

Annual Report and Accounts 2006|07



**GAMBLING
COMMISSION**

Report of the Gambling Commission 2006/07

Presented pursuant to the Gambling Act 2005 paragraph 16 of Schedule 4

Ordered by the House of Commons to be printed 11 July 2007

The Gambling Commission regulates gambling in the public interest. It does so by keeping crime out of gambling, by ensuring that gambling is conducted fairly and openly, and by protecting children and vulnerable people from being harmed or exploited by gambling.

The Commission also provides independent advice to government on gambling in Great Britain.

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Previous reports

H.C. 227, S.E./2005/113 (2004/05)

(The Gaming Board previously published annual reports. These are listed in the Annual Report detailed above (2004/05) and are available on the Gambling Commission website)



Chairman's Statement

Annual Report of the Gambling Commission

To: Her Majesty's Secretary of State for Culture, Media and Sport and Her Majesty's Secretary of State for Scotland and First Minister of Scotland

In pursuance of paragraph 16 (1) of Schedule 4 to the Gambling Act 2005 I have the honour to present the second report of the Gambling Commission, covering the period 1 April 2006 to 31 March 2007.

This report covers the first full year's activities of the Gambling Commission, which was created by the Gambling Act 2005 and came into existence on 1 October 2005.

During the intensely busy 12 months under review the Commission moved from the London premises where it and its predecessor, the Gaming Board for Great Britain, had been based for more than 35 years; re-established itself in a modern, purposed-designed office in Birmingham; retained its experienced field force and recruited a new contingent of staff to carry out the transition from one regulatory regime to another; and drafted and consulted on the majority of the policies, which will apply when the 2005 Gambling Act comes into full force on 1 September 2007. All this activity was on top of the normal work of regulation under the old regime, which will continue to apply until superseded in September.

Such an ambitious programme could not have kept on track without the utmost dedication on the part of my fellow Commissioners as well as committed staff who have worked wonders under the strong and resourceful leadership of the Chief Executive Jenny Williams and her senior management team.

Two new Commissioners, Rachel Lampard and Andrew McIntosh, were appointed in July 2006. They bring wide-ranging knowledge and expertise to an already strong Board, particularly in the important area of social responsibility.

As my term of office comes to an end on 31 December 2007 and this will be my last report, I should like to conclude with a few general comments.

In my opening report as Chairman of the Gaming Board in 1999 I urged the government to set a firm time-scale for the wholesale reform of our then out-dated gambling legislation. It is a cause of great satisfaction that the reform has now been carried out and the Gambling Act 2005 placed on the statute book, with the Commission at the centre of the new regulatory system. The 2005 Act has swept away the anachronisms which bedevilled regulation under the old laws; it embeds protection of children and other vulnerable people as a primary objective; and it is sufficiently flexible to accommodate social and technological changes. These notable merits have received less recognition than they deserve. They will endure long after current controversies over the number and location of new casinos have died away.

A feature of the last decade has been the explosive growth of access by the public to the internet, and with it a corresponding increase in internet gambling. This and other forms of remote gambling cross jurisdictional borders and so do not readily submit to the systems designed to regulate terrestrial gambling. International cooperation over regulation is therefore essential. The UK government has taken the initiative in working towards a political consensus internationally, but given the starkly different policies towards gambling and its regulation in jurisdictions across the world, progress is likely to be slow.

In these circumstances it is all the more important that gambling regulators who have no political axe to grind should get together internationally and share best practice in achieving the objectives which are shared worldwide and are now enshrined in British law: to keep crime out of gambling, to ensure that gambling is conducted fairly and openly, and to protect children and vulnerable adults from being harmed or exploited by gambling. I am pleased that the Commission, like the Gaming Board before it,

plays a full part in the international associations of regulators and is respected among these communities.

British gambling operators continue to enjoy a high reputation for integrity in this country and overseas. Over the past year, the industry and other interested parties have been bombarded with a series of the Commission's consultation documents setting out our proposals for the new regime and inviting responses. Coping with this exceptional workload has at times strained the resources and patience of those involved, but the process has been invaluable and will lead to better regulation.

It has been my privilege over the past nine years to work with congenial Board and staff colleagues who have brought the utmost professional diligence as well as good humour to the fulfilment of our stern statutory role. I am grateful to them all. May my successor enjoy similar fortune.

Peter Dean

Peter Dean
Chairman

July 2007



Chief Executive's Introduction



This report covers the year 1 April 2006 to 31 March 2007, a year in which we have operated primarily under the Gaming Act 1968 while preparing for the new Gambling Act 2005 which comes fully into force on 1 September 2007. It also includes significant events and activities which have occurred between the end of March and the date of publication.

