise risks to the vulnerable
- Maintain reputation of National enterprise

Maintaining the value of the current licence:

- Financial viability
- Intellectual property
- Contingency plans and future licences
- Handover provisions
- Protection of information



Maintaining value to Good Causes:

- Performance monitoring
- Investment decisions
- Negotiating changes

Whilst our duties extend well beyond traditional regulatory activities, we believe that the better regulatory principles can help us improve all aspects of our work. Given our three roles, it is important that we safeguard the public interest in a manner which gives Camelot as much commercial freedom as possible to pursue growth opportunities quickly, effectively and in a socially responsible manner.

3. Better regulation and the National Lottery

To champion the principles of better regulation in all of the different areas of work that we do, the Commission set up a number of different work streams each focussing on a different aspect of how we can improve the way we work.

These work streams are:

Outcome-based regulation, informed by risk assessment: To give Camelot UK Lotteries Ltd, as the operator, the ability to design the processes which are most appropriate to its business model and which best provide us with the outcomes that we expect the Camelot to deliver.

Earned autonomy/proportionality: To recognise and take account of risk, Camelot's incentives and past performance in undertaking our work.

Informed analysis of operator performance: To satisfy ourselves that Camelot is doing its best to maximise returns to good causes, that it remains in a healthy financial state and acts in a manner that increases the long-term value of the Lottery.

Transparency: To ensure that we are accountable to the public and others, and that decisions and related processes are clearly recorded and understood.

Public engagement: To ensure that we consider cost-effective opportunities for public engagement, to make our decision-making more informed and consumer centric.

Enforcement: To implement changes to our approach to enforcement to reflect better regulation principles, including those highlighted by the Macrory Report³.

We explain below in greater detail what progress we have made under each of these workstreams.

3.1 Outcome-based regulation, informed by risk assessment

One of the most important objectives of the regulating with excellence programme was to consider the extent to which we might move to an outcome based form of regulation. This means instead of setting out in detail what actions we want Camelot to take, we agree what outcomes we want them to achieve and give them more freedom in deciding how they achieve them.

While process based regulation can give clarity to both the regulator and the body being regulated, it can also become highly inflexible and has the potential for the processes defined by the regulator to become burdensome and unnecessarily detailed in respect of the day to day running of a commercial company. As well as being more flexible, outcome based regulation means that both the Commission and Camelot are focussed on key outcomes (such as protecting players and raising as much money as possible for good causes) rather than the processes that are considered likely to achieve these.

³ Macrory Report. 'Regulatory Justice: Making Sanctions Effective.' Cabinet Office November 2006. Although the Commission is not covered by this review it has made a commitment to adopt regulatory best practice.

3.1.1 The challenges of outcome based regulation

Whilst we did seek, where possible in the time available, to set the third Licence requirements on an outcome basis, we recognise that many parts of the Licence are not as outcome based as they might be. Remediating this presents a number of challenges:

- Definition - One of the hardest challenges for the Commission in the first year of REx has been to identify with precision what outcomes we want Camelot to achieve. It is one thing to say that you want to protect players and the propriety of the Lottery and subject to that maximise the money for good causes, but it is much harder to say exactly what these outcomes would look like. We need to be very clear exactly what outcomes we want and how we are going to define and measure them. If we do not do this effectively, then the outcomes may lead to large areas of uncertainty, whereby we and Camelot do not have a common view of what the outcomes mean in practice, with the result that they become more difficult or impossible to enforce.
- Risk and uncertainty - It takes a significant change in attitude for the Commission to say to Camelot; this is what we want you to achieve but we will leave it up to you how we want you to achieve it, especially in areas where the consequences of things going wrong will be very significant. Equally, it takes a significant change in attitude for Camelot to accept the uncertainty that goes with the greater freedoms that outcome based regulation offers; the company would no longer have detailed Licence requirements to rely on and instead would need to ensure that all its processes complied with the required standards.
- The terms of the current Licence - the logical conclusion of a move to outcome based regulation would be to rewrite the Licence in terms of outcomes. A complete overhaul of the Licence would however be prohibitively expensive and time consuming for both the Commission and Camelot, distracting both organisations from the further development of the National Lottery. Instead we have focused on identifying the parts of the Licence where an outcome based approach would be the most suitable and agreed with Camelot to adapt these areas first.

