

Annual Report and Accounts 2018-19

Annual Report and Accounts

For the period 1 April 2018 to 31 March 2019

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**GAMBLING
COMMISSION**

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Annual Report and Accounts 2018-19

Making gambling fairer and safer

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Performance report

Overview



Who we are

The Gambling Commission exists to safeguard consumers and the wider public by ensuring that gambling is fair and safe.

We do this by placing consumers at the heart of regulation and maintaining the integrity of the gambling industry.

We license operators and individuals in Britain that provide arcades, gaming machines, betting, lotteries, bingo, remote gambling (online, telephone), casinos and gambling software. We are also responsible for awarding the license for the National Lottery.

There are two main pieces of legislation that underpin our work:

- the Gambling Act 2005 (as amended) which sets the framework for the regulation of gambling in Britain
- the National Lottery etc. Act 1993 which sets out the framework within which we regulate the National Lottery.

We are an independent non-departmental public body sponsored by the Department for Digital, Culture, Media and Sport (DCMS).

We have **355** employees, mostly based at our office in central Birmingham, including around **40** home-based colleagues working across England, Scotland and Wales and now around **20** people based in London working on the 4th National Lottery Licence Competition.

Licensing objectives

We regulate in the public interest, as guided by our statutory duties, to:

- ▶ prevent gambling from being a source of crime or disorder, being associated with crime or disorder, or being used to support crime
- ▶ ensure that gambling is conducted in a fair and open way
- ▶ protect children and other vulnerable persons from being harmed or exploited by gambling.

In respect of the National Lottery, our objectives are to ensure that:

- ▶ every lottery that forms part of the National Lottery is run with all due propriety
- ▶ the interests of every participant in the National Lottery are protected
- ▶ subject to the above two duties, to secure that the net proceeds of the National Lottery are as great as possible.



Chairman's message

During 2018-19 the Commission has made considerable progress towards the achievement of its key objectives and laid the foundations to accelerate delivery in 2019-20 – the second year of our corporate plan. Important advances were made in all five of the priority areas set out in the corporate plan:

- Protect the interests of consumers
- Prevent harm to consumers and the public
- Raise standards in the gambling market
- Optimise returns to good causes from lotteries
- Improve the way we regulate.

I would particularly highlight the progress made in identifying the harms caused by gambling and in increasing the support for coordinated action to tackle these effectively; the continued development of the capacity and capability the Commission needs to run the competition for the 4th National Lottery licence; the strengthening – in a variety of ways – of measures to protect gamblers from unfair terms and practices; and the continued development of the Commission's executive team under Neil McArthur's leadership.

As we now look to accelerate the pace of change across these five areas in the year ahead, we are starting to see signs that the gambling industry is willing to recognise the need for more effective controls in relation to the protection of consumers, particularly those who may be vulnerable, such as children and young people – for example the recently announced voluntary bans on advertising during televised sports matches. Although there is much more the industry could and should do, the Commission welcomes signs of an openness to change, and in the year ahead we will work with the industry and our partners, including the Department for Digital, Culture, Media and Sport, to build on the progress we have seen during 2018-19.



William Moyes

Gambling harms and a safer future

The Commission recently launched a new strategy to tackle the range of harms that gambling can cause. A key driver was the increasing recognition that these harms constitute a public health problem that requires coordinated action by a range of organisations and by the industry itself. It is not an issue that the Commission can tackle alone. This is clearly recognised by our partners in Government, the NHS, devolved administrations and other regulators. We welcome their support.

The new strategy has two main objectives over the next three years – prevention and education, and treatment and support. The pursuit of these will define the action that the Commission should take as it develops its approach to regulation, funding research and in promoting collaboration with the industry and other stakeholders. A key element will be the adoption of a more rigorous approach to the evaluation of initiatives to identify what works and to ensure ineffectual activities are not pursued.

An important part of the Commission's role is to provide a framework for action by different bodies. We have therefore established the Advisory Board for Safer Gambling, chaired by Professor Anna van der Gaag, to provide the Commission with the expert, long-term advice it needs and to assess progress with the new strategy.

The Commission has been encouraged by the interest shown in the new strategy from key Government departments in Whitehall, health departments in Scotland and Wales, Public Health England and the National Institute of Health Research. The determination of the NHS to play a full part in tackling gambling harms was also signalled in the NHS England long-term plan where they committed to further investment in specialist clinics to help more people with serious gambling problems.

In the coming year we hope to see an increase in contributions from the industry to finance research, education and treatment to reduce harms caused by gambling. Even so, the sums currently contributed voluntarily by the industry are likely to fall well short of what will be required. Reliance on agreed settlements between the Commission and companies in breach of their licence conditions is not the answer and we therefore intend to explore other approaches, and we hope the industry will support us in doing so.

Our challenge to gambling operators is to ensure the prevention of gambling harms is understood at every level of their organisations and is intrinsic to the determination of remuneration, bonuses, promotion and disciplinary procedures. A positive attitude around the board table is not enough, although it is welcome. Preventing harm to customers has to be a key priority for everyone working in the gambling industry as it is in other industries.



Chairman's message continued

We also welcome the stated future commitment by many in the industry to make gambling a safer pastime through voluntary initiatives and collaboration with the Commission and with Government. Over the next 12 months we hope that the industry will move to further increase public trust by building on its existing plans to reduce the volume of sports betting advertising and sponsorship.

THE NATIONAL LOTTERY® LICENCE COMPETITION

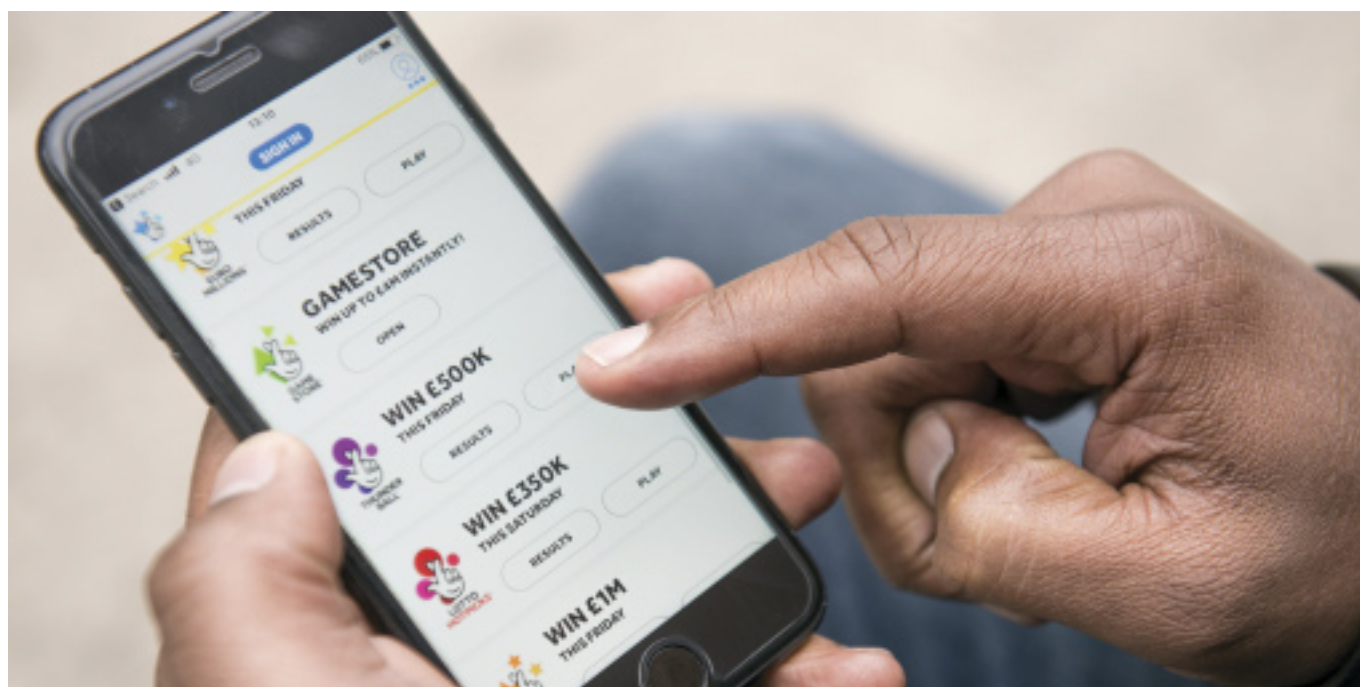
The competition for the Fourth National Lottery Licence

The award of the next licence to operate the UK's National Lottery is one of the Government's major projects. Over its life the contract is likely to have a value in the region of **£100bn**, depending on its length and the success of its operation in increasing returns to good causes and prizes to players. It is therefore one of the highest priorities for the Commission.

Our focus has been on building the team to undertake the first phase of work and laying the groundwork for determining the organisation of the competition, designing the licence and developing the regulatory regime. This crucial development phase has advanced well and will enable ministers and the Commission to take the decisions that each is responsible for under the National Lottery Act 1993 later this year.

Interest in the fourth licence amongst lottery operators and other companies from around the world is already encouraging and it is our aim to build on this engagement and interest. During the next 12 months our focus will shift to engaging the market in more detail and explaining how the competition will be organised, to outline the Commission's thinking on the licence design – and the associated regulatory regime – and then to seek specific expressions of interest from bidders.

The Commission is determined to ensure that the competition for the fourth licence is vigorous but fair, and that the outcome is a lottery that continues to command widespread support and that delivers the funding needed by the good causes it was established to support.



Regulating for a safer future

Looking forward the Commission has a number of complex and important issues on its agenda.

The rapid advances in technology has meant that an increasing proportion of gambling is now conducted online using tablets or mobile phones. The distinction between gaming and online gambling is becoming increasingly blurred, and this raises serious questions about how we can ensure that children and young people are protected, without being denied access to legitimate forms of entertainment.

As cash declines in importance and contactless debit and credit cards become the main forms of monetary transaction, the case for allowing gamblers to pay using credit cards will once again be raised and we will provide full and detailed recommendations on this issue.

More than anything, over the next 12 months and beyond, we have to ensure that our regulatory regime and processes are fit for purpose – and are risk-based, automated, efficient and transparent.

Achieving this and keeping pace with an industry that is constantly innovating is no simple task. But I and my colleagues at the Commission are confident that we can and will continue to operate a regulatory system that is generally regarded as one of the best in the world.



William Moyes

Chairman

Gambling Commission

Performance analysis

Chief Executive's message



Neil McArthur

Our Corporate Strategy for 2018 – 2021 set out our high-level plans, priorities and a vision for the kind of gambling market we want to see: one that is fairer and safer for consumers. This Annual Report covers the first year of the implementation of the strategy.

Managing change and responding to emerging risks and issues are constant features of our work. For example, 2018-19 has seen:

- ▶ Changes in consumer behaviour: more than **50%** of consumers now gamble online and we have seen a shift towards mobile use over PC or tablet use, with **44%** of consumers gambling via their mobile phones
- ▶ The four largest operators now account for **61%** of online market share, up from **42%** in 2011
- ▶ Important decisions being taken in relation to the Gambling Review: most notably, the reduction of stakes on Fixed Odds Betting Terminals
- ▶ A consensus building regarding the need to adopt a public health approach to reducing gambling related harms

- ▶ A growing debate about the amount of gambling advertising and its impact on children and vulnerable people

Protecting the interests of consumers

Following our comprehensive review of the online gambling sector in 2016, 2018-19 has seen us act to make online gambling safer.

We have consulted on and implemented new rules to strengthen age and ID verification checks. We have been working with partners in financial institutions to develop the role they can play to protect vulnerable consumers. This has included looking at how giving consumers greater control of the way they use financial products could work alongside the existing protections that we

require gambling companies to provide, such as offering customers the option of blocking their cards. So far it is encouraging to see two online banks and one major high street bank have introduced features which allow consumers to block card payments to gambling operators. In October we introduced new rules that better protect consumers in key areas such as unfair terms and practices and advertising and we have made progress in seeking to simplify existing complaints processes and ensure consumer complaints are handled in a fair and effective manner. We also introduced new and improved standards that will help cultivate consumer trust and confidence in gambling operators.

We have also worked with the National Union of Students to get information to its members which offers advice about how to stay safe if they choose to gamble.

Preventing harm to consumers and the public

This year has seen significant progress as a consensus now exists that gambling related harms need to be recognised as a public health issue, as demonstrated by the fact that, in January 2019, treatment for gambling related harms was referenced in the NHS England long term plan.

A key piece of work for the Commission over the past 12 months has been the development, consultation and publication of the new National Strategy for Reducing Gambling Harms which has a renewed focus on plans to widen research, take a preventative approach to gambling harms, assess treatment provision, embed a culture of evaluation, and encourage industry to collaborate to make gambling safer.

Also this year we published a ground-breaking approach to understanding the full range of harms gambling can have on society. The report called for views on how the social cost of gambling-related harms can be measured and better understood. It also mapped out for the first-time a methodology that could be used to quantify the impact gambling can have on relationships, finances and health.

Protecting children and young people has continued to be a priority. We published our Young People and Gambling Report and also undertook important work, alongside our partners in local authorities, to test whether children were being prevented from gambling underage on fruit machines in pubs. The failure rate was significant at **89%**. We do not regulate this activity but we have called for the pub industry to take urgent action.



Chief Executive's message continued

Raising standards

Raising standards to protect consumers continues to be at the heart of our work. Much of this over the past year has focused on encouraging gambling operators to really 'know their customer' in order to protect them. By supporting and collaborating with gambling operators we have made progress in key areas, including affordability, markers of harm and customer interaction. We have also seen operators begin to act to address concerns about advertising, which was a welcome first step.

We focus our resources on the areas which have the greatest impact, such as the comprehensive large-scale review of the online casino sector. That work identified significant failings in anti-money laundering and social responsibility controls at several operators, which has so far resulted in nearly **£14 million** in penalty packages and action being taken against some of the senior management who hold personal management licences. We expect this work will result in significant and lasting changes for the whole online sector.

To help the senior management of operators carry out their duties we published, for the first time, an annual report of our enforcement activity which highlighted the lessons to be learnt from our investigations. The report provided guidance on anti-money-laundering, customer interaction, self-exclusion, unfair terms and practices and marketing and advertising.

The volume of our day to day work continues to grow in complexity. In addition to our own compliance and intelligence led work we receive a significant number of reports from consumers and the public. During 2018-19 we carried out **1,172** compliance assessments and we dealt with over **200** new operator licence applications.



Optimising returns to good causes from lotteries

Ensuring that the National Lottery is run safely, fairly and with integrity and that good causes continue to benefit from it for many years to come has been a major priority over the last 12 months. In 2018/19 **£1.62 billion** was generated for good causes by the National Lottery.

We have approved game changes and new innovative games for the National Lottery, including the new 'Set for Life' annuity game and changes to Lotto and EuroMillions. We have also determined some major marketing investment proposals and improved our model for making projections for money raised for good causes.

The National Lottery marks its 25th birthday later this year and we have been working closely with the Department for Digital, Culture, Media and Sport, the National Lottery Distributor bodies and the operator on the plans to mark that event, tell the story of the National Lottery's success and remind the public about the contribution it makes to society through the incredible breadth of sport, arts, heritage and community projects that it has enabled.

We have also been looking to the future. The current licence to run the National Lottery expires in 2023 and preparations for the competition for the next licence are well under way. We began to engage with the market and stakeholders in November 2018 at the World Lottery Summit and have continued that work by reaching out to lottery operators, technology providers, financial investors, and other stakeholders.

Improving the way we regulate

We are continually looking for ways to improve to make sure that we are keeping on top of emerging trends, changes in consumer behaviour and new technologies. In April we carried out a significant restructure to make sure that we were fit for the future and able to deliver the challenging targets we set for ourselves in our Corporate Strategy.

Over the last 12 months we have substantially invested in the services we provide to applicants and licence holders by our licensing function. This has resulted in a **24%** increase in use of our online services. Some licensing processes remain complex, but by careful reallocation of tasks rather than reducing quality, we have halved the time taken to issue licences to new operators. This drive for greater ease of use and simplification of our processes will continue.

Conclusion

I am now into my second year as the Gambling Commission's Chief Executive and I would like to thank the Chairman, Commissioners, the Executive Team and colleagues across the organisation for their ongoing support and commitment.

I am proud of the progress we have made over the past 12 months, which is down to the committed and talented team I am lucky to work alongside.

There is, however, much more to be done to ensure that we have the safest and fairest regulated gambling market in the world and I'm looking forward to working with gambling operators, partners and other stakeholders to make further progress in the year ahead.