Delivering our strategic objectives against the backdrop of continuing strong public interest in gambling regulation and reservations about aspects of the policy on the part of the industry has been demanding for both us and for our stakeholders. The following chapters set out what has been achieved, setting the Commission's work in the context of the industry we are charged to regulate. In particular:

- Background to the Gambling Commission
- Regulation under the 1968 Act
- Development of the Gambling Act 2005 regulatory framework
- Licensing under the Gambling Act 2005
- Remote gambling and international operators
- Commission funding and fee levels
- The Commission and its people
- 2007 and beyond

This is followed by sections on:

- Key industry statistics
- The Commission's financial statements

The Commission is still in a state of transition from one Act to another but we have made significant progress during 2006/07 and our policies and procedures are substantially in place. We are taking on a wider remit that additionally covers the regulation of betting and remote operators whilst also providing us with new, more flexible enforcement powers. We started accepting licence applications on 1 January 2007 on schedule and are on track for the 2005 Act to come fully into force in the 1 September 2007.

This has only been possible through the sustained engagement of our many stakeholders in supporting the Commission both to build up its understanding and in a heavy programme of consultation and policy

development. While there have inevitably been tensions and legitimate differences of view, for the most part we have established constructive working relations which we aim to foster. Our stakeholders' participation in the process has been matched by the energy and commitment of my Commission colleagues, over 170 of whom have joined within the reporting period.

We are now developing a new Corporate Plan to take the Commission to its next stage of activity when the 2005 Act is fully implemented in September 2007. At the same time we will continue to deepen our understanding of the gambling industry, particularly of the sectors new to us and to improve our policies and procedures in the light of experience. However, we are well placed as the result of the year's efforts to deliver our statutory objectives.

A handwritten signature in black ink, appearing to read 'Jenny Williams'.

Jenny Williams
Chief Executive

July 2007

Gambling Commission Strategic Objectives¹

Our strategic objectives are focused upon the development of new initiatives associated with the delivery of the key objectives of the Gambling Act 2005 while at the same time ensuring existing regulatory activity is maintained until the new and updated Act is fully implemented.

Strategic Objective 1 - Maintain effective regulation under pre-2005 legislation (pending the development and commencement of functions necessary to support the provisions of the Gambling Act 2005).

Strategic Objective 2 - Develop, consult upon, and implement the policies and processes to enable a robust licensing regime that supports the provisions of the Gambling Act 2005 (covering both new and existing sectors).

Strategic Objective 3 - Establish, after consultation, the policies and processes to enable effective compliance processes in accordance with the provisions of the 2005 Act (covering both new and existing sectors).

Strategic Objective 4 - Establish, after consultation, the policies and processes to enable effective enforcement processes in accordance with the provisions of the 2005 Act.

Strategic Objective 5 - Develop the Commission's knowledge and intelligence base, and advisory capacity.

Strategic Objective 6 - Develop a professional workforce able to deliver the licensing, compliance, and enforcement framework and services, and policy initiatives required.

Strategic Objective 7 - Conduct the Commission's business cost-effectively and with the minimum of regulation consistent with effective pursuit of its objectives.

¹ Gambling Commission Corporate Plan 2005-2008



Annual Report

Background

The gambling industry in Great Britain is substantial with a turnover of over £91.5 billion in 2006². Gross gambling yield (i.e. the amount retained by operators after the payment of winnings but before the deduction of the costs of the operation) was put at £9.8 billion in 2006, 2.8% lower than in 2005. Other estimates suggest that, of this £9.8 billion, one quarter was generated by the National Lottery and most of the remainder by those industries which are or will be regulated by the Commission.

The Commission's remit

The Gambling Commission came into being on 1 October 2005. As the new independent regulator for all commercial gambling in Great Britain, except the National Lottery and spread betting, the Commission took over the role previously held by the Gaming Board for Great Britain in regulating casinos, bingo clubs, gaming machines and the larger society (charitable) lotteries. In addition, from 1 September 2007 it will be responsible for regulating arcades and the regulation of betting and remote gambling.

Throughout 2006/07 the Commission has maintained a dual role of preparing for the implementation of the Gambling Act 2005 whilst also continuing regulation under the Gaming Act 1968 and related legislation.

The 2005 Act replaces three earlier Acts³ and will ensure that regulation of the modern gambling industry is fair and open. Its three core objectives are:

- to keep crime out of gambling;
- to ensure that gambling is conducted fairly and openly; and
- to protect children and other vulnerable people from being harmed or exploited by gambling.

In addition the Commission has a general responsibility for advising the Secretary of State on the incidence of gambling, the way it is carried out, its effects and its regulation.