3.1.2 A risk based approach

Moving from process based regulation requires a careful consideration not only of the desired outcomes but also of the risks if these outcomes are not met.

Our clear legal duties and experience of overseeing the running of the Lottery for over ten years has given us considerable experience on which to base an assessment of what risks are involved in running the Lottery, and what areas we need to focus on. We have started to convert that experience into a formal risk assessment tool to re-examine fundamentally all the work that we do and identify areas where what we do is not proportionate to the risks identified.

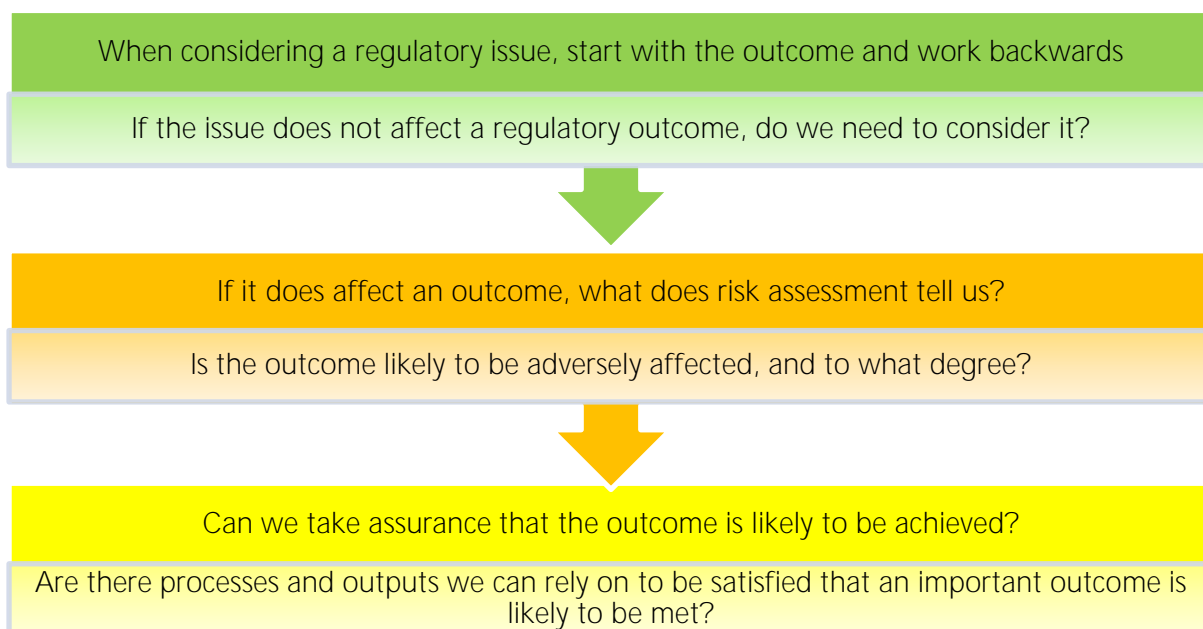
One area where we identified that the risks were not proportionate to the level of scrutiny we were applying was in the way we assured ourselves that each Scratchcard game had been run properly. After talking to Camelot we saw that for an area of comparatively low risk we were spending a lot of time and effort, down to the level of detail of actually counting the number of pallets in the warehouse. With 30 to 40 Scratchcard games being launched every year our new risk based system has saved ourselves and Camelot around 42 days worth of work.

We also took into account the serious impact on the whole of the Lottery a major scandal or operational lapse would have. It is vitally important that people can trust that the Lottery is being run in their interests. This means that there are greater reputational risks associated with a scandal in the National Lottery than there would be with many organisations, and that the consequences would impact on the returns to good causes as well as Camelot and its shareholders. We have therefore committed to re-examine how we guarantee player protection and reinvest some of the savings we have identified in other areas to focus on this more pressing need.