Neil McArthur

Chief Executive and Accounting Officer
Gambling Commission



The National Lottery funded Superstars Club



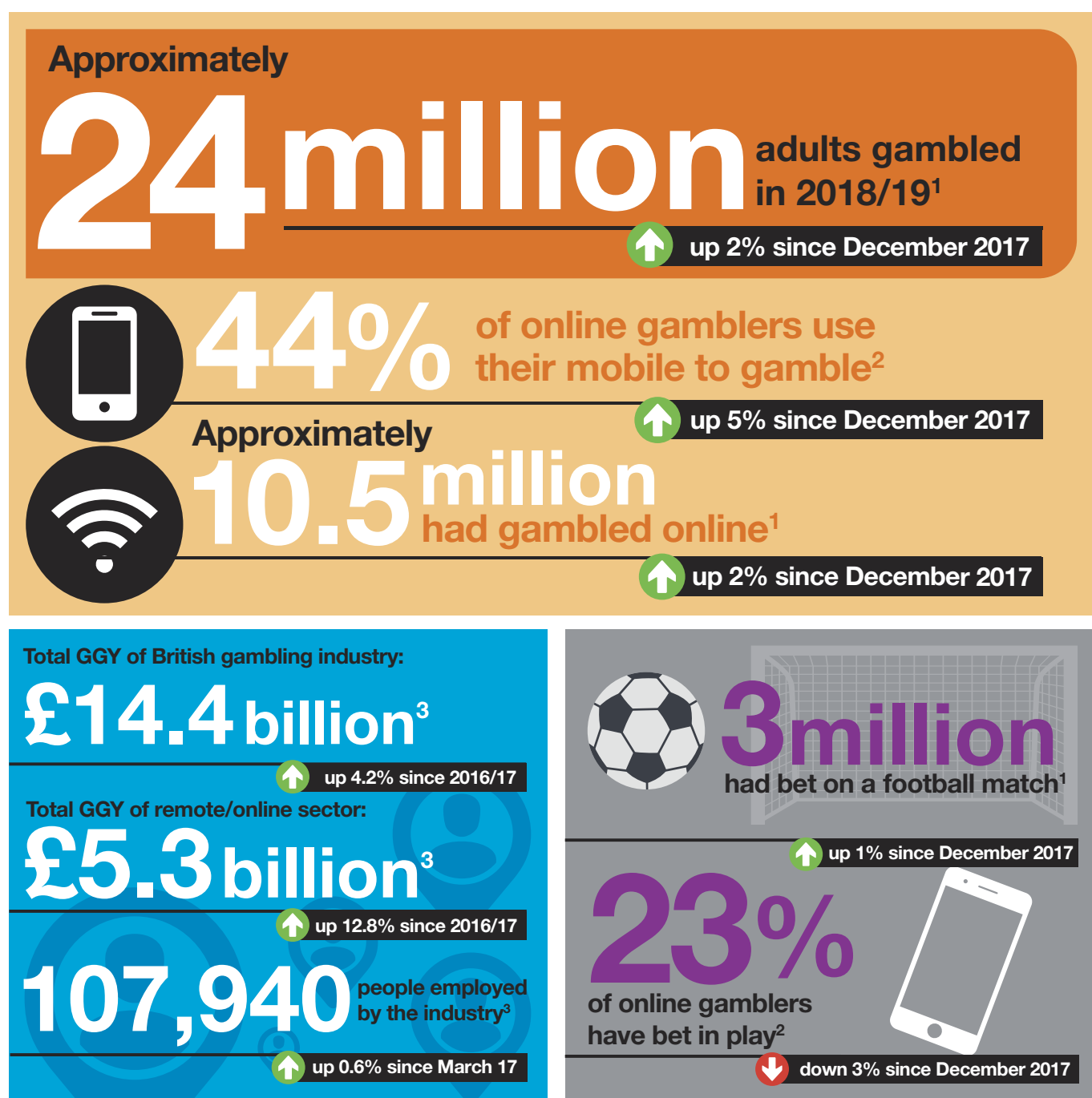
National Lottery funded Mental Health Foundation



The National Lottery funded BAM Sisterhood Project

Overview of the gambling sector

This infographic contains statistics relating to the gambling industry in Great Britain. The information covers general industry statistics, online betting, sports betting, gambling harms, and the National Lottery. Data is collected and analysed from a wide range of sources to ensure the Commission is up-to-date with industry statistics and gambling-related research.



Sources: 1. Telephone Survey – year to March 2019

2. Gambling participation in 2018: behaviour, awareness and attitudes – (February 2019). Online tracker – (December 2018)

3. Industry statistics (May 2019)

4. Gambling Behaviour in Great Britain in 2016 Report – (September 2018)

Increases and decreases shown from Sources 1 and 2 are based on percentage point changes.

In Great Britain, there are:

8,423 
betting shops³

 **152**
casinos³

650 
bingo premises³

181,813  **gaming machines³**

1,639 
licensed arcades³



**THE
NATIONAL
LOTTERY®**

£1.6 billion

contributions to good causes in the last year

£40 billion

contributions to good causes since 1994

15 Approximately
million

reported buying a national lottery ticket
in the past four weeks¹



6%

of gamblers have self-excluded²

Approximately

340,000

adults are problem gamblers⁴



1.2 million

adults are at a low risk
of problem gambling⁴

550,000



adults are classed as a moderate risk⁴

Delivery of core functions

Safer Gambling Programme

This year we consulted on and developed a new National Strategy to Reduce Gambling Harms and took important steps to implement the Commission's commitments under this strategy. These included consulting on strengthened requirements for operators such as customer interaction and age and identity verification, as well as working towards implementing a new harms framework to measure the full range of harms associated with gambling to help target prevention measures. We have also renamed the body that provides independent advice to the Commission to the Advisory Board for Safer Gambling (ABSG), which is under the leadership of Prof Anna van der Gaag. This name reflects our increased public health approach with a focus on prevention. Their advice and reporting on progress will be an important part of delivering the new National Strategy.

Insight

The Insight team provides the Commission with a knowledge hub for understanding and analysing gambling markets, products and trends.

It looks to build a wide range of relationships to both help build that understanding and to collaborate with industry and partners on challenges and opportunities presented in order to raise standards and encourage best practice in the gambling market.

Licensing

We ensure that those offering facilities for gambling are suitable to do so and that the activities they carry out are conducted in a manner which minimises the risks to the licensing objectives.

The Licensing department manages the accounts of over **2,800** operators, and more than **20,000** individuals assessing the ongoing suitability of our licensees by using a variety of tools, such as regulatory data and interaction with stakeholders.

In the past year we have processed **200** licence applications from prospective operators, and just under **2,000** individuals applied for a licence. The number of licence applications has declined from **240** in 2016/17 although the complexity of the applications has increased. In addition there has been an increase in the number of Change of Corporate Control and operating licence variations that have been processed which reflects changes around mergers and acquisitions.



Personal Function Licence applicants are benefitting from a new streamlined online application system which has improved the user experience. We have invested in our eServices system so operators can better manage their own accounts online. Over the next year, we will continue to improve this and our wider service in Licensing to ensure our processes are robust, so only those suitable to be licensed receive and retain licences.

Compliance

As part of our compliance activity with larger operators, we undertake regular, planned assessments of the governance arrangements, known as corporate evaluations. In the last year our compliance team has completed **38** corporate evaluations and continues to engage with a further **26** operators as part of a rolling programme.

We concluded the third and final year of our Assurance Statement (AS) pilot with **39** of the largest operators by gross gambling yield. This requires board level assurance on the action taken by businesses to identify and mitigate risk to the licensing objectives including the identification and minimisation of gambling related harm.

Following a Competition and Markets Authority (CMA) investigation into operators' bonus offers and consumer terms and conditions, we made changes to the Licence Conditions and Codes of Practice (LCCP) and introduced guidance for operators on compliance with consumer protection law.



We carried out **62** assessments of online operators and **34** website reviews. We also conducted regular assessments of smaller operators to review compliance with the licence conditions and LCCP. As part of a regular programme of work we delivered a series of nationwide operator workshops.

We work in partnership with local authorities and other regulatory agencies to support delivery of the licensing objectives. This work included joint assessments, enforcement activity and the provision of regular advice and guidance. However, our work with Local Authorities is impacted by a reduction in their resources leading many authorities to conduct a limited amount of work in this area and some none at all, despite our continued engagement.

Additionally, this year, the compliance team has carried out **43** personal licence reviews as part of its regulatory review work.

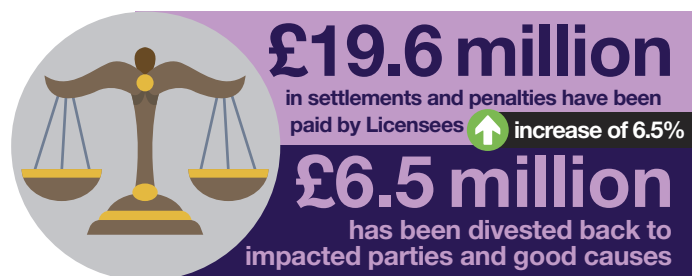
Enforcement

Enforcement investigate wrong-doing and act where required to ensure the Commission is fulfilling its regulatory purpose. We do this to protect consumers' needs and to build confidence that the industry is operating to the standards we expect.

We continue to operate under the enforcement strategy launched in July 2017 and this year we have carried out **161** regulatory and criminal investigations.



Licensees have paid a combined figure of **£19,600,233** in settlements and penalties this year with a further **£6,541,188** being divested back to impacted parties and good causes.



Some of the higher profile cases focused on the remote casino sector following detailed risk-based compliance assessments. We undertake challenging complex regulatory investigations, as well as taking swift action against unlicensed illegal operations. We have substantially increased our focus on the actions of individuals working within the industry, sanctioning when appropriate personal management licence holders and this will continue.

Intelligence and Sports Betting Integrity

Our intelligence team and Sports Betting Intelligence Unit (SBIU) provide a confidential ear to the industry and public, as well as being our main gateway to partner agencies, such as the National Crime Agency, other public bodies, international law enforcement organisations, and sports governing bodies.

Delivery of core functions continued

2,700

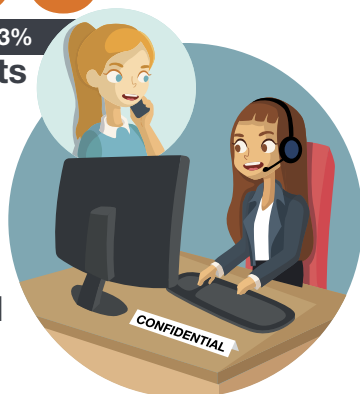
↑ up 23%

**intelligence reports
logged over the
last year**

357

calls

**to our confidential
telephone line**



This year, our intelligence team generated approximately **2,700** intelligence reports. These reports relate to development around a number of issues including betting integrity, social media lotteries, unlicensed remote operators and money laundering. **357** calls were made to our confidential telephone line during this period, each of which was assessed and considered for action and dissemination. **95** Incident Referral Forms (IRFs) were submitted by the unit to Incident Management Group (IMG) for Enforcement and Compliance consideration and requests for assistance from overseas regulators continue to increase with **115** received and responded to. In addition, the unit is involved in daily interaction with law enforcement and other partner agencies across the UK and abroad.

The SBIU receives reports from numerous sources including betting operators, sports governing bodies, law enforcement and tip offs through the confidential intelligence line. Last year we received over **600** reports

relating to over **20** different sports in Great Britain and **29** other countries. This resulted in referrals to overseas agencies and regulators, such as Europol and Interpol, UK police forces, sports governing bodies and actions taken by the Commission's own enforcement teams. Reports can include issues such as suspicious betting activity, sports rules breaches, misuse of inside information, Gambling Act offences or other criminality.

Volumes have increased year on year, with football and tennis accounting for the majority; raising awareness of the issues means we are seeing an increasing number of reports from other sports that aren't traditionally associated with betting integrity issues.

Consumer Programme & Consumer Contact Centre

Our commitment to consumers is a priority and we have continued our work focussing on protecting and empowering them.

We continued to collaborate with CMA to tackle unfair terms and practices in the online sector and we worked closely with the Advertising Standards Authority (ASA) to enforce advertising standards. We introduced new requirements into our rule book which mean gambling companies that breach consumer law or break the advertising rules will face tougher action.

We also required gambling companies to provide better complaints processes for consumers, including an eight-week deadline for issues to be resolved, and we published new standards and guidance for Alternative Dispute Resolution (ADR) providers.

Our Consumer Contact Centre is a key part of this programme and provides the main point of contact for members of the public and consumers for all types of regulated gambling activity in Great Britain. The information received is used to support our approach to regulation and where we consider a gambling business may not have complied with our rules we will investigate further.

On average, the team receives **2,750** contacts per month. In 2019-20, we will continue to reflect on the service we provide, identifying ways to improve our offering to put consumers at the heart of everything we do.

The National Lottery



The National Lottery has given **£1.6 billion** to good causes in 2018-19.

The Commission's National Lottery Third Licence team monitors the performance of the operator and leads a programme of work designed to ensure that we achieve our objectives in respect of the National Lottery; to protect player interests including preventing harm to consumers, to ensure it is run with all due propriety, and to optimise returns to good causes.

During the year, the National Lottery team reviewed seven significant proposals from the National Lottery Operator; including game changes to Lotto, the UK element of EuroMillions and the launch of the new Set For Life game.

We continued to review the Operator's player protection strategy and performance throughout the year and have ongoing engagement in the adoption of the national online self-exclusion scheme introduced by GamStop, which the Operator has committed to join when the Commission brings the formal Licence condition into force.

Throughout the year the National Lottery team monitored the impact of the Operator's governance changes and carried out a programme of compliance activity to ensure the National Lottery is run with integrity.

With the National Lottery marking its 25th birthday in 2019 we have been working with partners in DCMS and across the distributor family to tell the story of its success and remind the public of its value to society and the breadth of sports, arts, heritage and local community projects it has enabled.

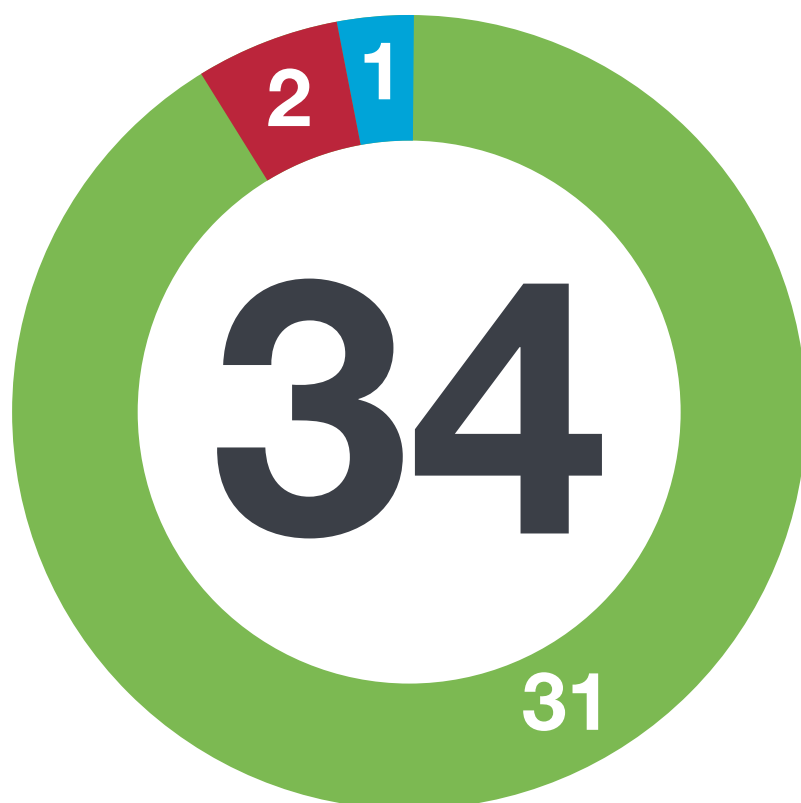
A year in review – delivery of our corporate business plan

In this section we reflect on the work we have done in this first year of our three-year corporate strategy to ensure strong and consistent regulation, while protecting consumers from gambling-related harms. As set out in our 2018-19 corporate business plan, our five key focus areas are:

- ▶ Protect the interests of consumers
- ▶ Raise standards in the gambling market
- ▶ Prevent harm to consumers and the public
- ▶ Improve the way we regulate
- ▶ Optimise returns to good causes from lotteries

Summary of achievements – 2018-19 corporate business plan milestones

- ▶ 34 milestones were due
- ▶ 31 milestones were achieved
- ▶ 2 were rescheduled and will be delivered during 2019-20
- ▶ 1 milestone was superseded





A year in review – delivery of our corporate business plan continued

Protect the interests of consumers

Consumers continue to be at the heart of everything we do. We have taken steps to reflect the consumer voice more fully in the way we regulate. We have established an online consumer panel, which will inform the work we do in 2019-20 and in years to come and we have engaged more widely with consumers in our policy consultations with a user-friendly response portal. Following those consultations, we have further strengthened protections and controls in relation to unfair practices, advertising, complaints and disputes, and online age and identity verification.

Key activities in this area.

- ▶ We strengthened rules on advertising, making it easier for us to take action against gambling businesses that break rules set by the committees for advertising practice (including rules against advertising that appeals particularly to children). Our new rules also mean that we can take action against gambling firms that send 'spam' marketing emails or texts, and against firms whose affiliates break advertising rules.
- ▶ Following collaborative work with the Competition & Markets Authority (CMA), we introduced a new requirement that will make it quicker and easier for us to take action for breaches of consumer law (such as unfair or misleading practices including unreasonable restrictions on withdrawals).
- ▶ We introduced new rules so that firms will have to provide better complaints processes, including an eight-week deadline for resolving complaints.
- ▶ When consumers are not satisfied with the outcome of the complaints process, they can refer to an Alternative Dispute Resolution provider (ADR). With input from consumer groups, we introduced new, stronger standards for ADR providers to meet.
- ▶ We established an Online Consumer Panel which provides an effective forum through which to discuss and test policy issues.
- ▶ We highlighted consumer concerns about the volume of gambling advertising. We ran workshop sessions on the topic at our Raising Standards conference, encouraging the industry to consider how it could address those concerns. An industry plan to ban betting adverts during live sporting events followed shortly afterwards.
- ▶ In advance of new staking limits for category B2 gaming machines, we launched a call for evidence about how to improve consumer protections on other category B machines. And in another call for evidence, we sought insight into the risks around using credit cards to gamble online.
- ▶ In line with our 2018-19 Business Plan Corporate Milestone we carried out an assessment of the National Lottery Operator's player protection strategy and the current and proposed player protection initiatives for the National Lottery in relation to identified 'good practice' across the international lottery market and the wider British gambling industry. The Operator has demonstrated good practice in relation to preventing underage play, excessive play online and complaints handling. We noted areas needing development which appear to be common themes across the gambling industry.

Prevent harm to consumers and the public

Minimising and preventing gambling related harms is a core focus and we are continuing to use our full range of powers, alongside effective partnership working, to enhance the protections that exist for consumers. A wide-reaching consultation on the new National Strategy to Reduce Gambling Harms drew support from a broad spectrum of stakeholders and demonstrated a firm desire for partners to work together to address gambling harms. This new strategy sets a clear roadmap for the next three years for how the Gambling Commission and others can take joined up action to better protect consumers.

Much of our regulatory activity was focussed upon taking action against those gambling operators that were not meeting their obligations to protect their consumers from harm. With changes to rules over the course of the year, we continue to use regulation to raise standards and expectations on how the gambling industry should seek to prevent and reduce gambling harms.

Key activities in this area.

- ▶ Developed the successor to the previous National Responsible Gambling Strategy – the new National Strategy to Reduce Gambling Harms. This will bring renewed emphasis to addressing gambling harms through a focus upon prevention and education alongside treatment and support.
- ▶ Our continuing focus upon safer gambling played a significant role in ensuring that gambling related harms are recognised as a public health issue. The publication of the NHS Long Term Plan, with its commitment to supporting treatment services in this space, is evidence that gambling addiction is now being recognised alongside other addictive behaviours.
- ▶ Protecting children and young people has remained a high priority. We published our Young People and Gambling report and this research helped focus our work moving forward. We also worked closely with local authorities to test how many children are gambling underage on fruit machines in pubs, premises that we ourselves do not regulate. The failure rate was significant and we continue to support the work of partners to help address this issue.
- ▶ Following an open consultation, we announced new enhanced age verification rules which will ensure operators verify customers' age and identity details before they gamble. These changes will add an extra layer of protection for children and young people and make for a much safer online environment for children.
- ▶ We published a ground-breaking approach to understanding the full range of harms gambling can have in society. Led by Dr Heather Wardle the report called for views on how the social cost of gambling-related harms can be measured and better understood. The report mapped out for the first time a methodology that could be used to quantify the impact gambling can have on relationships, finances and health.
- ▶ We launched a call for evidence to gain views from industry on the use of gambling blocking software and how this could be introduced effectively.

