Meg Hillier MP
Chair, Public Accounts Committee
House of Commons
London
SW1A 0AA

19 January 2018

Dear Chair,

The National Lottery is a UK success story, with National Lottery-funded projects making a real difference to people and communities across the UK. I believe that, as operator since its launch, Camelot has been critical to that success.

The National Lottery has delivered:

- Around £30 million each week for Good Causes across the UK this year;
- Over £37 billion in total for Good Causes to date – far more than the original top-end Government forecast of £1 billion per year when The National Lottery launched in 1994;
- Funding for more than 525,000 individual awards – the equivalent of 185 National Lottery-supported projects in every neighbourhood.

Returns to Good Causes versus returns to the Operator

The National Audit Office (NAO) report highlighted important issues and we understand the scrutiny that we are rightly subject to as the custodian of a much cherished national institution. However, the NAO report paints an incomplete picture and has material shortcomings. We have set these concerns out below and welcome any questions that you may have.

The reference points in the NAO report do not include the first year of the Third Licence. Had the NAO data included this time-frame, the figures would have been as follows:

- Gross ticket sales up 34% (£1,776m)
- Prize money up 50% (£1,315m)
- Good Causes (through primary contributions alone) up 15% (£197m)
- Camelot profit up 59% (£26m)

Additionally, the report failed to take account of £140 million of investment made in 2007/8 and 2008/9 to support transition-related activities in preparation for the Third Licence.

Since the start of the Third Licence period, the profile of Camelot’s returns have grown from a low base to more normalised levels at around 1% of total sales. This reflects the need for disproportionate investment in the early years in the expectation that profits grow over time. The Licence is also designed to encourage the operator to achieve productivity gains, with the benefits
shared with Good Causes. These gains are more material as a proportion of the overall profitability of the operator than they are as a proportion of returns to Good Causes, presenting a distorted picture when the change is expressed in percentage terms.

Changing consumer needs

Camelot is not incentivised to prioritise one game category over another. In fact, the overarching objective as operator of The National Lottery is to maximise returns to Good Causes across the board through all game categories by meeting consumer needs. The driver of the change in sales mix is a reduction in the popularity of Draw Based Games (such as Lotto), and an increasing preference for Scratchcards and Instant Win Games, a by-product of changing consumer appetites and behaviour in general. Scratchcards and Instant Win Games return less in percentage terms to Good Causes than Draw Based Games, and in recent years this has impacted returns to Good Causes as a percentage of overall sales.

Requirements for future success

Despite these concerns with the report, I do recognise that there are issues which must be addressed to ensure a healthy National Lottery in the future. I will not let us rest on past successes and we are currently facing the perennial challenge of maintaining and growing National Lottery sales in a responsible way and therefore returns to Good Causes. That is why I recently conducted a wide-ranging strategic review of the business and we have renewed, robust plans supported by substantial investment to get back into growth. I am pleased to report that we are already beginning to see the benefits from some of the immediate action we took in the second half of 2017.

However, it is important to recognise that there are also critical factors outside of Camelot’s control that will directly affect our ability to get The National Lottery and returns to Good Causes back into growth. There are three areas of policy over which Government and Parliament has control and which have a long-term impact.

First, although The National Lottery was established on a single operator basis – deemed the most efficient and effective mechanism to maximise returns to Good Causes – it is, in reality, no longer a monopoly. Over the last decade we have witnessed the emergence of industrial-scale society lotteries competing directly with The National Lottery.

Second, and linked to this, gambling operators now offer a full suite of gambling products disguised as lottery products. And some offer side bets on our EuroMillions game. These exploit a legal loophole in legislation and I am pleased that action has been proposed by the Government to address this, but today these operators remain direct competitors to The National Lottery. These factors have ultimately been accentuated by the fact that a now vibrant gaming and gambling market has re-framed consumer expectations. Due to The National Lottery’s unique operating model, designed to maximise returns to Good Causes, these expectations are increasingly hard to meet without harming our efforts to fulfil our primary purpose.

Third, Lottery Duty – a revenue tax – is an inflexible mechanic for taxing The National Lottery and puts us at a major disadvantage in our endeavours to respond to these market dynamics. We have long argued for the flexibility that comes with a Gross Profits Tax regime, which would allow Camelot as operator to be responsive to market forces with regards to delivering value to players while also maximising returns to Good Causes. Under the current regime, this is structurally not possible. We are actively making the case that The National Lottery should be taxed on a gross profits basis, and implemented in such a way that Camelot receives no unearned benefit from the change. We make
the case entirely because it is crucial for the long-term health of The National Lottery, irrespective of
the operator, and because it would provide the necessary flexibility to respond to a market
environment that was understandably not envisaged by Government in 1994, but is very real today.

We take our role as the custodian of The National Lottery very seriously. Its long-term success
remains primarily Camelot’s responsibility – and therefore my responsibility. But the right policy and
regulatory response to the challenges I have set out would provide us with the tools required to
return The National Lottery to sustainable growth and maximise returns to Good Causes over the
remainder of this Licence and beyond.

Yours sincerely,

Nigel Railton
CEO, Camelot UK Lotteries Limited