3.1.3 The way forward

We have created a hierarchy of outcomes which define what we are seeking to achieve in our regulatory work. The high level outcomes have been agreed with Camelot and we are still working to flesh out the detail, where we need to. These outcomes will be further refined over time, as we come to apply them.

Now we have clearly defined statements of the outcomes we want to be achieved and a more structured system for analysing risk, we have started to trial these tools to drive our business planning process and our internal procedures for the years ahead. This will enable us, in all aspects of our work, to focus our efforts on assessing the degree to which outcomes will be or have been achieved, concentrating on areas of higher risk and so cutting time and costs where we judge that activities contribute little to the outcomes we seek or that the risks of an outcome not being met are low. This approach, which we propose to apply regardless of whether the relevant Licence conditions are expressed in terms of outcomes, can be summarised schematically as follows:



We will continue to consider how we can use outcomes and risk assessment to develop our work. Our present thinking is set out in section 5 – 'Next steps.'

3.2 Earned autonomy/proportionality

When the Lottery was first introduced in 1994, no one could know just how successful it was going to be. Nor did they know what risks there were in allowing a private company the right to run a commercial monopoly in the gambling sector. Despite early fears the National Lottery has proven to be a great success story. The Lottery has raised over £25 billion for good causes and is one of the most efficient lotteries in the world. A recent international comparison of lotteries ranked the UK National Lottery as 3rd out of 47 different state lotteries for the proportion of its sales that goes to the government and good causes⁴, and since these figures were compiled the Commission has issued a new Licence to Camelot following an international competition which will mean an even greater proportion of sales will go to good causes.

The latest licence has been drafted to reflect the experience of previous Licence periods. It also reflects the fact that the competition might have led to the appointment of a new operator who did not have a track-record in running the UK National Lottery. In the event, however, Camelot won the Licence competition. We recognise that, as Camelot has been running the Lottery for 15 years, we should take into account the experience that they have built up over the years. In areas where we believe that Camelot has a strong track record in meeting regulatory requirements, we recognise that we should be less prescriptive.

Condition 5.13 of the licence provides the Commission with the right to require Camelot to engage an independent expert to undertake testing to ensure that software conforms to functional specifications, when Camelot launches a new game or makes a technology change. Camelot has tended to anticipate that the Commission will always exercise this right and the hiring of an independent expert to carry out 'System Function Proving testing has become the norm rather than the exception regardless of the actual risks to system integrity arising from the change. Camelot has estimated that such tests might cost it between £20 – £30 million over the course of the third licence. The Commission has advised Camelot that SFP testing need not be required where new technology changes are similar in nature and content to previously successful changes and/or are unlikely to introduce significant new risk. Camelot will be able to divert the resources previously earmarked for SFP testing towards the continuous improvement of their own internal testing mechanisms, inspiring yet further confidence in the Commission that it can rely on Camelot's internal processes to produce the right outcome.

The way we license new games can be seen as an example of regulatory sunseting in practice. The best practice of sunseting calls for regulatory bodies to reconsider each of the regulations they impose on a regular basis to guarantee they are still relevant. At the end of each Licence period the Commission re-examines all its Licence conditions to make sure they are achieving their aims without putting on any unnecessary burdens. Between the main competitions to run the Lottery as a whole, games such as Lotto are licensed for a fixed period, which allows us, along with Camelot, to take the opportunity to consider whether each Licence remains necessary and fit for purpose.

⁴ Lottery Benchmarking and Success Factors: Benchmarking, Success Factors and Best Practices 2nd Edition, MECN London & Munich, April 2009.