A year in review – delivery of our corporate business plan continued

Raise standards in the gambling market

Our role is to ensure that standards are constantly being raised across the industry to protect consumers. We do this through a variety of ways – through our day to day licensing work, targeted compliance activity, and where we see standards not being met, using our enforcement powers. This year we have seen changes in the way that we engage the industry on key priority topics.

We have taken a collaborative approach to bringing operators together to come up with solutions for vital issues such as advertising and customer interaction. Through our engagement with the industry and its most senior leaders, we have been actively promoting a tone from the top of organisations to lead a culture of compliance and commitment by doing the right thing for consumers. We have been absolutely clear about our expectations of the industry and where we need to see improvement, we are committed to supporting them in raising standards. Where we find operators' standards are failing consumers, we have taken action and will continue to do so.

Key activities in this area.

- We published our first ever annual enforcement report which outlined case work during 2017-18 which resulted in £18 million in penalties, along with other regulatory action taken including against personal licence holders. The document also provided lessons learned from our investigation for industry to use as a guide to raise standards within their own businesses. The report provided guidance on anti-money laundering, customer interaction, self-exclusion, unfair terms and practices, marketing and advertising.
- In advance of new staking limits for category B2 gaming machines, we launched a call for evidence about how to improve consumer protections on other category B machines. Also in another call for evidence, we sought insight into the risks around using credit cards to gamble online.
- We held our third Raising Standards conference for the most senior leaders in the industry. This year's conference featured interactive workshops on key topics including marketing and advertising, unfair terms and practices, and knowing your customer.
- This year we have delivered an engagement programme for the industry to support raising standards. This work has included co-creation workshops on identifying harms and developing safer gambling messages. We also ran small-operator workshops around the country along with making support material available online.
- This year we saw the completion of the three-year Annual Assurance Statement pilot for 39 large gambling operators. Participation in the pilot has led to greater levels of strategic reflection and a focus on and prioritisation of compliance with the licensing objectives within operator and supplier businesses. Our Annual Assurance Statement initiative will continue after the pilot has concluded.
- A significant piece of work this year was our largest piece of enforcement work to date – a review of the online casino sector. This involved investigations into 22 operators regarding their approach to social responsibility and anti-money laundering.
- We also continued our work with the money laundering Financial Action Task Force (FATF). Our approach, supervision and understanding of the risks in the gambling sector were endorsed at the highest level within the FATF's Mutual Evaluation Report of the UK.
- We continue to develop our approach to operational risk assessment and have created a data analytics tool to grade operators appropriately.

Optimise returns to good causes from lotteries

Lotteries, including the National Lottery, make important contributions to society and generate extensive funds for good causes – with **£40 billion** raised by the National Lottery since its launch in 1994. Those good causes include funding sports, arts, heritage and community projects.

Now in its 25th year, the National Lottery has made a difference to the lives of millions. It is vital that the National Lottery continues its positive impact on society and our role, aside from making sure funds are maximised for good causes, is to ensure it is run with propriety whilst protecting the interests of every player – working closely with the current operator as the lotteries sector continues to evolve. The 25th birthday is a tremendous milestone, a perfect opportunity to celebrate success, and a chance to look ahead to the next 25 years.

Key activities in this area.

- ▶ We responded to the National Lottery Operator's new-look strategy, following high levels of scrutiny we approved seven significant proposals from the Operator during the year including game changes to Lotto, EuroMillions and the new Set For Life game which launched in March.
- ▶ We also approved joint marketing investment proposals between the Operator and good causes for each of the game changes, as well as a further investment proposal relating to retailers' expansion all of which stands to benefit good causes during the remainder of the licence until 2023.
- ▶ These approvals include an important licence modification to greater align Operator profits to good causes contributions and, where appropriate, allow investments to cease if performance was not satisfactory.
- ▶ Totalling **£1.6billion**, returns to good causes performance remained stable against what was considered a strong year for 'luck' in 2017-18 and exceeded the projections from earlier in the year.
- ▶ To mark its 25th birthday, we have been working with partners in DCMS and across the distributor family to celebrate its success and remind the public of the National Lottery's value to society.
- ▶ Following a lengthy period of evaluation, we concluded the review covering the effectiveness of the Operator's Board governance arrangements and its approach and management of change and risk.
- ▶ Looking ahead, we have made good progress on the preparations for the Fourth National Lottery Licence Competition, building a team, establishing a plan for the programme and undertaking initial policy design work. We started our engagement with interested parties in November 2018 with the publication of our initial market engagement document which set out our ambition for the next licence and sought early views from all those interested.
- ▶ Formal market engagement is now underway with an extensive range of stakeholders and sectors with regard to the competition and licence design. Starting in March 2019, this phase of the programme seeks detailed inputs, evidence and discussions with stakeholders on the key aspects of licence design, via a combination of briefing sessions, questionnaires and bilateral meetings.
- ▶ Society lotteries are continuing to grow, generating important funds for charities and other good causes – in 2018-19 contributions to good causes from society lotteries amounted to **£296m** – almost **44%** of total proceeds.
- ▶ In April we introduced new social responsibility codes for lotteries, requiring societies to annually publish the percentage of their lottery proceeds. An additional code also requires societies to make it clear to consumers before they buy a lottery ticket exactly which society or charity the lottery proceeds are going to.
- ▶ In July 2018 we published advice given to DCMS at the same time as the publication of the department's consultation on proposals to reform society lottery proceeds and prize limits. We now collect data on the types of lotteries promoted by societies, as well as the value of the top prize and whether the lottery was promoted as part of a branded scheme. Together with information obtained through consumer surveys, this will enable us in the future to better understand the evolution of the market and the drivers for society lottery participation.

A year in review – delivery of our corporate business plan continued

Improve the way we regulate

Our innovative, effective and evidence-led regulation ensures that high standards are maintained and a number of vital gambling harm protections are in place for consumers and the public. We are constantly reviewing our performance in core areas such as licensing, compliance and enforcement and making significant improvements where necessary – including how we can be fairer by constructively reducing regulatory burdens for operators. This includes using technology and online innovations to make our administration processes and licensing services more efficient. We are clear that our own high standards and regulations help to set a path for everyone in the industry to follow and protects from the risks of money laundering and other serious crime.

Key activities in this area.

- ▶ We established a Digital Advisory Panel of six experts who advise the Commission on developments surrounding digital technology and innovation.
- ▶ Our three-year strategy continues to consider risk and our Insight team has been bolstered further - allowing us to understand and communicate changes and trends faster than ever.
- ▶ Providing robust guidance to DCMS as part of proposed legislative changes to the horserace betting levy.
- ▶ We delivered both the second and third phases of our licensing project which is there to ensure we simplify and automate the online licensing process for personal licence holders.
- ▶ Following the introduction of Office 365, we successfully migrated more of our data to cloud-based technology which has further improved our resilience and flexibility in reducing costs over the long-term.
- ▶ As the global window into the Commission, our website has been upgraded following research and user feedback. The site continues to develop and now features far simpler ways to search for and find key information – both for consumers and operators who use our e-licensing functions.
- ▶ Internally, we built and launched a new one-stop data hub which is being used by colleagues for them to access data on our operators, the National Lottery, official statistics, management information, and social responsibility and crime data.
- ▶ We prepared for and complied with the General Data Protection Regulation, and we achieved reaccreditation to the ISO 27001 standard.
- ▶ We continued to be active participants in the Gaming Regulators European Forum, and the International Association of Gaming Regulator





Financial review

Commission funding

The Commission is an independent public body funded:

- ▶ by application and licence fees set by the Secretary of State, approved by Parliament and paid by the gambling industry. These fees fund all gambling regulation except that for the National Lottery
- ▶ in respect of National Lottery functions, by grant-in-aid from the National Lottery Distribution Fund (this grant-in-aid is not treated as income in accordance with FReM).

Income

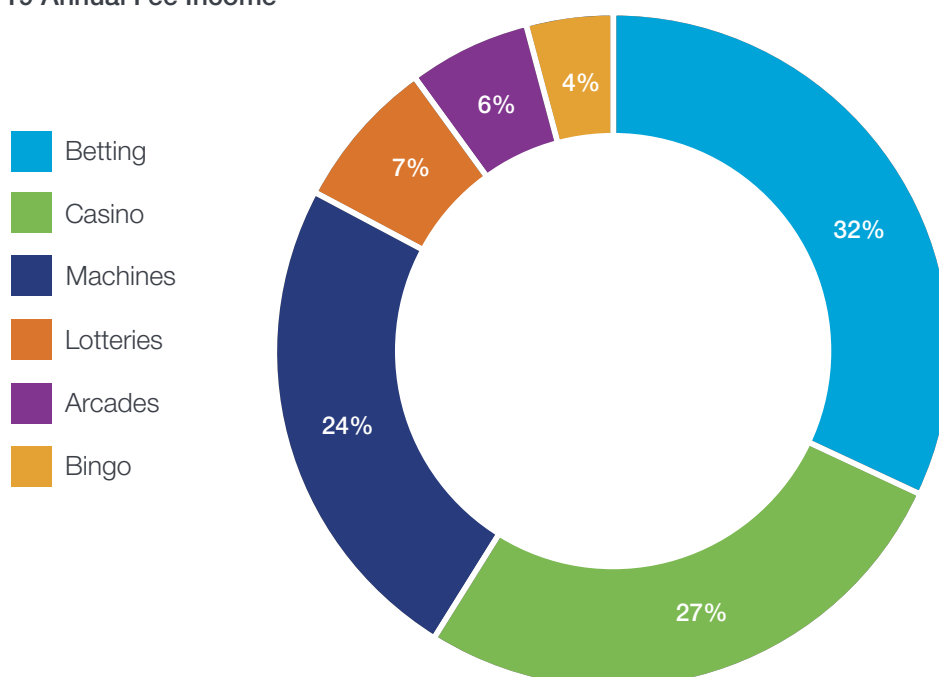
Our total income from fees and other sources was **£18.99 million** for the year (down from **£19.93 million** in 2017-18). This does not include the grant-in-aid funding in respect of National Lottery functions which is transferred directly to reserves.

Operator application fee income for the year amounted to **£0.74 million** (2017-18: **£1.79 million**). In accordance with our accounting policies, fees for the current year have been recognised amounting to **£0.75 million** (2017-18: **£0.86 million**) for personal licences and **£16.98 million** (2017-18: **£17.06 million**) for operator annual licence fees (see page 82). Licence fees and other charges can be found on our website at www.gamblingcommission.gov.uk.

2018-19 Annual Fee Income

The Commission received **£0.53 million** in miscellaneous income (2017-18: **£0.22 million**). This was mainly attributable to contributions to compliance and enforcement costs received from operators. Within this miscellaneous income, the Commission also received **£0.16 million** in relation to preparatory work undertaken for the proposed transfer of horserace betting levy from HBLB to the Commission. This funding came from HBLB Levy.

Total fee income has been analysed by industry sector in the chart below.



Financial review continued

Expenditure

During the year, total expenditure on operational costs including depreciation was **£27.58 million** (2017-18: **£23.19 million**), an increase of **£4.39 million** on the prior financial year (**19%**). The majority of this additional expenditure (**£3.28 million**) relates to National Lottery regulation, with a further **£0.99 million** for increased regulatory activity in respect of gambling.

Expenditure on gambling regulation totalled **£20.52 million** (2017-18: **£19.53 million**) National Lottery functions accounted for **£6.90 million** (2017-18: **£3.62 million**). This included **£4.01 million** on the National Lottery 4th licence competition. This is a significant increase over 2017-18 (**£0.64 million**), when the competition was still in its scoping phase.

During the year, the Commission was asked by DCMS to engage in the development of proposals to make reforms to the Horserace Betting Levy. The costs of activity have been identified and total **£0.16 million**

(2017-18: **£0.04 million**). This is funded entirely from levy funds, via the Horseracing Betting Levy Board, and is not funded by licence fees.

Employee costs for the year were **£17.46 million** (2017-18 **£15.70 million**), an increase of **£1.76 million**. This increase is mainly due to additional staff within the National Lottery 4th licence competition. Employee costs for gambling regulation were **£13.72 million** (2017-18: **£13.59 million**) and National Lottery regulation **£3.65 million** (2017-18: **£2.05 million**). Of this, **£1.6 million** related to the National Lottery 4th licence competition. Employee costs for Horserace Betting Levy activity was **£0.29 million** (2017-18: **£0.03 million**), funded entirely by levy funds.

For comparative purposes, the table below shows year-on-year operational expenditure comparison for gambling and National Lottery regulation expenditure, and the costs of Horserace Betting Levy activity.

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
National Lottery regulation	5.0**	2.8**	2.2*	2.5***	2.7	2.87	3.62	6.90
Gambling regulation	13.3	13.8	14.4	15.8****	16.9****	18.01	19.53	20.52
Horserace Betting Levy activity	–	–	–	–	–	–	0.04	0.16
Total costs of operation	18.3	16.6	16.6	18.3	19.6	20.88	23.19	27.58

* of which **£0.55 million** was incurred by the National Lottery Commission prior to the merger.

** expenditure incurred by the NLC prior to the merger.

*** includes one-off redundancy costs of **£0.2 million** following the merger.

**** Under the Gambling (Licensing and Advertising) Act 2014, we began regulating online gambling provided to the UK by operators based overseas. This widened remit had an impact on both the Commission's fee income and expenditure from November 2014.

Net expenditure for the year

During the year, the regulation of gambling under the 2005 Gambling Act, as amended and updated by the Gambling (Licensing and Advertising) Act 2014 produced an income and expenditure deficit of **£1.62 million**.

The deficit for the year was budgeted under the Commission's medium-term financial plan using reserves created from the fee income collected in prior years as a result of the continuing expansion of the gambling industry, particularly within the remote sector. The Commission sought to address this by achieving a deficit in 2018-19 through expenditure exceeding licence fee income. Expenditure on the Commission's regulatory activity, particularly in relation to technological developments, is increasing and together with the reduction in licence fees that came into effect from 6 April 2017, this resulted in the planned deficit for the year.

The total income and expenditure deficit arising for the year is **£8.52 million**, including regulating the National Lottery. This deficit is due to the requirement to transfer grant-in-aid funding in respect of National Lottery regulation direct to reserves and not being included as income.

Statement of financial position

At 31 March 2019 the book value of non-current assets was **£1.54 million** (2017-18: **£1.74 million**). Assets less liabilities at 31 March 2019 amounted to **£4.56 million** (2017-18: **£6.36 million**).

The year-end closing cash balance at 31 March 2019 was **£25.76 million** (2017-18: **£17.15 million**). The cash balance reaches its peak between August and November each year, after the largest tranche of annual fees fall due, which are paid in advance by operators. Grant-in-aid to fund National Lottery regulation is drawn down on a monthly basis as required, satisfying the normal conventions applying to Parliamentary control over income and Payment performance. **£9.9 million** was due to be paid over to the Consolidated Fund, via the Commission's sponsor department, DCMS, which accounts for the majority of the increase over 2017-18.

The Commission's policy is to pay all invoices within 30 days of receipt unless a longer payment period has been agreed or the amount billed is in dispute. In the year to 31 March 2019, **85%** (target **95%**) of invoices totalling **£10.29 million** were paid within 30 days of receipt.

Sustainability report

This sustainability report complies with the requirements of the Greening Government Commitments – the UK government’s commitments for delivering sustainable operations and procurement.

Greenhouse gas (GHG) emissions

These are commonly referred to as carbon accounting or carbon footprinting and are split into three:

- **Scope 1:**
Direct GHG emissions – these occur from sources owned or controlled by the Commission, for example, emissions as a result of combustion in boilers, or emissions from fleet vehicles.
- **Scope 2:**
Energy indirect emissions – as a result of electricity that we consume which is supplied by another party, for example, electricity supply in buildings.
- **Scope 3:**
Other indirect GHG emissions – all other emissions which occur as a consequence of our activity but which are not owned or controlled by the Commission, for example emissions as a result of staff travel on official business.

Non-financial indicators	2018/19 tonnes CO ₂ e	2017/18 tonnes CO ₂ e
Total Gross Emissions for Scopes 1 & 2 (procured electricity, gas and fleet vehicles inc. pool cars)	124.15	159.45
Gross emissions attributable to Scope 3 (indirect emissions and official business travel)	158.27	143.27
Related energy consumption	thousand kWh	thousand kWh
Electricity	231.20	266.50
Gas	23.08	24.72
Financial indicators	£'000s	£'000s
Expenditure on energy	36.18	37.29
Expenditure on accredited offsets	–	–
Expenditure on official business travel	416.93	303.34

Waste minimisation and management

Data on waste is collated (in line with Sustainable Operations on the Government Estate (SOG E) targets) for all offices and land owned by the Commission:

- waste to landfill (residual office waste)
- waste reused/recycled (paper, aluminium cans & glass)
- waste incinerated
- hazardous waste.

Non-financial indicators	2018/19 tonnes	2017/18 tonnes
Total waste arising	25.31	23.03
▶ Hazardous waste	–	–
▶ Non-hazardous waste		
▶ Landfill	16.66	18.75
▶ Reused/recycled	21.01	18.75
▶ Waste composted	–	–
▶ Incinerated with energy recovery	4.30	4.28
▶ Incinerated without energy recovery	–	–

Use of finite resources

This category is broken down into use of water, energy and other finite resources. Water sources are classified by:

- | | | |
|--|---|---|
| <p>▶ Scope 1:</p> <p>Water owned or controlled by the Commission. This would include water reserves in lakes, reservoirs and boreholes.</p> | <p>▶ Scope 2:</p> <p>Purchased water, steam or ice. This would include mains water supply as well as other deliveries of water i.e. for coolers.</p> | <p>▶ Scope 3:</p> <p>Other indirect water. This would include embodied water emissions in products and services.</p> |
|--|---|---|

Non-financial indicators	2018/19 m ³	2017/18 m ³
Water consumption (office estate), scope 2		
▶ Supplied	2,279.00	1,617.00
▶ Per FTE	7.20	5.10
Financial indicators	£'000s	£'000s
Water supply costs (office estate)	–	–
Water supply costs (non-office estate)	–	–

Sustainable procurement

Many of the Commission's contracts are awarded through pan government frameworks operated by the Crown Commercial Services (CCS). This allows us to take advantage of the CCS active sustainable procurement policy to ensure that environmental obligations are properly reflected. CCS has also implemented the DEFRA2 sustainable procurement prioritisation tool to support decision making and, where appropriate, sustainability obligations are included within contracts let by CCS to ensure that:

- ▶ goods and services are purchased on whole life costs
- ▶ performance can be monitored throughout the life of the contract.