Another area where the REx programme showed that we were applying a disproportionate amount of effort to deal with a comparatively small risk, was in our vetting of Camelot staff, key suppliers and shareholders. Our risk assessment showed that while it was important for us to be able to check the propriety of key senior staff, there was no need for us to check out the backgrounds of as many of the more junior employees as we were. After talking to Camelot we were able to agree a much shorter list of positions where staff needed vetting, saving both parties time and money. This also had the benefit of putting responsibility on Camelot for checking staff probity through its appointment process.

Our flexible approach does of course mean that if, at any point in the future, Camelot fails to deliver the outcomes that stand behind the licence, we can always reinstate their obligations.

To be able to properly judge that Camelot is operating in a fair and appropriate way the Commission requires it to submit a range of management reports on a regular basis. We decided to look again at each of these reports to see if the number of reports we were asking for was proportionate to the risks we were managing. By analysing our needs and talking to Camelot about the burdens that reporting puts on them we were able to agree to a 40% reduction in the number of regular reports that Camelot need to send us each year. Camelot has estimated that this one change alone has saved them 600 hours or the equivalent of 16 weeks of work. We are continuing to look at how we can further streamline the process.

An important element of this workstream is that it should be a continuous process. As Camelot demonstrates that it has earned autonomy and that risks are reduced, so then should Licence requirements be disapplied and our game licensing requirements be reduced accordingly. We set out, in section 5, how we are progressing this.

3.3 Informed analysis of operator performance

As explained earlier, we have a role to act in the public benefit in order to ensure that the Lottery generates the best returns possible for good causes over the long term.

While this is not traditional regulatory activity, we felt that our fresh approach should apply equally to this area and that doing so should recognise the degree to which the new Licence aligns Camelot's incentives with the delivery of public benefit. We therefore completely re-assessed this task and implemented a more strategic, less detailed monitoring approach. It recognises that our role is not to second guess Camelot's commercial plans, but rather to understand its performance and its overall approach to commercial planning.

We have therefore focussed much more on assessment of Camelot's overall commercial performance across its whole portfolio, rather than seeking to judge its commercial assessment of individual opportunities. Over time, this will reduce the information we require on the commercial aspects of game licence applications. In addition, we have made sure that we only ask for commercial information from Camelot that is directly relevant to sales. We were therefore able to stop asking for reports on a number of non-essential commercial issues, such as Camelot's coverage in the media.

We have completely reviewed our internal assessments and reporting on Camelot's commercial performance. As our role is similar to that of an institutional investor who wants to maximise returns over the longer term, we have learnt from best practice adopted by investors, including the Government's Shareholder Executive. We now produce a six monthly report which looks at Camelot's overall delivery against a set of performance criteria. This allows us to be satisfied that the operation of the Lottery is secure and that returns to good causes are as great as possible, both currently and in the longer term.

3.4 Transparency

One of the features of better regulation is for regulators to be transparent in their decision making. This improves regulators' accountability to the public. It also ensures that their decisions are widely understood, including by those that they regulate. These requirements all apply to our work. Transparency has the added benefit for us that it helps us demonstrate that the Lottery is run fairly. We have reviewed our approach to transparency and concluded that:

- Much of the information that we deal with is commercially sensitive at the time we consider it and this has led us, in the past, to be cautious about the information we published. We have identified that much of the commercial sensitivity falls away over time, and that we can therefore publish such information at an appropriate point after the decision is taken once the information is no longer sensitive.
- We have in the past focussed on communicating our decisions to Camelot, as the single organisation we regulate. We have concluded that our decisions, and the reasons why we have reached them, should be transparent to everyone who has an interest in our work. This will require us to express our decisions in clear terms, supported by reasons in a single, public document.

We are therefore working towards a commitment to publishing everything unless we are clear that there is a good reason not to.

We now publish on our website information including minutes of Commission meetings, our expenses, the register of interests and our responses to FOI requests. We have also adopted a schedule to publish further records over time, for example we will shortly begin to publish our rationale for approving new games proposed by Camelot. By being more transparent about our work, we want to reassure players that the National Lottery is run with the highest levels of integrity.

This is still an ongoing process and we are looking at ways of improving the way we make information available. This year we have embraced the new rules on transparency coming from central government. We have decided to publish on our website all expenditure over £500 which goes much further than the minimum requirement to publish expenditure over £25,000. One of the big challenges for us is not simply to publish more information, but to do so in a way that people can understand. Many of the issues we deal with are technical and/or

commercially sensitive, and we are developing approaches to ensure that what we publish is accessible and timed to avoid damage to the commercial interests of the Lottery.

3.5 Public engagement

To ensure that our regulation is evidence based, we decided to look again at how we engage with the public. The better our understanding of how people see the Lottery, the better we can shape our work to ensure that players are appropriately protected. In particular, we noted the work undertaken by consumer organisations that demonstrated the value of seeking consumers' views when setting regulatory standards on consumer safeguards.

Instead of employing an expensive series of focus groups and workshops, we have brought together a group of Lottery players and non players who are part of an online community used to inform our regulatory approach. This pioneering research community has allowed us to seek, in a quick but informed manner, public reaction to developing issues as well as to longer term regulatory questions.

This pilot project is coming to an end and we are assessing its value and investigating how we can continue to engage with the public in the future. We have estimated that this project saved about 50% of the costs of using traditional research methods.

One activity we undertook with our online group was to ask them to visit a Lottery retailer and to tell us about the information that they found there, and what of that information they considered useful as consumers. We found that many of the pieces of information that we require Camelot to provide at retailers were not valued by players, and were costly for Camelot to provide. We are now in discussions with Camelot to see how we can reduce our regulatory requirements to better meet players' needs and to make them less burdensome.

3.6 Enforcement

The Macrory Report³ set out best practice for enforcement practices by regulators. We have therefore reviewed our regulatory policies, including the range of sanctions available to us, against the standards set by that report.

We have published a clear enforcement policy setting out how the National Lottery Licence is enforced, what sanctions we would apply, and what actions we would take if Camelot breaks a condition of their Licence. The policy was finalised following an open consultation to find out whether the Commission's approach was in line with best practice. We had a strong response from academic experts and other regulatory bodies as well as from Camelot themselves.

This consultation helped us create a new enforcement policy which is much more closely aligned with the principles of better regulation. It focuses much more on serious infringements of the Licence where we believe that a potential failure by Camelot could seriously damage player protection or returns to good causes, rather than minor issues where they may not have followed strict procedures but no damage has been caused.

One aspect of our enforcement policy that working on improving is in the way we ask Camelot to report incidents to us. Working with Camelot we have trialled a new system whereby instead of having to send us individual reports on every issue as soon as they happen minor issues are simply added to a log. Camelot has said that this has removed significant burdens for staff. We are continuing with the trial and are encouraging Camelot to use the savings raised from this reduction in burdens to better deal with the way they report major issues.

4. Cultural change

While the different work streams can identify certain parts of the Licence that can be changed, it is by changing the culture of the Commission that we can make long term significant changes to the way we regulate.

Internally, we need to encourage our staff to think openly about the work that they carry out, to consider whether it is still necessary and whether the same outcomes can be achieved by working in new ways which will place less of a burden on Camelot as well as on ourselves. This will lead to a culture of 'continuous improvement', where we regularly consider whether an approach that has served us well in the past remains appropriate in the current environment.

We are working to make sure that all our staff understand this and recognise the difference that they can make. We have organised a series of open breakfast meetings where staff from throughout the organisation get together to look at of an area of our work. Staff are encouraged to fundamentally re-examine what we do and why we do it, with different people able to give a fresh perspective. We are pleased with the enthusiastic response that we have received from staff.

As part of the cultural change at the Commission each of the different teams are encouraged to look at their work with a fresh eye and not simply carry on doing something purely because it is something that we have always done.