The use of small and medium sized enterprises (SMEs) for the supply of goods and services across the Commission exceeds the Government's **25%** target. During 2018-19 **41%** of our procurement expenditure was sourced from SMEs (**47%** 2017-18).



Neil McArthur

Chief Executive and Accounting Officer
Gambling Commission
3rd July 2019



William Moyes

Chairman
Gambling Commission
3rd July 2019

Accountability report

Corporate governance report

Directors' report, Board of Commissioners



Bill Moyes
(Chairman)

Dr William (Bill) Moyes' career has spanned the public and private sectors, including leadership roles at five national regulators. Having completed a PhD in theoretical chemistry at the University of Edinburgh, Bill entered the UK Civil Service Fast Stream in 1974 and spent 20 years in policy-making roles in Whitehall and the Scottish Office.

Bill is currently chair at the General Dental Council, which regulates dental professionals to secure the delivery of high standards of education, training and professional practice to protect the public.

Other key positions Bill has held include seven years in banking – funding the construction of hospitals, a period as director general at the British Retail Consortium and executive chair at Monitor, the independent regulator of NHS Foundation Trusts. Previous board appointments include the Priory Hospital Group, the Legal Services Board and the Office of Fair Trading.

Bill has extensive experience of organisational leadership at board and senior executive level in the regulation of industries and professional groups.



John Baillie
(Commissioner)

John Baillie is a chartered accountant and a former partner of KPMG in Scotland and London. He is past chair of the Scottish local authority watchdog, the Accounts Commission for Scotland and served two three-year terms. He was also a member of the reporting panel of the Competition and Markets Authority for nine years.

John has recently joined demitted office as a visiting professor of accountancy at the University of Edinburgh. He has previously held similar appointments at other universities in Scotland, including occupying the Johnstone Smith Chair and Accountancy at the University of Glasgow.



Carol Brady MBE
(Commissioner)

Carol Brady is former senior ombudsman for legal complaints and chair of the Chartered Trading Standards Institute (CTSI) and is currently managing director of a consumer protection consultancy. She is also an independent advisory member at the Commission for Local Administration in England (Local Government and Social Care Ombudsman) and non-executive chair at the claims management regulation unit at the Ministry of Justice. Carol was awarded an MBE in June 2016 in recognition of her services to consumers and better regulation. She is also a fellow of the CTSI, an honour bestowed by her peers in 2009 for her contribution to the profession. She began her career with trading standards and has worked in the former Department for Trade and Industry to set up the Consumer Direct helpline.



Stephen Cohen
(Chair of National Lottery Competition Committee)

Stephen Cohen has over 39 years' experience in asset management in Asia, Europe and the US. He started his career with Mercury Asset Management and worked both as a portfolio manager and in business development.

Stephen is also on the board of the Health and Care Professions Council – a healthcare regulator – and the JP Morgan Japan Investment Trust plc. His recent roles include time as CEO of an activist fund manager and chair of a fintech software business. Stephen brings a global business perspective, experience of finance and financial services regulation as well as corporate governance to his position as commissioner.



Alison Hastings
(Chair of remuneration committee)

Alison Hastings is vice chair at Clatterbridge Cancer Centre and a non-executive director at Motability Operations and Archant, a privately owned media company.

Alison is also a board member at Durham University and the Press Association Trust. Until recently she was vice president at the British Board of Film Classification, the BBC trustee for England and was formerly a Press Complaints Commissioner.

Continued over ►

Directors' report, Board of Commissioners continued



Sarika Patel (Chair of the Audit and Risk Committee)

Sarika is a business leader with almost 30 years' public and private sector experience in finance and strategic management. A chartered accountant and law graduate, Sarika started her career at Price Waterhouse and after moving through a variety of senior positions in the public sector, became Director of Innovation at the London Development Agency. She has also held a variety of senior leadership and advisory roles in the UK and mainland Europe within businesses including Grant Thornton, MW Corporation, and private equity firm Zeus Caps.

With a varied non-executive portfolio, Sarika is currently the chair of the charity Action for Children and chairs the Audit, Risk and Assurance Committee at the Office for Nuclear Regulation. She is also a trustee of the Royal Institution.



Trevor Pearce CBE QPM (Chair of National Lottery Committee)

Trevor Pearce has had a 40 year career in law enforcement. Starting at Kent County Constabulary, he moved to national agencies becoming director general at both the National Crime Squad and Serious Organised Crime Agency.

More recently, Trevor has focused on regulatory roles and risk management. He is chair of UK Anti-Doping and trustee of Canterbury Oast Trust, a charity providing residential services to adults with learning difficulties. He is also trustee of Stop the Traffik, a charity working to prevent human trafficking. Trevor brings experience of running large complex organisations, dealing with international serious and organised crime, anti-money laundering, integrity and anti-corruption.



Jonathan Scott (Commissioner)

Jonathan Scott was senior partner and chair of Herbert Smith Freehills, a leading global law firm and retired in 2015. He has extensive experience of competition law including the gambling sector, having advised on governance, regulation and mergers within the industry.

He is a non-executive director of the Competition and Markets Authority, a member of both the audit and regulatory committees of the Press and Assessment Board at Cambridge University and is a trustee of two charities.



Catharine Seddon
(Senior Independent Director)

Catharine Seddon was previously a documentary film maker for BBC TV before becoming an independent producer for Channel 4. Catharine is a presiding magistrate in central London and she sits as a lay assessor under the Equality Act in county court cases.

Her current national public appointments include the determinations panel at the Pensions Regulator and the Legal Services Board where she chairs the audit and risk assurance committee. She served eight years at the Human Tissue Authority and sat on appeals for the Human Fertilisation and Embryology Authority and is also a trustee of the London Centre for Children with Cerebral Palsy.



Simone Pennie
(Commissioner)

Simone Pennie qualified as a chartered accountant in 1991 and spent 18 months with KPMG in Toronto before joining P&O Nedlloyd in 1994. She subsequently joined BBC Worldwide in 1996 and was appointed finance director of BBC World News in 2005.

Since 2011 Simone has maintained a portfolio career including positions as chair of the audit committee and non-executive director for Wye Valley NHS Trust, independent risk and audit committee member for Ofcom, governor for Westonbirt Schools and independent member of the inaugural audit and assurance board for the National Police Chiefs' Council. Simone is currently finance director at Kyloe Partners, a global software company servicing the recruitment sector.

Simone stepped down as a Commissioner on 31 May 2019.

Directors' report, Board of Commissioners continued

Register of disclosable interests

Board members completed their annual declarations of interest and are asked to declare any relevant interests in agenda items at the start of each board meeting and absent themselves from those discussions. No directorships or other significant interests were held by board members that may have conflicted with their management responsibilities.

Directors' disclosure

As far as the directors are aware, there is no relevant audit information of which the auditors have not been made aware. All reasonable steps have been taken by the directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of this information.

Fees and charges

The Commission aims to ensure that the costs incurred in delivering the organisation's strategic objectives are recovered from the industry through application and licence fees set by the Secretary of State. We periodically review our costs to drive efficiency and value for money as well as review our approach to cost recovery via fees to see how it could be made more equitable. As a direct result of this process, the Commission delivered, through the 2017 fees review, a reduction in licence fees from 2017-18.

Current application and licence fees range from **£195** to **£494,856** dependent on operator size and licence type. The Commission's total income from fees and other sources was **£18.99 million** for the year (2017-18: **£19.93 million**). Further analysis of fees and charges is provided in the Performance Analysis section (page 31).



Neil McArthur

Chief Executive and Accounting Officer
Gambling Commission
3rd July 2019



William Moyes

Chairman
Gambling Commission
3rd July 2019

Statement of the Commission and Accounting Officer's responsibilities

Under the Act, the Secretary of State for Digital, Culture, Media and Sport has directed the Commission to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Commission and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts the Commission and Accounting Officer are required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- ▶ observe the Accounts Direction issued by the Secretary of State for Digital, Culture, Media and Sport, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- ▶ make judgments and estimates on a reasonable basis
- ▶ state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements
- ▶ prepare the financial statements on a going concern basis; and
- ▶ confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

The Accounting Officer of DCMS has designated me as the Commission's Chief Executive Officer as Accounting Officer of the Commission. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Commission's assets, are set out in Managing Public Money published by the HM Treasury.

As the Accounting Officer I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Commission's auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.



Neil McArthur

Chief Executive and Accounting Officer
Gambling Commission
3rd July 2019



William Moyes

Chairman
Gambling Commission
3rd July 2019

Governance Statement for the year ended 31 March 2019

I became accounting officer on 28 February 2018, having joined the Commission in October 2006. This statement describes how I have carried out these duties and the key features of the governance structure that supported us in the financial year 2018-19.

The Gambling Commission Board

The board has complied with government guidance for corporate governance in arm's length bodies.

The composition of the board has remained consistent within the year, however, one Commissioner has been appointed for a second term of office (with effect from 1 July 2018).

New commissioners go through an extensive programme of induction and training to ensure a solid foundation of knowledge about consumer issues in gambling, and the operating environment and diversity of the sector. We also work closely with DCMS to ensure careful management of recruitment of new commissioners, so that at all times the board has sufficient experience and expertise.

Governance framework

The board of commissioners, led by the chair, Bill Moyes, oversees the business of the Commission. The day-to-day activity of the Commission is managed by the leadership team, led by me as chief executive and accounting officer.

Commissioners are responsible for the strategic direction of the organisation and oversee delivery of the Commission's business plan. Commissioners also retain direct responsibility for some regulatory decisions, such as complex licence applications.

The Commission monitors its performance using an outcome-based framework built around its statutory duties and business plan. Performance against these outcomes is monitored by the board on a regular basis, with updates being provided by the Executive team on the Commission's performance covering operational management and delivery and a range of strategic measures on at least a quarterly basis.

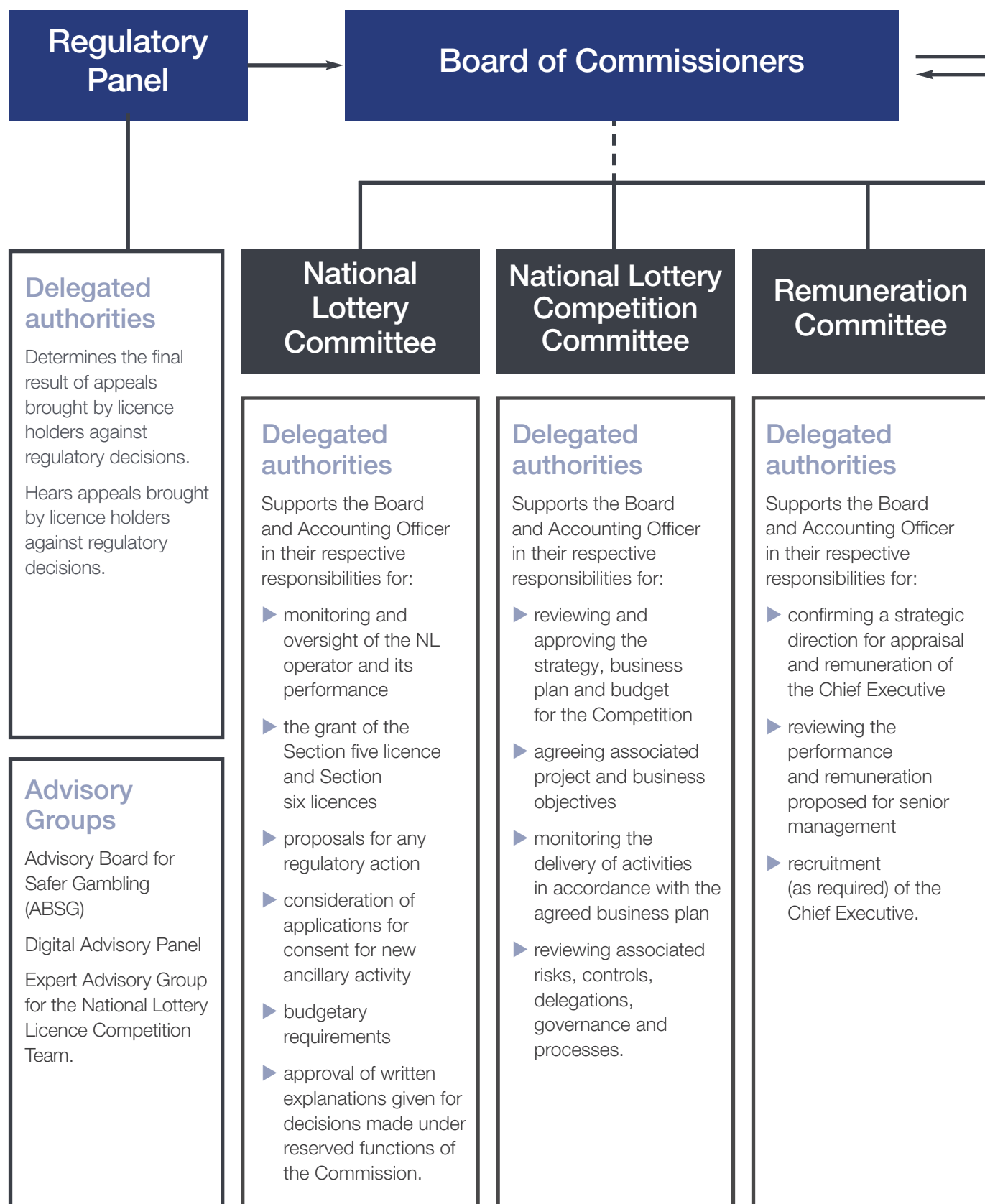
The accounting officer has personal responsibility for stewardship of the organisation's resources, consistent with the duties and requirements set out in Managing Public Money.

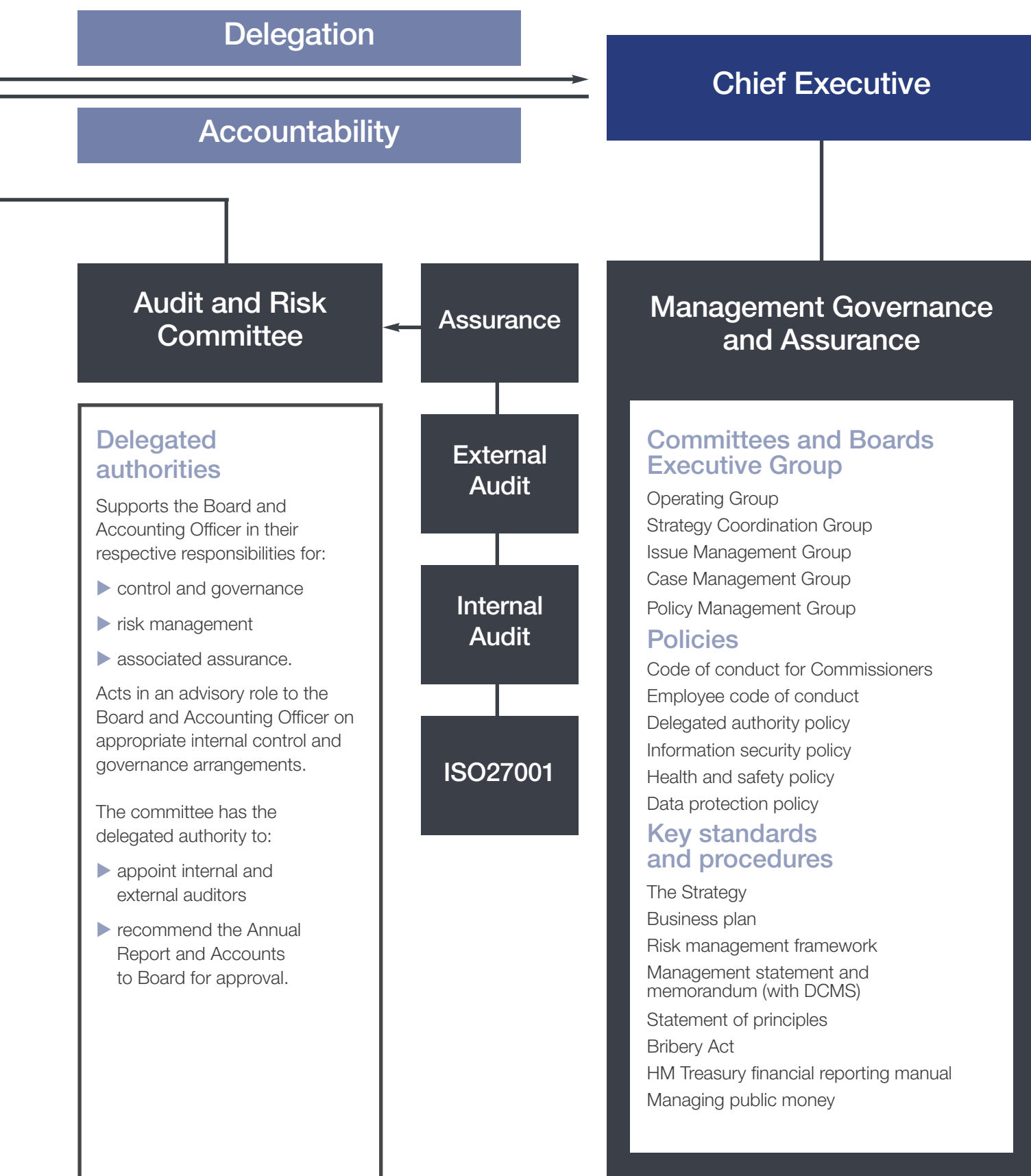
The executive has overall accountability for delivery of the Commission's strategic objectives. It is supported by the operations group, a group of programme directors and heads of functions, which monitors progress and resourcing in business plan delivery.

The Commission also reports on performance to DCMS, sharing the data and information set out in the management agreement.



The Commission's governance structure





Board performance

The Board

The Board met formally ten times during the year. It monitors and receives regular reports from its Audit and Risk, Remuneration, National Lottery and National Lottery Competition Committees.

Meeting attendance¹ by Commissioners is given below:

Commissioner	Board	Audit and Risk Committee	Remuneration Committee	National Lottery Committee	National Lottery Competition Committee
Bill Moyes (Chairman)	10/10	N/A	N/A	N/A	N/A
John Baillie ²	10/10	N/A	N/A	5/5	8/9
Carol Brady MBE	8/10	N/A	1/1	N/A	8/9
Stephen Cohen ³ (Chair of National Lottery Competition Committee)	9/10	N/A	N/A	5/5	9/9
Alison Hastings (Chair of Remuneration Committee)	10/10	N/A	5/5	10/10	N/A
Sarika Patel (Chair of Audit & Risk Committee)	9/10	4/4	N/A	N/A	N/A
Trevor Pearce ⁴ CBE QPM (Chair of National Lottery Committee from January 2019)	9/10	N/A	4/4	5/5	N/A
Simone Pennie ⁵	10/10	4/4	4/5	4/5	N/A
Jonathan Scott ⁶ (Chair of National Lottery Committee to January 2019)	10/10	N/A	N/A	10/10	N/A
Catharine Seddon (Senior Independent Director)	10/10	4/4	N/A	N/A	7/9
Number of meetings in year	10	4	5	10	9

1 Based on the number of meetings each Commissioner was eligible to attend as a member of the relevant Committee

2 John Baillie stood down as a member of the National Lottery Committee in July 2018 to join the National Lottery Competition Committee in August 2018

3 Stephen Cohen stood down as a member of the National Lottery Committee in July 2018 to join the National Lottery Competition Committee in August 2018

4 Trevor Pearce stood down as a member of the Remuneration Committee in January 2019 and was replaced by Carol Brady. Trevor Pearce joined the National Lottery Committee in January 2019

5 Simone Pennie joined as a member of the National Lottery Committee in August 2018

6 Jonathan Scott stood down as Chair of the National Lottery Committee in January 2019 and was replaced by Trevor Pearce

Board meetings provide the opportunity for robust and constructive challenge and debate amongst board members and senior management. As part of this process, Commissioners are required to disclose any potential conflicts of interest, as set out in the Code of Conduct for Commissioners, which is available on our website.

During the year, a significant amount of time in formal board meetings was focused on monitoring progress against the delivery of the Commission's Corporate Strategy, the formulation of the Commission's new National Strategy to reduce gambling harms, and

consideration of the policy issues relating to the next National Lottery Licence Competition.

The Board is supported by a number of Committees, all of which are outlined on the following pages. Details of the committee members and their attendance can be found in the table above, while the remit and responsibilities of each Committee are set out in the Terms of Reference, which are on our website.

Commissioners also spend time outside of board and committee meetings attending events and engaging with stakeholders, as well as providing non-executive advice on strategic projects.

Senior Independent Director

Consistent with the UK Corporate Governance Code and with DCMS guidance, the Board has appointed a Senior Independent Director (SID) from among its current members. Catharine Seddon was appointed as SID in June 2017.

The role of the SID is to provide a Board-level lead for high standards of governance, conduct the appraisal of the Chairman and act as a route to resolve any concerns about the operation of the board.

Audit and Risk Committee

The Audit and Risk Committee supports the Board and the Accounting Officer in their responsibilities by monitoring the integrity of the Commission's annual statutory financial statements, reviewing the Commission's governance, internal control and risk management systems, and by reviewing the internal and external audit services. In addition to Commissioners, the Audit and Risk Committee also has an independent member, Chris Andrew, who was appointed on 2 January 2019 following the departure of previous independent member, Ann Harris.

Consistent with good practice, during the year the Committee undertook a survey to test its effectiveness. The survey provided assurance, with effective delivery of the Committee's core functions. Areas for further development were around induction and training for Committee members, and ensuring effective communications are provided between meetings. An action plan has been developed in response to address these issues.

Remuneration Committee

The Remuneration Committee supports the Board and the Chief Executive in their responsibilities for performance management, senior appointment departures and HR policies and practices. It also monitors progress with regards to culture, including the results of (and actions resulting from) annual colleague engagement surveys.

National Lottery Committee

The National Lottery Committee advises the Board and the Chief Executive in relation to the exercise of certain Commission functions under the National Lottery etc. Act 1993. The Committee has decision making powers in a number of areas delegated to it by the Board.

In the last year, the Committee has received a range of proposals from Camelot and approved, or recommended to the board for approval.

A significant part of the Committee's business is engagement with and review of the National Lottery operator's strategy and performance.

National Lottery Competition Committee

The National Lottery Competition Committee advises the Board and the Chief Executive in respect of the National Lottery 4th Licence Competition, and through oversight of the process of the Competition. The Committee has decision making powers in a number of areas delegated to it by the Board.

Regulatory Panel

The Regulatory Panel determines some licence applications and deals with significant regulatory decisions which may include the revocation of licences. The Regulatory Panel sat on four separate occasions during 2018-19, with each hearing requiring three Commissioners to attend for a full day hearing in addition to substantial preparation and review time. Three of these meetings focus on the completion of licence reviews and one meeting focused on a change of corporate control application.

Board performance continued

Advisory Board for Safer Gambling (ABSG)

The ABSG provides independent advice to the Commission on research, education and treatment programmes needed to support the new National Strategy to Reduce Gambling Related Harms, along with the associated funding requirements. The ABSG is chaired by Dr Anna van der Gaag CBE.

Digital Advisory Panel (DAP)

The DAP comprises of six experts from the digital sector, including specialists in networks, social media, retail and logistics. The Panel meets on a bi-monthly basis and provides the Commission with advice on matters regarding technology, digital trends and the implications for the Commission as a regulator. The DAP is chaired by Andy Payne.

Expert Advisory Group (EAG)

Concentrating on the National Lottery, the Expert Advisory Group provides advice and recommendations to the Fourth National Lottery Competition team. Members have expertise in different areas such as procurement, economics, digital and commercial. The EAG is chaired by Professor Paul Grout.

Risk and internal control framework

The Commission's risk and assurance framework accords with Treasury guidance and is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. It is based on a process designed to identify and prioritise the risks to the achievement of the Commission's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage those risks efficiently, effectively and economically.

Risk is identified and managed at workstream level with each programme holding a risk register that, as a minimum, incorporates priority operational risks.

Operational risks are reviewed at the Operating Group (OG) meeting monthly.

The OG agrees risks to be escalated to the corporate risk register and submitted to the Executive Group for ratification and onward submission to the board.

The Board and Executive also identify corporate risks that are likely to impact or change the environment within which the Commission operates. In doing so, they use a number of methods to ensure sufficient coverage has been achieved. This involves putting in place controls and actions to keep the level of residual risk within an acceptable level. The key risks and the framework are reviewed regularly by the OG and executive.

Risk management architecture

As an integral element of its risk and assurance framework, the Commission has an established corporate approach to risk management.

Clearly defined accountabilities exist for all relevant parties, including the roles and responsibilities of the board, management and employees.

The Commission's Accounting Officer, in conjunction with the Board, is responsible for ensuring that an appropriate corporate governance framework is in place.

The Commission measures its tolerance for risk against four distinct areas, each of which will have varying acceptable residual levels of risk:

- reputational and credibility
- operational and policy delivery
- financial / value for money
- compliance – legal / regulatory

The Board and Audit and Risk Committee – oversee the arrangements in place for the risk management function which operates within the Commission. This includes Board risk sessions at least bi-annually with Audit and Risk Committee reviewing risks and the wider framework at every meeting.

Operating Group (OG) – monitors delivery of the business plan and monitors risks, identifying those for escalation to the Executive Group, Board and/or the corporate risk register.

Executive Group – own and manage risk. The board then reviews corporate risks on a bi-annual basis to ensure context, actions, risk ownership and processes are co-ordinated and fit for purpose.

The risk management strategy – the strategy outlines the objectives and policies for identifying and managing risk to the achievement of the Commission's strategic objectives and business plan. This also includes the Commission's tolerance or appetite for risk. The framework sets out management roles and responsibilities, the process for identifying and recording risk, allocating ownership of risk, evaluating risk, determining responses to risk and monitoring and reporting on progress in managing risk. The framework applies to all levels of the organisation up to the corporate risk register.

The Commission's risk tolerance is expressed through the level of residual risk judged acceptable for each risk identified.

Risk owners are required to identify and implement mitigating actions to reduce the residual risk value to an acceptable level.

The Commission's governance framework sets out how the Board manages its affairs and which matters are delegated to the Chief Executive, or to other employees or committees. This is reviewed periodically, with the most recent changes to the overarching framework being made in May 2017. Specific aspects of this framework have however, been reviewed more recently (and within the last financial year), such as the terms of references for Committee meetings.

Internal audit programme focuses on the requirement to provide assurance that the risks faced by the Commission are properly managed and controlled. Where control weaknesses are identified, these are drawn to the attention of senior managers, who are responsible for determining and implementing an appropriate response.

In their annual report, the Commission's internal auditors for 2018-19 (Mazars) provide an independent opinion on the adequacy and effectiveness of the Commission's system of internal control, together with recommendations for improvement. From April 2019, PwC have been appointed as the Commission's internal auditors following a rigorous procurement process.

During the year, Mazars carried out specific reviews on the following subjects:

- ▶ Information and Intelligence
- ▶ Approving the Destination of Regulatory Settlements
- ▶ Compliance with GDPR requirements
- ▶ Core Financial Processes – General Ledger Controls
- ▶ Compliance – Four Areas of Focus
- ▶ National Lottery Fourth Licence Competition.

Mazars also carried out a thorough forensic review of financial transactions. No fundamental weaknesses were identified in the Commission's control and assurance processes.

Financial Management

Our expenditure continues to be modified to reflect the demands on the Commission arising from changes in the regulatory landscape.

The Commission's fee income continues to be subject to uncertainty (for example, due to consolidations and closures) that we attempt to mitigate through regular review and re-forecast of income. Whilst we forecast prudently, in the event of losing a further significant proportion of our income, there remains a risk that we may not be able to reduce our expenditure (which is largely employee-based) as swiftly as needed to avoid larger in-year deficits than currently planned within the medium-term financial plan.

Board performance continued

These risks are addressed as part of the budgeting process, through prudent planning and long-term management of reserves. Throughout the year, the risk to the Commission's income and expenditure profile is continually reviewed through close monitoring of actual income and expenditure and forecasts.

The Commission holds reserves as a matter of prudent financial management, principally so that it can fund substantial legal action in furtherance of its regulatory objectives, manage short-term fluctuations in its licensing income, and provide for foreseeable but not yet certain liabilities such as dilapidations. At present the Commission calculates that reserves of **£4.0 million** meet this requirement. Reserves are currently in excess of this amount and are being spent over the medium-term in order to fund our regulatory activity. A medium-term financial plan was approved by the Board in March that will continue to deliver the Corporate Strategy whilst addressing the long-term reserves position. As an arms-length body the Commission does not hold reserves to cover terminal liabilities as these would be met by its parent government department.

To ensure we maintain tight control over our expenditure we continually review our procurement arrangements. A central contracts database is in place to ensure that all renewed contracts are brought in line with central frameworks where applicable.

There have been no reported actual or attempted frauds at the Commission during 2018/19.

However, given the high profile of the gambling industry and the Commission within the public domain, it is important that the Commission remains proactive in identifying instances where there is potential for fraud and corruption. The quality assurance mechanisms which have been developed for the compliance and enforcement processes depend on accurate, timely and

complete information to help safeguard the Commission's professional integrity and improve operational efficiency.

Internal control framework

The Commission has in place a wide range of internal controls to manage the risk of failure to achieve strategic objectives. These include:

Organisational structure and delegation of authority

The Commission is currently organised into business areas and functions that bring together related operational, project and thematic activity.

Authority to make decisions and authorise expenditure is delegated to the appropriate level of responsibility within each business area. The delegation of authority in the corporate governance framework is noted by Audit and Risk Committee.

Policies and procedures

Comprehensive policies and supporting procedures are in place across the Commission at a corporate and operational level. A thorough review of all financial policies was undertaken during 2018/19 to ensure that they remain compliant with Managing Public Money (MPM) and that they reflect best practice. An updated suite of financial policies, reviewed under the MPM project, was presented to Audit and Risk Committee during the year for consideration. The appropriateness of Commission policies and procedures is periodically reviewed by internal audit as part of the audit plan.

Operational and financial reporting

The Commission reviews and updates its business plan on an annual basis and prepares an annual budget to support the delivery of the plan.

The budget also considers long-term implications to ensure that risks and uncertainties can be mitigated where possible. Both of these elements are reviewed and approved by the Board along with progress against the business plan. Financial performance is reported to the

Board on a monthly basis. In addition, the Commission also undertakes monthly financial re-forecasts to ensure that financial management of the Commission remains robust. This is reviewed and approved by the Board.

Review and sign-off of actions

The Commission has a series of checks and balances in place across the organisation to ensure that draft decisions and outcomes are appropriately reviewed. Quality assessment reviews have been undertaken within a number of the compliance areas to ensure that regulatory activity continues to be of high quality. Management also reviews outputs within a range of frontline and support areas to ensure accuracy and relevance. These controls are subject to internal and external audit review as part of the internal audit plan and external audit fieldwork.

Public Interest Disclosure Policy

The Commission has a public interest disclosure policy in place for the confidential reporting of unlawful conduct or malpractice. The policy is readily available online for all employees. Reminders on the requirements of this policy, together with all aspects of the code of conduct are communicated regularly. As part of their induction programme all new Commission employees are required to confirm in writing that they have read the Code of Conduct, including the public interest disclosure policy.

Personal data incidents

There have been no substantive security incidents during 2018-19.

Effectiveness of internal controls

The Commissioner's senior management reviews the operational effectiveness of the current internal controls using a Board Assurance Framework. This is supported by the annual programme of internal audit reviews into the design of controls and whether those controls have been operating effectively.

Through their work during the year, the internal auditors have concluded:

"On the basis of our audit work, our opinion on the framework of governance, risk management and control is moderate in its overall adequacy and effective. Certain weaknesses and exceptions were highlighted by our audit work. These matters have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being addressed, as detailed in our individual reports".

Board performance continued

Principal risks and uncertainties facing the Commission

The principal risks and uncertainties are managed through the Commission's corporate risk register as part of the internal control framework.

Risks and uncertainties	Existing and Planned Mitigations
We fail to run the National Lottery 4th Licence Competition in a way that: demonstrates the highest levels of integrity and transparency in the competition process; attracts a diversity of bidders globally; delivers a healthy lottery for the future in terms of integrity and public confidence, and delivers in terms of good consumer outcomes such as contributions to good causes at a reasonable cost.	<p>Existing</p> <ul style="list-style-type: none"> ► Engaged with stakeholders and ran a consultation on potential scenarios for the next National Lottery. ► Established a Board sub-committee to oversee the National Lottery 4th Licence Competition. ► Critical-friend review by Infrastructure and Projects Authority. <p>Planned</p> <ul style="list-style-type: none"> ► Issue the draft invitation to apply for the next National Lottery licence as part of the crucial development phase.
We fail to keep pace with the scale of changes in industry, technologies, products, business models and risk management approaches that weakens our ability to regulate effectively.	<p>Existing</p> <ul style="list-style-type: none"> ► Established a panel to advise the Commission on digital technology developments. ► Developed our approach to operational risk assessment and created a data analytics tool to grade operators by risk. <p>Planned</p> <ul style="list-style-type: none"> ► Working with UKAS to establish test house standards to provide consumer protection. ► Deliver information to industry on good and bad practice identified including publications, events and co-collaboration workshops.
Our regulatory framework and approach does not result in licensed operators managing the risks to the licensing objectives effectively. This results in consumer detriment or undermines consumer confidence in the gambling market with the result that a more prescriptive and intrusive approach to regulation is required.	<p>Existing</p> <ul style="list-style-type: none"> ► Published an annual enforcement report focused on raising standards in the gambling market, and a strategic assessment on gambling-related crime. ► Proactive compliance work on promotions and consumer protection law following joint work with the Competition and Markets Authority. <p>Planned</p> <ul style="list-style-type: none"> ► Publish a Regulatory Delivery report focussed on raising standards in the gambling market. ► Test online compliance with age verification. ► Ensure Boards focus on their responsibilities to be tested via corporate evaluations and assurance statements.
Our organisational capability is insufficient to: attract, develop, retain and pay people with the right skills; deploy our people with sufficient adaptability and agility; focus on outcomes rather than the process; and fails to use and manage the sum of its knowledge.	<p>Existing</p> <ul style="list-style-type: none"> ► Flexible/Agile approach to workforce enablement with 100% of staff able to work flexibly/remotely including telephony. ► Considerable investment in SharePoint, Office 365 and Yammer improved our collaborative working and corporate memory. <p>Planned</p> <ul style="list-style-type: none"> ► Develop a revised People Strategy which is fit for the future. ► Introduction of a workforce development framework into regular performance management review and Learning & Development.



Remuneration and Staff Report

Remuneration report

This report covers the 12 months ending 31 March 2019 and sets out the policy and disclosures in relation to the remuneration of the Commissioners and senior managers of the Commission.

Commissioners

The Chairman and Commissioners are appointed by the Secretary of State on terms set on the basis of advice from the Civil Service Senior Salaries Review Body.

Appointments are for a period of between three and five years and may be renewed for a further term. Appointments may be terminated at any time by either party giving written notice.

Bill Moyes was appointed as Chairman for a five-year term commencing 5 September 2016. His contract provides for the Chairman to work two days per week of average.

Commissioners work on average one day per week. Commissioners' contracts may be terminated by written notice where the Secretary of State has reason to believe that the Commissioner has been absent from Commission meetings, without explanation, for a period of longer than three months; has become bankrupt or made an arrangement with a creditor; has been convicted of a criminal offence; has breached the Code of Conduct for Board members; or has become incapacitated by physical or mental illness.

The Commissioners' appointments are not pensionable under the Civil Service pension scheme and no contributions have been paid by the Commission to any other scheme.

Diversity breakdown for the Board of Commissioners:
Male Board members – **5/10 (50%)** Female Board members – **5/10 (50%)** BAME Board members – **1/10 (10%)** Board members with a declared disability – **0/10 0%.**

Full details of our Commissioners can be found on pages 36-39.

Independent member of Audit and Risk Committee

The Commission appointed Chris Andrew on a three-year contract with effect from 2 January 2019 as an independent member of the Audit and Risk Committee, for which a payment is made. His appointment followed the departure of previous independent member, Ann Harris.

Senior managers

Senior managers are normally employed directly by the Commission. Increases in pay are performance based and are broadly in line with senior Civil Service pay bands. Performance targets are set and measured in accordance with the Commission's policy on pay and reward.

The process for the agreement of the executive teams' performance targets, achievements against targets, and recommendations on changes in remuneration, is reviewed by the Remuneration Committee. Except during probation or where guilty of gross misconduct, senior managers' contracts may be terminated by either party giving 12 weeks written notice, apart from the Chief Executive and one other executive director whose contract may be terminated by either party giving six months' written notice.

Details of all executive directors serving during the year are provided at Appendix 1 from page 90, including the duration of their service.

Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of the Commissioners and Directors. This has been subject to audit review.