For example the compliance team are completely rethinking the way they deal with the network of Lottery retailers. In previous years the Commission has had a programme where Compliance Auditors directly visit several hundred Lottery retailers to substantively test whether retailers are complying with the agreements that they have with Camelot. Going forward, the Compliance Auditors will take a systems based approach, principally reviewing Camelot's internal systems and processes for managing retailers and the results of Camelot's own internal compliance visits. Whilst some site visits will still be necessary to independently verify the reliability of Camelot's systems, the change in approach will save ten man weeks in 2010/11 at the Commission and considerable time at Camelot

As well as it being vital that we change our own culture, it is equally important that we

influence similar changes within Camelot. It can be difficult for Camelot's staff to give up the security of knowing that if they follow the procedures laid down by their regulator, then they cannot be blamed if anything goes wrong. Similarly, Camelot staff are best placed to identify where regulatory requirements place burdens on them which could be avoided through changing the requirements whilst still delivering the same regulatory outcomes. But they may also need to change their mindsets to identify such opportunities. Convincing them that we are committed to change will help that process.

Changing the mindset of our staff, and demonstrating to Camelot's that there are benefits to be had from engaging in similar activity, is not a process that can be completed in just one year but it is a process that we are committed to continue.

5. Next steps

It would be premature for the Commission to claim that it had succeeded with our REx programme in completely implementing the principles of better regulation. Improving the way we regulate is a continuing process and staff throughout our organisation feel that they have a mandate to achieve this.

The different work streams are now very much becoming part of the day to day work of the Commission. The principles of better regulation, such as transparency and focusing on achieving the best outcomes, cannot be isolated projects but an integral part of what we do now and in the future.

One of the most significant changes that REx has brought about is a change in the culture of the Commission. It is this change in attitude where staff are actively looking to find ways to improve our work is likely to have the biggest impact in the long term. When we look back in a year's time we would hope to see the REx programme leading to even more significant changes.

We are committed to working closely with Camelot to pursue this process. We have asked them to come up with a list of areas where they think regulation can be improved and which would benefit their commercial operations. They have identified six areas:

- Contingency arrangements to enable trustees to discharge their obligations to pay prizes and make refunds to players in the event that Camelot enters administration.
- Changing the basis and extent of Operation Child – test purchasing arrangements to ensure sales are not made to under 16s.
- Reviewing and simplifying the draw protocols – the arrangements for undertaking the draw and for testing draw equipment.
- Restructuring arrangements for delivery and testing of new gaming system and associated software.
- Considering the extent to which the Commission can take assurance from Camelot's internal and external audit and compliance processes.
- Reconsidering Camelot's performance standards in the light of its business needs and wider commercial best practice in defining and measuring such standards.

We are in discussion with Camelot to see how we can make changes which continue to deliver the outcomes these requirements were designed to achieve, but in a manner which reduces the burden on Camelot.

We are in discussion with Camelot regarding the use of outcomes in our regulatory approach. We will consider whether there are parts of the Licence which would benefit from being redesigned with the outcomes they aim to achieve in mind, and will pursue these opportunities where it is cost effective to do so.

We are reviewing our regulatory processes to ensure that we use outcomes to help us focus on the right issues, and risk assessment to help us place the right emphasis on regulatory issues. We are also considering changes to our regulatory model in order to take greater assurance from Camelot's own processes.

This may, initially, require new work of ourselves and Camelot to undertake the initial assessments. However, in the longer term, there may be significant benefits in that we will be able - using risk assessments to focus our work - to place reliance in areas such as licence applications where previously we have dealt with proposals on a case by case basis. This is a concept that requires further work and the support of Camelot if we are to progress it, but which offers the opportunity to streamline our processes significantly, especially in areas where Camelot would benefit from the opportunity to move more quickly in commercial decision-making and implementation.

We recognise that we have already made many of the smaller, more straightforward changes and that some of the areas that we are looking at now may be more challenging. However, if we can agree changes on these, their impact may be more significant.

With the prospective merger of the National Lottery Commission and the Gambling Commission within the Public Bodies Bill currently before Parliament, the REx programme will be more important than ever. It will be vital that the new merged organisation continues to embrace our fresh approach to regulation whilst safeguarding the future of the National Lottery.

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