Remuneration of Senior Managers (salary, expenses and payments in kind) – audited information

Directors	2018-19					2017-18				
	Salary (in bands of £5k)	Bonus Payments (in bands of £5k)	Expenses as BiK** (to nearest £100)	Pension Benefits (to nearest £1,000)	Total (in bands of £5k)	Salary (in bands of £5k)	Bonus Payments (in bands of £5k)	Expenses as BiK** (to nearest £100)	Pension Benefits (to nearest £1,000)	Total (in bands of £5k)
Victoria Beaumont Executive Director – HR (from 23 July 2018)	65-70 (95-100 fye)*	–	–	26,000	90-95	–	–	–	–	–
Sarah Gardner Executive director	85-90 (105-110 fye)*	0-5	–	44,000	130-135	100-105	–	–	30,000	130-135
Ann Harris Interim Executive Director – 4NLC (from 1 August 2018)	40-45 (60-65 fye)*	–	4,000	16,000	60-65	–	–	–	–	–
Nicky Heathcote Interim Executive Director – regulatory policy and governance (from 21 May 2018)	85-90 (100-105 fye)*	–	–	148,000***	230-235	–	–	–	–	–
Paul Hope Executive Director – consumers and regulatory strategy (from 21 May 2018)	80-85 (95-100 fye)*	–	–	144,000***	230-235	–	–	–	–	–
Philip Lloyd Interim Chief Financial Officer (from 30 July 2018)	85-90 (130-135 fye)*	–	–	34,000	120-125	–	–	–	–	–
Neil McArthur Chief Executive (from 1 March 2018)	140-145	0-5	–	223,000***	360-365	110-115 (140-145 fye)*	–	–	48,000	160-165
Tim Miller Executive Director – insight and safer gambling	105-110	0-5	–	42,000	145-150	95-100	–	–	39,000	135-140
David Pemberton Executive Director – digital and planning	100-105	0-5	–	40,000	140-145	80-85 (105-110 fye)*	–	–	32,000	110-115
Helen Venn Executive Director – licensing and compliance (From 28 February 2018)	95-100	0-5	–	38,000	135-140	05-10 (95-100 fye)*	–	–	27,000	30-35
Richard Watson Executive Director – enforcement and intelligence (From 28 February 2018)	95-100	0-5	–	38,000	135-140	05-10 (95-100 fye)*	–	–	34,000	40-45
Previous Employees										
Sue Harley Executive Director (to 29 September 2017)	–	–	–	–	–	50-55 (100-105 fye)*	–	16,500	20,000	85-90
Sarah Harrison Chief Executive (to 28 February 2018)	–	–	–	–	–	125-130 (140-145 fye)*	10-15	–	47,000	185-190
James MacKay Executive Director – NLC4 (from 1 December 2017 to 30 June 2018)	45-50 (105-110 fye)*	0-5	–	–	45-50	35-40 (105-110 fye)*	–	–	14,000	45-50
Nick Tofiluk Executive Director – Regulatory Operations (to 31 October 2017)	–	–	–	–	–	60-65 (105-110 fye)*	–	–	23,000	85-90
Band of highest paid directors total remuneration (£'000)	140-145					150-155				
Median total remuneration	35,349					34,142				
Ratio	4.03:1					4.47:1				
Range of staff remuneration (£'000)	17 to 140-145					16 to 150-155				

* fye = full-year equivalent

** BiK = Benefits in Kind

*** Nicky Heathcote, Paul Hope and Neil McArthur are currently within the Civil Service average salary pension scheme (Alpha) but maintain a salary link to a previous PCSPS final salary pension scheme (classic). The pension administrator (MyCSP) has provided an annual valuation of all individual pension benefits over both the alpha and classic schemes, and based upon these calculations total pension benefits are reported as above. Pension benefits provided under the classic scheme are significantly higher than those provided under the alpha scheme.

Remuneration Report continued

Remuneration of Commissioners (salary, expenses and payments in kind)

Commissioners	2018-19					2017-18				
	Salary (in bands of £5k)	Bonus Payments (in bands of £5k)	Expenses as BiK** (to nearest £100)	Pension Benefits (to nearest £1,000)	Total (in bands of £5k)	Salary (in bands of £5k)	Bonus Payments (in bands of £5k)	Expenses as BiK** (to nearest £100)	Pension Benefits (to nearest £1,000)	Total (in bands of £5k)
Chris Andrew Independent Audit Committee Member (from 1 January 2019)	0-5	–	800	–	0-5	–	–	–	–	–
John Ballie	10-15	–	6,900	–	20-25	10-15	–	10,100	–	20-25
Carol Brady (from 1 January 2018)	10-15	–	800	–	10-15	0-5 (10-15 fye)*	–	–	–	0-5
Stephen Cohen	10-15	–	3,400	–	15-20	10-15	–	1,200	–	15-20
Alison Hastings	10-15	–	2,300	–	15-20	10-15	–	2,400	–	15-20
Bill Moyes Chairman	50-55	–	7,900	–	60-65	50-55	–	9,600	–	60-65
Sarika Patel	10-15	–	2,800	–	15-20	10-15	–	1,300	–	15-20
Trevor Pearce	10-15	–	3,800	–	15-20	10-15	–	3,200	–	15-20
Simone Pennie	10-15	–	1,500	–	15-20	10-15	–	2,000	–	15-20
Jonathan Scott	10-15	–	5,100	–	15-20	10-15	–	4,900	–	15-20
Catharine Seddon	10-15	–	2,700	–	15-20	10-15	–	3,300	–	15-20
Previous non executives										
Walter Merricks (Commissioner) (to 31 December 2017)	–	–	–	–	–	10-15	–	1,800	–	10-15
Ann Harris Independent Audit Committee Member (to 31 July 2018)	0-5	–	300	–	0-5	0-5	–	200	–	0-5

* fye = full-year equivalent, ** BiK = Benefits in Kind

Salary: 'Salary' includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Commission and thus recorded in these accounts.

Apart from the Chair and Chief Executive, all Commissioners are paid a fixed amount for work that entails approximately one day of time per week. No employees or Commissioners were remunerated by way of service companies or third parties.

Expenses as benefits in kind: The Commission incurred costs for travel, subsistence and accommodation in respect of the Chairman and the Commissioners whilst attending meetings at Victoria Square House. These expenses could be viewed as benefits in kind and treated by HM Revenue & Customs as a taxable emolument. To avoid doubt, such taxes are paid by the Commission.

Bonuses: Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2018-19 and relate to performance in 2018-19 and the comparative bonuses reported for 2017-18 relate to the performance in 2017-18.

Pay multiples: The Commission is required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the Commission's workforce.

The banded remuneration of the highest paid director in the Commission in the financial year 2018-19 was **£140-£145,000** (2017-18 **£150-£155,000**). This was **4.03** times (2017-18, **4.47** times) the median remuneration of the workforce, which was **£35,349** (2017-18, **£34,142**).

In 2018-19, **0** (2017-18, **0**) employees received remuneration in excess of the highest paid director. Remuneration ranged from **£17,000** to **£142,000** (2017-18, **£16,000-£154,000**).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Pension benefits 2018-19 – audited information

	Accrued pension at pension age as at 31/03/19 (in bands of £5,000)	Accrued Lump Sum pension at pension age as at 31/03/19 (in bands of £5,000)	Real increase in pension at pension age (in bands of £2,500)	Real increase in pension Lump Sum at pension age (in bands of £2,500)	* CETV at 31/03/19 £'000s	* CETV at 31/03/18 £'000s	Real increase in CETV* £'000s	Employer contribution to partnership pension account (nearest £100)
Victoria Beaumont Executive Director – HR (from 23 July 2018)	0.5	–	0-2.5	–	16	0	11	–
Sarah Gardner Executive Director	30-35	65-70	0-2.5	0-2.5	458	369	21	–
Ann Harris Interim Executive Director – 4NLC (from 1 August 2018)	0-5	–	0-2.5	–	18	1	14	–
Nicky Heathcote Executive Director – regulatory policy and governance (from 21 May 2018)	25-30	70-75	5-7.5	12.5-15	514	352	109	–
Paul Hope Executive Director – consumers and regulatory strategy (from 21 May 2018)	30-35	80-85	5-7.5	12.5-15	600	431	108	–
Philip Lloyd Chief Financial Officer (from 30 July 2018)	0-5	–	0-2.5	–	28	0	22	–
Neil McArthur Chief Executive	50-55	115-120	10-12.5	20-22.5	917	653	175	–
Tim Miller Executive Director – insight and safer gambling	5-10	–	0-2.5	–	57	28	15	–
David Pemberton Executive Director – digital and planning	40-45	–	40-42.5	–	521	21	66	–
Helen Venn Executive Director – licensing and compliance	30-35	–	0-2.5	–	412	341	21	–
Richard Watson Executive Director – enforcement and intelligence	10-15	–	0-2.5	–	174	127	23	–
Previous Employees								
James MacKay Executive Director – NLC4 (from 1 December 2017 to 30 June 2018)	–	–	–	–	–	–	–	–

* CETV = Cash Equivalent Transfer Values

Remuneration Report continued

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and five months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of **classic**, **premium**, **classic plus**, **nuvos** and **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS

or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk



Remuneration Report continued



Cash Equivalent Transfer Values (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Compensation for loss of office

Two employees left under Voluntary Exit terms on 15 June 2018 and 30 June 2018. They received separate compensation payments totalling **£59,520**.

Remuneration Committee

The members of the Remuneration Committee were Alison Hastings (Chair), Trevor Pearce and Simone Pennie (Details of commissions can be found from page 36).

Staff Report

a) Analysis of Commissioners and employee costs – audited information

	2018-19 Permanent £'000s	2018-19 Short term £'000s	2018-19 Total £'000s	2017-18 Total £'000s
Salaries and wages	12,811	553	13,364	12,080
Social security costs	1,367	62	1,429	1,260
Other pension costs	2,564	722	2,671	2,357
Total Commissioners and staff costs	16,742	722	17,464	15,697

b) Retirement benefits

The following disclosures are made in accordance with IAS 19, 'Employee Benefits'.

(i) Employees

The Commission provides pension benefits for permanent staff under the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme but the Commission is unable to identify its share of the underlying assets and liabilities.

The scheme actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation www.civilservice.gov.uk/pensions.

For 2018-19, employers' contributions of **£2,630,424** were payable to the PCSPS (2017-18 **£2,294,454**) at one of four rates in the range **20.0%** to **24.5%** of pensionable pay, based of salary bands.

The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2019-20, the rates will be in the range **26.6%** to **30.3%**. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account or a stakeholder pension with an employer contribution. Employers' contributions of **£19,213**

were paid to one or more of a panel of four appointed stakeholder pension providers. Employers' contributions are age-related and range from **8%** to **14.75%** of pensionable pay.

Employers also match employee contributions up to **3%** of pensionable pay. In addition, employer contributions of **£773 (0.5%)** of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill-health.

Contributions due to pension providers at the Statement of Financial Position date were **£300,195**. No contributions were pre-paid.

(ii) Former Director General – OFLOT

Upon the merger between the Gambling Commission and the National Lottery Commission, the Commission inherited a pension liability for a former Director General of OFLOT from 1993 to 1998. This pension is an unfunded defined benefit scheme which has benefits by analogy to the PCSPS (for details see www.civilservice.gov.uk/pensions) and is paid directly from the Commission's own funds. In 2001, upon the recipient reaching retirement age, pension payments commenced.

A full actuarial valuation of the scheme was carried out by the Government Actuary at 31 March 2019 and the present value of the liability at 31 March is **£226,000**.

Sensitivity analysis

1. Increasing the discount rate by **0.5%** would result in a corresponding decrease in liabilities of approximately **£10,000** or **4.5%**.
2. Increasing the CPI inflation assumption by **0.5%** would result in a corresponding increase in liabilities of approximately **£10,000** or **3.5%**
3. Increased assumed life expectancies in retirement by around one year would result in corresponding increase in liabilities of approximately **£8,000** or **3.5%**

The opposite changes in assumptions to those set-out above would produce approximately equal and opposite changes in the liability. Similarly, doubling the changes in the assumptions would produce approximately double the changes in the liability.

The sensitivities show the change in each assumption in isolation. In practice the financial assumptions rarely change in isolation and given the interdependencies between them, the impacts of such changes may offset each other to some extent.

Under IAS 19 the Commission is required to show the present value of these liabilities on its Statement of Financial Position.

Financial assumptions

The main financial assumptions and life expectancy assumptions used by the actuary in calculation of the liability for the schemes are as follows:

Life expectancy at retirement

Current Pensioners Exact Age	As at 31 March 2019		As at 31 March 2018	
	men (years)	women (years)	men (years)	women (years)
60	27.6	29.3	27.5	29.2
65	22.7	24.3	22.6	24.2

c) Average number of persons employed by the Gambling Commission was:

	2018-2019	2017-2018
Permanent staff	328	292
Other staff	14	30
Total	342	322

Staff Report continued

d) Off-payroll appointments

i For all off-payroll engagements as of 31 March 2019, for more than £245 per day that last for longer than six months	
No of existing engagements as of 31 March 2019	14
of which...	
No. that have existed for less than one year at time of reporting.	8
No. that have existed for between one and two years at time of reporting.	6
No. that have existed for between two and three years at time of reporting.	nil
No. that have existed for between three and four years at time of reporting.	nil
No. that have existed for four or more years at time of reporting.	nil
Confirmation that all existing off-payroll engagements, outlined above, have at some point been subject to a risk based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.	14
ii For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019, for more than £245 per day and that last for longer than six months	
No of new engagements, or those that reached six months in duration between 1 April 2018 and 31 March 2019	8
of which...	
No. assessed as caught by IR35.	nil
No. assessed as not caught by IR35.	8
No. engaged directly (VIA PSC contracted to department) and are on the departmental payroll.	nil
No. of engagements reassessed for consistency / assurance purposes during the year.	nil
No. of engagements that saw a change to IR35 status following the consistency review.	nil
iii. For any off-payroll engagements of board members, and/or senior officials with significant financial responsibility, between 1 April 2018 and 31 March 2019	
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	nil
Total no. of individuals on payroll and off-payroll that have been deemed "board members, and/or, senior officials with significant financial responsibility"	19

Exit packages agreed in 2018-19 – audited information

Exit package cost band (including any special payment element)	2018-19			2017-18		
	Compulsory redundancies Number	Other departures agreed Number	Total exit packages by cost band Number	Compulsory redundancies Number	Other departures agreed Number	Total exit packages by cost band Number
Less than £10,000	–	–	–	–	–	–
£10,001 – £25,000	–	–	–	–	–	–
£25,001 – £50,000	–	2	2	–	1	1
£50,001 – £100,00	–	–	–	–	–	–
£100,001 – £150,000	–	–	–	–	–	–
£150,001 – £200,000	–	–	–	–	–	–
>£200,000	–	–	–	–	–	–
Total number of exit packages	–	2	2	–	1	1
Total cost (£)	–	59,520	59,520	–	27,246	27,246

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Consultancy costs

As per Note 3(b) of the Annual Accounts, the Commission spent **£0** on consultancy assignments during 2018-19 (**£81,230** in 2017-18).

Staff Report continued

Employment Statistics for 2018-19 (as at 31 March 2019)

Total Employment by contract type	
Fixed Term Employees	23
Permanent Employees	332
Total	355

Department split	
Consumers and Contact Centre	22
Corporate Affairs	10
Data and Risk	14
Enforcement and Intelligence	44
Executive Directors	11
Executive Support	2
Finance	12
Governance & Legal	8
Human Resources	11
Insight	25
IT & Facilities	29
Licensing & Compliance	103
National Lottery	13
National Lottery Fourth Licence Competition	18
Programme Management Office	12
Regulatory Framework	5
Safer Gambling	10
Strategic Analysis	6
Total	355

Diversity – disability	
Employees with a disability as defined under the Equality Act 2010	15
Employees without a disability as defined under the Equality Act 2010	264
Not disclosed	76
Total	355

Diversity – ethnic origin	
Asian or Asian British – Indian	21
Asian or Asian British – Other	1
Asian or Asian British – Pakistani	5
Black or Black British – African	2
Black or Black British – Caribbean	7
Mixed – White and Asian	3
Mixed – White & Black Caribbean	4
Not Disclosed	24
Other Ethnic Background	1
Other Mixed Background	3
Other White Background	5
White British	271
White Irish	8
Total	355

Diversity – age	
24 and under	10
25-34	83
35-44	118
45-54	87
55-64	49
65-74	8
Total	355

Diversity – gender	
Female	174
Male	181
Total	355

Sickness absence rates	
1 April 2018 to March 2019	% of working days lost
Quarter 1	4.72
Quarter 2	5.07
Quarter 3	4.84
Quarter 4	5.18
Total	4.96

Sickness rates

During the year, the average proportion of working days lost to sickness was **4.9%** (3.6% for 2017-18) which includes long term absence and sickness related to disability or underlying health condition. We continue to work with our Occupational Health provider and a review of the service provision will see us continue to build on the support we provide to colleagues in the upcoming year.

Trade Union facility time

Relevant union officials	
Number of employees who were relevant union officials during 2018-19	9
Full time equivalent employees who were relevant union officials during 2018-19	9

Percentage of time spent on facility time	
%	Number of employees
0	–
1-50	9
51-90	–
100	–

Percentage of pay bill spent on facility time	£'000s
Total cost of facility time	88
Total pay bill	17,464
Percentage of the total pay bill spent on facility time	0.6%

Paid trade union activities	
Time spent on paid trade union activities as a percentage of total paid facility time	25%



Neil McArthur

Chief Executive and Accounting Officer

Gambling Commission

3rd July 2019



William Moyes

Chairman

Gambling Commission

3rd July 2019

Parliamentary accountability and audit report

The Audit Report of the Comptroller and Auditor General to the Houses of Parliament

Opinion on financial statements

I have audited the financial statements of the Gambling Commission for the year ended 31 March 2019 under the Gambling Act 2005. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity, and the related notes including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Gambling Commission's affairs as at 31 March 2019 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Gambling Act 2005 and Secretary of State directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements

section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Gambling Commission in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Gambling Commission's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Commission and Accounting Officer for the financial statements

As explained more fully in the Statement of the Commission's and Accounting Officer's Responsibilities, the Commission and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and report on the financial statements in accordance with the Gambling Act 2005.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Gambling Commission's internal control.
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Other Information

The Commission and the Accounting Officer are responsible for the other information. This comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

The Audit Report of the Comptroller and Auditor General to the Houses of Parliament

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Gambling Act 2005;
- in light of the knowledge and understanding of the Gambling Commission and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Gareth Davies

8th July 2019

Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP



Financial statements

Statement of comprehensive net expenditure for the year ended 31 March 2019

	Notes	31 March 2019 £'000s	31 March 2018 £'000s
Expenditure			
Employee costs	3a	(17,464)	(15,697)
Depreciation and amortisation	6 & 7	(622)	(772)
Other expenditure	3b	(9,495)	(6,719)
Total Operating Expenditure		(27,581)	(23,188)
Income			
Licence fee income	4b	18,462	19,709
Other income	5	525	222
Total Operating Income		18,987	19,931
Net expenditure		(8,594)	(3,257)
Finance income	4b	103	43
Finance expense		(19)	(8)
Interest cost on pensions liability	3a	(6)	(7)
Net expenditure for the year		(8,516)	(3,229)

Other comprehensive expenditure	Notes	31 March 2019 £'000	31 March 2018 £'000
Net gain/(loss) on pension liability	3a	1	15
Total comprehensive expenditure for the year		(8,515)	(3,214)

The notes on pages 76 to 89 form part of these accounts

The Commission receives grant-in-aid funding which fully covers the National Lottery expenditure.

Grant-in-aid is treated as a financing transaction rather than revenue and is taken directly to reserves.

Please see page 80 for details.

Statement of financial position

as at 31 March 2019

	Notes	31 March 2019 £'000s	31 March 2018 £'000s
Non current assets			
Property, plant and equipment	6	799	986
Intangible assets	7	745	757
Total non-current assets		1,544	1,743
Current assets			
Trade and other receivables	8	1,630	1,653
Cash and cash equivalents	9	25,760	17,147
Total current assets		27,390	18,800
Total assets		28,934	20,543
Current liabilities			
Trade and other payables	10	(13,445)	(13,210)
Pension Liability and Provisions	12	(15)	(25)
Consolidated Fund payables	13	(9,873)	–
Total current liabilities		(23,333)	(13,235)
Total assets less current liabilities		5,601	7,308
Non-current liabilities			
Other payables	11	(827)	(730)
Pension liability	12	(211)	(221)
Total non-current liabilities		(1,038)	(951)
Total assets less total liabilities		4,563	6,357
Taxpayers' equity			
General Fund		4,563	6,357
Total equity	14	4,563	6,357

The notes on pages 76 to 89 form part of these accounts



Neil McArthur

Chief Executive and Accounting Officer

Gambling Commission

3rd July 2019



William Moyes

Chairman

Gambling Commission

3rd July 2019

Financial statements

Statement of cash flow for the year ended 31 March 2019

	Notes	31 March 2019 £'000s	31 March 2018 £'000s
Cash flows from operating activities			
Net expenditure for the year		(8,613)	(3,265)
Adjustments for non-cash transactions			
Depreciation and amortisation charge	6 & 7	622	772
(Increase)/Decrease in trade and other receivables	8	23	60
Increase/(Decrease) in trade and other payables	10,11 & 13	10,206	(190)
Use of provisions	12	(20)	(13)
Net cash inflow from operating activities		2,218	(2,636)
Cash flows from investing activities			
Interest received		103	43
Interest costs arising from pension liability	12	(6)	(7)
Purchase of property, plant and equipment	6	(192)	(716)
Purchase of intangible assets	7	(232)	(231)
Net cash outflow from investing activities		(327)	(911)
Cash flows from financing activities			
Grant-in-aid for revenue expenditure		6,721	3,598
Actuarial loss arising from pension liability	12	1	15
Net cash inflow from financing activities		6,722	3,613
Net Increase/(Decrease) in cash and cash equivalents in the period	9	8,613	66

Cash and cash equivalents at 31 March 2018

17,147

Cash and cash equivalents at 31 March 2019

25,760

The notes on pages 76 to 89 form part of these accounts

Statement of changes in taxpayers' equity for the year ended 31 March 2019

	Income & Expenditure Reserve £'000s
Balance at 1 April 2017	5,973
Changes in reserves	
Comprehensive net expenditure for the year	(3,229)
Actuarial loss arising on pension scheme	15
Grant-in-aid for capital and revenue expenditure	3,598
Total recognised comprehensive net expenditure for 2017-18	384
Balance at 31 March 2018	6,357
Balance at 1 April 2018	6,357
Changes in reserves	
Comprehensive net expenditure for the year	(8,516)
Actuarial gain arising on pension scheme	1
Grant-in-aid for capital and revenue expenditure	6,721
Total recognised comprehensive net income for 2018-19	(1,794)
Balance at 31 March 2019	4,563

The notes on pages 76 to 89 form part of these accounts

Notes to the accounts for the 12 months ended 31st March 2019

1: Statement of accounting policies

The policies adopted are in accordance with the International Financial Reporting Standards (IFRS), to the extent it is meaningful and appropriate in the public sector context, as adopted and interpreted by the 2018/19 Financial Reporting Manual (FReM) issued by Her Majesty's Treasury (HMT).

a) Accounting conventions

These are the accounts for the Gambling Commission (the Commission) covering the twelve months from 1 April 2018 to 31 March 2019. They have been prepared in a form directed by the Secretary of State for Digital, Culture, Media, and Sport (DCMS) with the approval of HMT, in accordance with Schedule 4 of the Gambling Act 2005 (the Act). A copy of the accounts direction can be obtained from the Commission.

The particular policies adopted by the Commission are described below and have been applied consistently during the year. There have been no changes to the policies adopted by the Commission from the previous financial year 2017/18.

b) Non-current assets

Non-current asset purchases are capitalised if the original purchase price of an item or group of related items is £2,500 or more and the asset or group of assets has a useful life that exceeds one year. Purchased software licences are classified as intangible assets.

Depreciation and amortisation

Depreciation and amortisation are provided on all non-current assets on a straight-line basis to write off the cost or valuation evenly over the asset's currently anticipated life as shown in the table 'Anticipated life of assets'.

Anticipated life of assets

Asset	Anticipated life
IT Hardware	4 years
IT Software Licences	Over the life of the licence
IT Developed Software	5 years
Fixtures & Fittings	10 years (or until break point of VSH lease)
Furniture	10 years (or until break point of VSH lease)
Equipment	7 years
Telecoms	7 years
Motor Vehicles	4 years

Depreciation and amortisation are charged in full in the month following acquisition of the asset, with no charge being made in the month of disposal. No amortisation is charged on software development until the asset is completed.

Property, plant & equipment

Property, plant and equipment is stated at depreciated historic cost as a proxy for fair value. All of the Commission's assets are short life assets and therefore depreciated historic cost is not considered to be materially different from fair value. A review of property, plant and equipment is undertaken annually to ensure that all items are still in use and that disposals have been appropriately treated through the year.

Annual reviews are also undertaken to identify any impairment of assets in accordance with the International Accounting Standard (IAS) 36. Any gain or loss arising from the disposal of property, plant and equipment is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Net Expenditure account as other income or other expenditure.

Intangible assets

The Commission's intangible assets are recorded in accordance with IFRS and compliant with IAS 38. Under IFRS software development is classified as an intangible asset. Expenditure on development is capitalised only where all of the following can be demonstrated:

- ▶ the project is technically feasible to the point of completion and will result in an intangible asset for sale or use;
- ▶ the Commission intends to complete the asset and sell or use it;
- ▶ the Commission has the ability to sell or use the asset;
- ▶ the intangible asset will generate probable future economic or service delivery benefits, for example there is a market for it or its output, or where the asset is to be used for internal use, the usefulness of the asset can be determined;
- ▶ there are adequate financial, technical and other resources available to the Commission to complete the development and sell or use the asset; and,
- ▶ the Commission can measure reliably the expenses attributable to the asset during development.

Internal staff costs that have been directly incurred in the implementation of capital projects are identified as capital expenditure, provided that they satisfy the conditions of IAS 38. Research costs have not been capitalised.

Software purchases that have not required development prior to completion are identified as additions within the category software in the intangible fixed asset note.

In accordance with the FReM, all intangible assets are carried at fair value. Depreciated historical cost is used as a proxy for fair value, which is considered not to be materially different from fair value.

Revaluation

Increases in value are credited to the Revaluation Reserve, unless it is a reversal of a previous impairment. Reversals are credited to the Consolidated Statement of Comprehensive Net Expenditure to the extent of the previous impairment and any excess is credited to the Revaluation Reserve, in accordance with IAS 36, the Impairment of Assets.

On disposal of a revalued asset, the balance on the Revaluation Reserve in respect of that asset becomes fully realised and is transferred to the General Fund. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Statement of Comprehensive Net Expenditure.

c) Pension costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and contributory.

The Commission recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis.

Liability for payment of future benefits is a charge on the PCSPS.

Upon the merger between the Commission and the National Lottery Commission, the Commission inherited a pension liability for the former Director General of the Office of the National Lottery (OFLOT). This pension is an unfunded defined benefit scheme which has benefits by analogy to the PCSPS and is paid directly from the Commission's own funds. In 2001, upon the recipient reaching retirement age, pension payments commenced. This was calculated using actuarially assessed assumptions at 31 March 2019.

Notes to the accounts for the 12 months ended 31st March 2019

d) Operating leases

The Commission has categorised all leases in accordance with IAS 17 and, following this ongoing exercise, all leases held by the Commission are classified as operating leases.

Payments made under operating leases on land and buildings, and equipment are recognised as an expense over the term of the lease.

e) Employee costs

Under IAS 19 Employee Benefits legislation, all employee business or employment related costs must be recorded as an expense as soon as the organisation is obligated to pay them. This includes the cost of any untaken leave as at the year end. The cost of untaken leave has been determined using data from the Commission's electronic leave records.

Permanent and short term employee costs are presented in accordance with IFRS. Permanent and short term employees are identified as follows:

- Permanent employees are those with a permanent (UK) employment contract with the Commission.
- Short term employees are other employees engaged on the objectives of the entity (for example, short term contract employees, agency/temporary employees, locally engaged employees overseas and inward secondments where the entity is paying the whole or the majority of their costs).

f) Value added tax

The Commission is not registered for VAT and therefore all costs are shown inclusive of VAT where VAT has been charged.

g) Licence fee receipts & fee income recognition

The Commission collects fee income in relation to the Act. In accordance with IFRS 15, the Commission recognises income in the following way:

Operator licence application fees:

Income is recognised in full when the operator licence is issued.

Operator licence annual fees:

Income is recognised equally over the duration of the licence.

Personal licence fees:

60% of the Application income received is recognised when the licence is issued (to reflect the application costs).

The remaining 40% is recognised equally over the duration of the licence (i.e. 5 years).

35% of the Maintenance renewal income received is recognised when the licence is issued (to reflect the renewal costs).

The remaining 65% is recognised equally over the duration of the licence (i.e. 5 years).

The introduction of IFRS 15 in 2018-19 has had no impact on licence fee recognition.

h) Financing grant-in-aid

The Commission receives grant-in-aid funding for National Lottery operations. Grant-in-aid is treated as a financing transaction rather than as revenue as it is a contribution from a controlling entity. This accounting policy is in accordance with FReM.

i) Financial instruments

The Commission reviews all contracts against IFRS 9 in respect of recognition and measurement of financial instruments. In accordance with IFRS 9, cash and trade receivables have been identified as financial assets and trade payables have been identified as financial liabilities. The Commission's only non-current liability identified as a financial instrument is deferred income collected in advance of recognition. There is no financial risk associated with deferred income collected. The Commission does not hold any complex financial instruments.

j) Functional and presentational currency

The Commission's functional and presentational currency is sterling. The very small number of transactions denominated in a foreign currency have been translated into sterling at the exchange rate ruling on the date of the transaction. Resulting exchange gains and losses are recognised in the Commission's surplus or deficit in the period in which such gains or losses arise.

k) Corporation tax

The Commission is registered with HMRC to pay Corporation Tax on interest received on cash balances held.

l) Segmental reporting

During the year the Commission was requested by DCMS to contribute towards a consultation on the future of the Horserace Betting Levy Board (HBLB) and as such, the Commission's Board as 'Chief Operating Decision Maker' has determined that the Commission operated in three distinct material segments; to regulate commercial gambling, to regulate the National Lottery, and to undertake preparatory work on the potential transfer of levy collection responsibilities from the HBLB to the Commission. All three segments fall within one main geographical segment, the United Kingdom. The Commission has distinct sources of income for the three segments; licence fees for gambling regulation, grant-in-aid for National Lottery regulation, and levy funds for HBLB. The segmental reporting format in note 2 reflects the Commission's management and internal reporting structure.

m) Cash and cash equivalents

The Commission's cash deposits are held with a single commercial bank, and with the Government Banking Service.

The Commission's deposits are considered to be cash, as all deposits with the commercial bank are repayable immediately without penalty and without notice.

Cash equivalents are classed as investments that mature in three months or less, and are readily convertible to known amounts of cash with insignificant risk of change in value. The Commission does not consider that it holds any cash equivalents.

n) Treatment of penalty packages

Where the Commission has issued a penalty in respect of a regulatory failing or breach, in the majority of cases the penalty is paid directly to a benefactor (where a benefactor has been identified) or to a nominated responsible gambling charity. Only the direct costs of the Commission and a reasonable share of expenditure incurred which is directly referable to the investigation or the imposition and enforcement of the penalty, is retained by the Commission. The amounts retained by the Commission are shown within the accounts as other income.

In the event that a fine is issued for a regulatory breach, the Commission will collect the fine and pay it to the Consolidated Fund having deducted the costs of its investigation under the principle above.

With the exception of other income in respect of cost recovery or amounts due to be passed over to the Consolidated Fund at the year end shown as other creditors, penalties are not included within the Commission's accounts.

o) Going concern

The financial statements have been prepared on a going concern basis.

p) Accounting standards that have been issued but not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the 12 months ended 31 March 2019 and have not been applied in preparing the accounts. The following are those standards, amendments and interpretations that may be adopted in subsequent accounting periods:

Notes to the accounts

for the 12 months ended 31st March 2019

- IFRS 17 was published in May 2017 and is expected to replace the current financial reporting standard for insurance (IFRS 4) with effect from 1 January 2022. Under the IFRS 17 model, insurance contract liabilities will be calculated as the present value of future insurance cash flows with a provision for risk. The effect on the Commission's accounts is anticipated to be minimal. The standard has not yet been adopted by FReM and therefore early adoption is not permitted.
- IFRIC (International Financial Reporting Interpretations Committee) 23 was published in June 2017 and clarifies how to apply the recognition and measurement requirements in IAS 12 – Income Taxes. It is not expected to have a significant effect upon the Commission's accounts.
- IFRS 16 was published in 2016 and is to be applied for accounting periods beginning on or after 1 January 2019. However the reporting requirements have not yet been adopted by FReM and will be implemented in 2019/20. The standard has introduced a simpler approach to lease accounting by requiring all leases longer than 12 months, including operating leases for land and buildings, to have a 'right of use' asset and liability for the future lease payments recognised in the Statement of Comprehensive Net Expenditure. The value of the right of use assets to be recognised will be £1,113,247.

2: Statement of Operating Costs by Operating Segment

a) Statement of Comprehensive Net Expenditure by operating segment

	31 March 2019				31 March 2018			
	Gambling operations	National Lottery operations	HBLB operations	Total as per SOCNE	Gambling operations	National Lottery operations	HBLB operations	Total as per SOCNE
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Expenditure	(20,523)	(6,895)	(163)	(27,581)	(19,532)	(3,620)	(36)	(23,188)
Income	18,824	–	163	18,987	19,895	–	36	19,931
Net income/(expenditure)	(1,699)	(6,895)	–	(8,594)	363	(3,620)	–	(3,257)
Net income/(expenditure) after interest and finance costs	(1,615)	(6,901)	–	(8,516)	398	(3,627)	–	(3,229)
Other Comprehensive Expenditure								
Net gain/(loss) on pension liability	–	1	–	1	–	15	–	15
Total comprehensive expenditure the year ended	(1,615)	(6,900)	–	(8,515)	398	(3,612)	–	(3,214)

b) Statement of Financial Position by operating segment

	31 March 2019				31 March 2018			
	Gambling operations	National Lottery operations	HBLB operations	Total as per SOCNE	Gambling operations	National Lottery operations	HBLB operations	Total as per SOFP
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Non-current assets	1,468	76	–	1,544	1,636	107	–	1,743
Current assets	27,389	1	–	27,390	18,797	3	–	18,800
Total assets	28,857	77	–	28,934	20,433	110	–	20,543
Current liabilities	(23,156)	(177)	–	(23,333)	(13,192)	(43)	–	(13,235)
Non Current Assets less Net Current Liabilities	5,701	(100)	–	5,601	7,241	67	–	7,308
Non-current liabilities	(812)	(226)	–	(1,038)	(730)	(221)	–	(951)
Total liabilities	(23,968)	(402)	–	(24,371)	(13,922)	(264)	–	(14,186)
Assets less liabilities	4,889	(325)	–	4,563	6,511	(154)	–	6,357

3: Staff costs

a) Employee costs

	2019 £'000s	2018 £'000s
Employee costs	17,464	15,697
Interest costs on pension scheme liability	6	7
Actuarial adjustments to pension scheme liability	(1)	(15)
Total	17,469	15,689

b) Other expenditure

	2019 £'000s	2018 £'000s
Accommodation	1,454	1,227
Professional fees*	2,983	1,417
Travelling and subsistence	615	516
Contingent labour costs	682	146
Other staff costs	188	218
Recruitment, training and development	674	805
Hospitality	16	20
Office services	1,527	1,145
External audit fee**	68	45
Internal audit costs	131	40
Amounts payable to Criminal Records Bureau	83	82
Research costs***	795	778
Other	279	280
Total other expenditure	9,495	6,719

* Professional fees include consulting costs totalling £0 (2017/18 £81,230).

** The external audit fee represents the cost of the audit of the accounts carried out by KPMG LLP on behalf of NAO. No non audit work was undertaken by KPMG LLP, or NAO during the year.

The external audit fee for both 2017/18 and 2018/19 is £57,500. An under accrual of £10,000 for external audit fees was accounted for in 2017/18, which has been corrected in 2018/19.

*** Research costs includes costs associated with prevalence studies into gambling. This totalled £795,143 in 2018/19 (2017/18 £778,357). This also includes National Lottery research costs totalling £247,641 in 2018/19 (2017/18 £426,578).

Included within other expenditure are payments made by the Commission during the year under operating leases.

These may be analysed as follows:

	2019 £'000s	2018 £'000s
Land and buildings	808	808
Other	10	10
Total	818	818

The above analysis comprises the following figures from the Statement of Comprehensive Net Expenditure and Statement of Changes in Taxpayers Equity.

c) Non-cash items

	2019 £'000s	2018 £'000s
Depreciation	378	243
Amortisation	244	529
Total	622	772

Notes to the accounts for the 12 months ended 31st March 2019

4: Fee receipts

a) Gambling Act 2005 fee receipts

The Act came fully into force on 1st September 2007, at which date the gambling industry was required to apply for operator and personal licences under the jurisdiction of the Act. Fees payable under the Act are received in respect of application fees, annual fees and changes and variations to licences. These monies are retained by the Commission to fund operational activities under the Act.

Licence fees received that relate to future periods are included within the Statement of Financial Position, under Creditors as 'Deferred Income'.

Gambling Act 2005 fee receipts in the year are as follows:

	2019 £'000s	2018 £'000s
Operator licence applications		
Application fees	897	1,235
Annual fees	17,409	16,784
Personal licence applications	829	865
Total fee income received	19,135	18,884
Interest on fee income	103	43
Total	19,238	18,927

b) Gambling Act 2005 income recognised

Fees payable under the Act are identified by income stream, and released to the Commission's Statement of Comprehensive Net Expenditure in accordance with the Commission's Financial and Accounting Policy.

Recognised fee income is included within the Statement of Comprehensive Net Expenditure as 'Licence Fee income'.

Gambling Act 2005 fee income recognised in the year is as follows:

	2019 £'000s	2018 £'000s
Operator licence applications		
Application fees	737	1,794
Annual fees	16,977	17,055
Personal licence applications	749	860
Total fee income	18,462	19,709
Interest on fee income	103	43
Total	18,565	19,752

5: Other income

Miscellaneous income collected during the year relates to penalties issued for breach of licence conditions, withdrawn applications, contributions to costs arising from enforcement action, and receipts from HBLB in relation to scoping activity for the transfer of the horserace betting levy collection.

	2019 £'000s	2018 £'000s
Miscellaneous income	525	222
Total other income	525	222

6: Property, plant & equipment

	IT hardware £'000s	Furniture & fittings £'000s	Plant & machinery £'000s	Transport equipment £'000s	Total £'000s
Cost/valuation					
At 1 April 2017	1,832	2,127	185	10	4,154
Disposals				(10)	(10)
Additions	626	90	–	–	716
At 31 March 2018	2,458	2,217	185	–	4,860
Accumulated depreciation					
At 1 April 2017	1,503	1,947	181	10	3,641
Disposals				(10)	(10)
Provided in year	171	72	–	–	243
At 31 March 2018	1,674	2,019	181	–	3,874
Net book value at 31 March 2018	784	198	4	–	986
Net book value at 31 March 2017	329	180	4	–	513

	IT hardware £'000s	Furniture & fittings £'000s	Plant & machinery £'000s	Transport equipment £'000s	Total £'000s
Cost/valuation					
At 1 April 2018	2,458	2,217	185	–	4,860
Disposals	(444)	–	–	–	(444)
Additions	167	25	–	–	192
At 31 March 2019	2,181	2,242	185	–	4,608
Accumulated depreciation					
At 1 April 2018	1,674	2,019	181	–	3,874
Disposals	(444)	–	–	–	(444)
Provided in year	302	74	2	–	378
At 31 March 2019	1,533	2,093	183	–	3,809
Net book value at 31 March 2019	648	149	2	–	799
Net book value at 31 March 2018	784	198	4	–	986

Notes to the accounts

for the 12 months ended 31st March 2019

7: Intangible assets

	Software £'000s	Software licences £'000s	Websites delivering services £'000s	Assets under the course of construction £'000s	Total £'000s
Cost/valuation					
At 1 April 2017	5,845	318	235	–	6,398
Additions	216	–	15	–	231
Disposals	–	–	–	–	–
At 31 March 2018	6,061	318	250	–	6,629
Accumulated amortisation					
At 1 April 2017	4,831	281	231	–	5,343
Provided in year	505	(2)	26	–	529
Disposals	–	–	–	–	–
At 31 March 2018	5,336	279	257	–	5,872
Net book value at 31 March 2018	725	39	(7)	–	757
Net book value at 31 March 2017	1,014	37	4	–	1,055

	Software £'000s	Software licences £'000s	Websites delivering services £'000s	Assets under the course of construction £'000s	Total £'000s
Cost/valuation					
At 1 April 2018	6,061	318	250	–	6,629
Reclassification	26	(39)	13	–	–
Additions	38	–	21	173	232
Disposals	(87)	–	–	–	(87)
At 31 March 2019	6,038	279	284	173	6,774
Accumulated amortisation					
At 1 April 2018	5,336	279	257	–	5,872
Reclassification	61	–	(61)	–	–
Provided in year	224	–	20	–	244
Disposals	(87)	–	–	–	(87)
At 31 March 2019	5,534	279	216	–	6,029
Net book value at 31 March 2019	504	–	68	173	745
Net book value at 31 March 2018	725	39	(7)	–	757

8: Trade and other receivables

	2019 £'000s	2018 £'000s
Trade receivables	338	528
Deposits and advances	62	166
Prepayments & accrued income	1,230	959
Total	1,630	1,653

9: Cash and cash equivalents

	2019 £'000s	2018 £'000s
Balance at 1 April 2018	17,147	17,081
Net change in cash and cash equivalent balances	8,613	66
Balance at 31 March 2019	25,760	17,147
The following balances at 31 March 2019 were held at:		
Government Banking Service	6,721	1
Commercial banks and cash in hand	19,039	17,146
Balance at 31 March 2019	25,760	17,147

The majority of the Commission's cash and cash equivalent balances are held at commercial banks or as cash in hand apart from £6,721,247 (£975 in 2017/18) which is held with the Government Banking Service.

10: Trade and other payables

	2019 £'000s	2018 £'000s
Trade payables	970	264
Staff cost payables	879	780
Other payables	–	361
Accruals and deferred income	11,596	11,804
Total	13,445	13,210

The Commission holds total deferred income balances of £9,961,081 (£9,637,793 in 2017/18) included in notes 10 and 11.

These relate to:

Licence fees received, due to be released to income within one year of £9,133,628 (£8,908,148 in 2017/18).

Licence fees received, due to be released to income after one year £827,453 (£729,645 in 2017/18).

11: Amounts falling due after more than one year

	2019 £'000s	2018 £'000s
Deferred income	827	730
	827	730

The Commission's deferred income due after more than one year relates to Personal Licence fees paid that are due to be released to income in years 2020/21 onwards.

Notes to the accounts for the 12 months ended 31st March 2019

12: Provisions

a) Pension liability provision

This provision recognises the payments due in respect of a former chairman of OFLOT.

	2018 £'000s
At 1 April 2017	259
Interest cost	7
Actuarial loss/(gain) in the period	(15)
Pensions paid in the year	(15)
At 31 March 2018	236

	2019 £'000s
At 1 April 2018	236
Interest cost	6
Actuarial loss/(gain) in the period	(1)
Pensions paid in the year	(15)
At 31 March 2019	226

The pension liability provision of £225,876 is split between, liability not later than one year (£15,113), and liability greater than one year (£210,763).

b) Other Provisions

Balance at 1 April 2018	10
Provision in the year	(10)
At 31 March 2019	–

A provision made for legal costs and damages in respect of a personal injury claim arising in 2017/18 has been settled in year.

13: Consolidated Fund payables

The Commission held the following Consolidated Fund payables at 31 March 2019

	2019 £'000s	2018 £'000s
At 1 April	–	–
Arising in the year	9,873	–
Settled in the year	–	–
At 31 March	9,873	–

The payables are in relation to fines recovered due to be surrendered to HMT (£9,873,238).

14: Effect of pension liability on income and expenditure reserve

	Notes	2019 £'000s	2018 £'000s
Income and expenditure reserve excluding pension liability		4,789	6,593
Pension liability	12	(226)	(236)
Income and expenditure reserve		4,563	6,357

15: Capital commitments

At 31 March 2019 there were no capital commitments (£0 in 2017/18).

16: Commitments under operating leases

At 31st March 2019 the Commission was committed to making the following payments in respect of operating leases:

	at 31 March 2019		at 31 March 2018	
	Land and buildings £'000s	Other £'000s	Land and buildings £'000s	Other £'000s
Obligations under operating leases for the following periods comprise:				
Not later than one year	823	10	808	8
Later than one year and not later than five years	831	10	1,616	6
Later than five years	–	–	–	–
	1,654	20	2,424	14

Following a successful application to the Government Property Unit, the Commission signed a new lease for its existing premises in central Birmingham. The new lease was signed in May 2015. The lease is for a period of 10 years (with a 5 year break clause) and commenced with effect from February 2016 when the previous lease expired.

17: Related party transactions

The Commission is a Non-Departmental Public Body funded through the collection of licence fees from the industry and grant-in-aid for National Lottery operations.

DCMS is regarded as a related party. During the 12 months to 31 March 2019, the Commission has had a small number of material transactions with DCMS, comprising:

Grant-in-aid for revenue expenditure £6,720,882

During the period none of the Commissioners, members of key management staff or other related parties have undertaken any material transactions with the Commission.

18: Financial instruments

IFRS 7 (Financial Instruments Disclosures) IFRS 9 (Financial Instruments: Measurement, Recognition and Derecognition) establishes principles for the presentation, recognition and measurement, and disclosure of financial instruments as liabilities or equity.

Because of the way that the Commission is funded the Commission is not exposed to the degree of financial risk faced by business entities.

Also financial instruments play a more limited role in creating or changing risk than would be typical of listed companies, to which these standards mainly apply.

The Commission has obtained consent from its sponsoring department to place surplus funds on bank deposit. It would also require consent from its sponsoring department prior to acquiring financial instruments or borrowings.

Notes to the accounts for the 12 months ended 31st March 2019

Currency risk

The Commission is a domestic organisation with the great majority of transactions, and all assets and liabilities being in the UK and denominated in sterling. The Commission has no overseas operations. The Commission therefore is not exposed to currency rate fluctuations.

Market rate risk

The Commission has no borrowings and therefore is not exposed to interest rate risk.

Credit risk

The Commission does not provide credit arrangements for the payment of licence fees by the industry. All fees must

be paid on or before the date prescribed to prevent a breach of the licence and the licence being revoked.

As the Commission relies on fees receivable from the gambling industry (payable immediately) and departmental grant-in-aid for specific projects the Commission has very low exposure to credit risk.

Liquidity risk

As the Commission has no borrowings and relies on fees receivable from the gambling industry and departmental grant-in-aid for its cash requirements, the Commission is exposed to minimal liquidity risk.

(i) Financial assets & financial liabilities

Financial assets

Currency	Total £'000s	Floating rate £'000s	Fixed rate £'000s	Non-interest bearing £'000s	Fixed rate		Non-interest bearing
					Weighted average interest rate %	Weighted average period for which fixed Years	Weighted average term Years
At 31 March 2019							
Sterling	26,160	25,760	–	400	0.00	–	–
Gross financial assets	26,160	25,760	–	400	–	–	–
At 31 March 2018							
Sterling	17,841	17,147	–	694	0.00	–	–
Other	–	–	–	–	2.20	–	–
Gross financial assets	17,841	17,147	–	694	–	–	–

Financial liabilities

Currency	Total £'000s	Floating rate £'000s	Fixed rate £'000s	Non-interest bearing £'000s	Fixed rate		Non-interest bearing
					Weighted average interest rate %	Weighted average period for which fixed Years	Weighted average term Years
At 31 March 2019							
Sterling	14,090	–	–	14,090	0.00	–	–
Gross financial liabilities	14,090	–	–	14,090	–	–	–
At 31 March 2018							
Sterling	13,774	–	–	13,774	0.00	–	–
Gross financial liabilities	13,774	–	–	13,774	–	–	–

(ii) Financial assets & financial liabilities

Financial assets

	At fair value through profit and loss £'000s	Loans and receivables £'000s	Available for sale £'000s	Total £'000s
Embedded derivatives	–	–	–	–
Debtors	–	400	–	400
Debtors over 1 year	–	–	–	–
Cash at bank and in hand	–	25,760	–	25,760
Other financial assets	–	–	–	–
Total at 31 March 2019	–	26,160	–	26,160
Embedded derivatives	–	–	–	–
Debtors	–	694	–	694
Debtors over 1 year	–	–	–	–
Cash at bank and in hand	–	17,147	–	17,147
Other financial assets	–	–	–	–
Total at 31 March 2018	–	17,841	–	17,841

Financial liabilities

	At fair value through profit and loss £'000s	Other £'000s	Total £'000s
Embedded derivatives	–	–	–
Creditors	13,263	–	13,263
Creditors over 1 year	827	–	827
Borrowings	–	–	–
Private finance initiative and finance lease obligations	–	–	–
Other financial liabilities	–	–	–
Total at 31 March 2019	14,090	–	14,090
Embedded derivatives	–	–	–
Creditors	13,044	–	13,044
Creditors over 1 year	730	–	730
Borrowings	–	–	–
Private finance initiative and finance lease obligations	–	–	–
Other financial assets	–	–	–
Total at 31 March 2018	13,774	–	13,774

19: Contingent liabilities disclosed under IAS 37

There are no contingent liabilities to report as at 31 March 2019 (£0, 2017/18).

20: Post balance sheet events

These accounts were authorised for issue on the date the Comptroller and Auditor General certified the accounts as shown on the audit certificate.

There are no post balance sheet events to report since 31 March 2019.

Appendices

Appendix 1

The Executive Group

The Executive Group makes decisions about projects, policy, procedure, issues and cases which cannot be resolved at an operational level as they are novel or contentious, or significantly affect the Commission's finances or staff.



Neil McArthur
Chief Executive

Neil became chief executive of the Gambling Commission in February 2018. He has overall responsibility for developing and delivering the corporate strategy, financial and business plans. As accounting officer he is also responsible for the proper management and financial governance of the organisation.

Neil joined the Commission in October 2006 and has played a leading part in the evolution of its approach to regulating gambling and the National Lottery.

He is a qualified lawyer and graduate of Leicester Polytechnic and Leicester University. He has previously worked for a number of public bodies including the General Teaching Council for England, the Learning and Skills Council and several local authorities.



Vic Beaumont
Chief People Officer

Vic joined us in July 2018 building on over 15 years of experience across the regulatory and public sectors. Vic was previously a consultant working with a range of public bodies and prior to that was Director of HR & OD at the Information Commissioner's Office. These roles followed a number of senior HR positions in the housing, health and private sectors. Vic is responsible for Human Resources, Organisational Development and Facilities.

The scope of the Executive group therefore extends to:

- ▶ Strategic leadership of the Gambling Commission
- ▶ Collective concentration on strategic issues affecting the Commission
- ▶ Scrutiny and challenge of Commission policies and procedures
- ▶ Review of business delivery, operational and financial performance

The Executive Group also agrees items for escalation to the Board of Commissioners, setting the agenda for Board meeting and clearing Board papers.



Sarah Gardner
Executive Director

Sarah Gardner joined in 2009 and has held a number of leadership roles across the Commission. She spent her earlier career as a civil servant in various government departments covering a wide range of topics including tax, international policy, consumer protection, competition, regulation, small business and enterprise policy.

Sarah is executive director responsible for regulatory policy. This includes regulation of the National Lottery under the third licence, strategic analysis and the development of the regulatory framework, including the Licence Conditions and Codes of Practice (LCCP).



Philip Lloyd
Interim Chief Financial Officer

Philip Lloyd is responsible for all aspects of the Gambling Commission's finance, including preparing financial accounts, financial reporting, cash and asset management and ensuring appropriate financial systems of control that meet public sector requirements. He is also responsible for the Gambling Commission's procurement, delivering value for money through better procurement of contracts to deliver the Commission's objectives.

Philip has previously been the chief financial officer of two other UK regulators, the Oil and Gas Authority and the Low Carbon Contracts Company. Previously he was the finance director of the Learning and Skills Council and Her Majesty's Courts Service. He has also been a NED and audit chair of an international charity and a NHS Community Services provider.



Tim Miller
Executive Director – insight and safer gambling

Tim Miller joined in 2016 after a career spanning over 15 years in the regulatory and public sector. Tim was previously head of policy and communications at the Local Government Ombudsman and prior to that was head of public affairs at the Parliamentary and Health Service Ombudsman. These roles followed ten years at the Law Society of England and Wales in a variety of regulatory posts. In his role at the Commission, Tim is responsible for corporate affairs, insights and safer gambling.

The Executive Group continued



David Pemberton
Executive Director – digital
and planning

David joined us in 2017. Previously, as a member of Business in the Community's executive team, he was responsible for corporate services, business planning and the public facing campaigns on workplace diversity. He has also worked for Credit Suisse, PwC, Nissan, and Ford. During 2018-19 David was responsible for business planning, risk, assurance, performance reporting, project management office, digital strategy, and IT & data operations (Data Protection Officer and Senior Information Risk Owner).



Helen Venn
Executive Director – licensing
and compliance

Helen Venn is executive director for licensing and compliance and with responsibility for regulatory delivery.

Helen has been with the Commission for over four years and originally qualified as a solicitor 23 years ago. Her career included roles at the Criminal Cases Review Commission, Serious Fraud Office, Solicitors Regulation Authority and in private practice.



Richard Watson
Executive Director – enforcement
and intelligence

Richard Watson is executive director of enforcement and intelligence with responsibility for regulatory delivery.

His teams are responsible for managing the issue of anti-money laundering, dealing with betting integrity, enforcement of both regulatory and criminal investigations, and the flow of intelligence in and out of the Commission.

Richard has been with the Commission for six years, having previously worked in a variety of law enforcement roles for 32 years.



Paul Hope

Executive Director – consumers and regulatory strategy

Paul Hope joined in 2014 to lead work on consumer protection and safer gambling. He previously worked for Ofwat, the economic regulator for the water industry, where he held a number of leadership roles. Paul has also previously worked as an economist at HM Treasury and the Bank of England. At the Commission, he is responsible for consumers, regulatory policy and strategy.

Paul became executive director for Strategic Planning and Performance in April 2019.



Ann Harris OBE

Interim Executive Director – the fourth national lottery licence competition

Ann Harris is responsible for the the fourth national lottery licence competition focusing on establishing governance, securing funding and engagement with DCMS.

Prior to this role, Ann was the independent member of the audit and risk committee at the Commission. She is also a non executive director for the Single Finance Guidance Body and chair of her local Citizens Advice service. She spent 40 years in the civil service, latterly holding senior roles in finance and programme management. Ann was awarded an OBE in 2009 for her services to DWP.



Nicky Heathcote

Interim Executive Director – regulatory policy and governance

Nicky Heathcote joined in May 2018, following 10 years at HM Land Registry where she was responsible for domestic and international policy, strategy and business development, stakeholder and parliamentary engagement, corporate communications and executive board governance. Nicky also previously worked on a number of cross government agendas including housing and infrastructure devolution.

At the Commission, she is responsible for the National Lottery third licence, government relations and governance. Nicky is also a non-executive director at Propertymark and an ambassador at NEDonBoard.

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