The 2005 Act also provides for a number of changes to the way in which regulation will take place, notably:

- All businesses offering gambling in Great Britain will need to be licensed by the Commission from 1 September 2007.
- The Commission has been working with the industry and other stakeholders to develop Licence Conditions and Codes of Practice that cover every industry sector and further the three licensing objectives. The Commission has wide discretion to apply licence conditions that will operate from 1 September 2007, both generally to all holders of licences and to individual operators as well as regulating by issuing codes of practice.
- The Commission will monitor licence holders and levy fines or revoke licences as necessary, and it will have significant new legal powers to prosecute illegal gambling.
- The Commission is tasked with providing advice and issuing guidance to local government on issues related to gambling and its regulation.

When the 2005 Act is fully implemented on 1 September 2007:

- Local authorities, rather than licensing justices, will be responsible for licensing gambling premises in England and Wales.
- Some of the restraints currently applicable to commercial gambling (such as in relation to advertising) will be eased but licensed operators will be subject to a social responsibility code.

² HM Revenue and Customs Bulletins, Annual Reports of Horserace Totalisator Board, DCMS estimates based on industry trends

³ Betting, Gaming and Lotteries Act 1963, the Gaming Act 1968 and the Lotteries and Amusements Act 1976

- It has been proposed that there will be three further categories of casino – regional, large and small – defined in terms of such factors as size and number of gaming machines and minimum number of gaming tables. Initially, there would be no more than one regional, eight large and eight small casinos. Existing casinos would be able to continue to operate. However, the regulations relating to these casinos were not approved by the House of Lords and as such cannot proceed at this time. (*More information about casinos can be found on page 24 under Key Statistics*).
- There will be four categories of gaming machines, defined by different levels of stakes and prizes, with the higher the category the more limited the locations in which the machines may be sited. Category A machines for example, with unlimited stakes and prizes, will be allowed only in the proposed regional casino.
- Remote gambling (e.g. online or by mobile phone) operators will be permitted to locate in Great Britain, subject to licensing and regulation.

Problem gambling

The Commission recognises that a small minority of people gamble to excess, causing themselves and their families harm. For some of them, excessive gambling is an addiction.

A British Gambling Prevalence Study, conducted in autumn 1999 under the auspices of GamCare and with support from gambling industry bodies, found that about 0.6% to 0.8% of the population, or between 275,000 and 370,000 people aged 16 or over in Britain were problem gamblers. In absolute terms, this is a substantial number, albeit relatively low by international standards⁴.

The Commission therefore welcomes the fact that protection of children and vulnerable people from being harmed or exploited by gambling is one of the three fundamental licensing objectives in the Gambling Act 2005. This contrasts with the situation under the preceding legislation under which the Gaming Board, the Commission's predecessor, had no statutory duty in this regard although it did take a keen interest in the issue.

In pursuit of this objective the Commission has developed social responsibility licence conditions and code provisions intended to reduce the risk to children and vulnerable people of harm from gambling. This is

discussed further on pages 14/15.

A further Prevalence Study has been commissioned by the Commission to:

- measure the prevalence of participation in all forms of commercial and private gambling (including estimates of expenditure and information on venue);
- estimate the prevalence of problem gambling;
- investigate the socio-demographic factors associated with gambling and with problem gambling; and
- explore attitudes towards gambling.

This latest survey covered a random sample of people aged over 16 between September 2006 and March 2007 and achieved a sample of 9,003 - larger than the 7,680 sample in the 1999 study. The results are due for publication in September 2007.

The Commission also work closely with the Responsibility in Gambling Trust (RIGT), whose role is to raise awareness about problem gambling, commission treatment, prevention and education, and research into problem gambling for Great Britain as a whole. It is funded through voluntary contributions from the gambling industry and distributes a large proportion of its income to two further organisations:

- GamCare which offers telephone and face-to-face counselling services, with plans to develop an online counselling service.
- Gordon House, which provides residential treatment.

Rachel Lampard, Commissioner and Tom Kavanagh, the Commission's deputy Chief Executive are trustees of RIGT.

International activities

The Commission continues to maintain and develop relationships with a range of gambling bodies and regulators in other jurisdictions. Commission representatives attended a number of events with overseas regulators including the annual meeting at the International Casino Exhibition trade show in London; the Ascot International Summit on Remote Gambling in October 2006 at which a communiqué on the priorities for regulating remote gambling was agreed by a number of countries; the annual conference of the Gaming Regulators European Forum (GREF) in Rome, currently chaired by the Commission's deputy Chief Executive; and the annual conference of the International Association of Gaming Attorneys (IAGA) and Regulators (IAGR) in Barcelona. Commission staff also hosted a number of visits from overseas regulators.

⁴ British Gambling Prevalence Study 1999

Highlights of 2006/07

- Secured continuing compliance under the 1968 Act with 2293 inspections, 71 investigations and 28 licence revocations together with a number of joint exercises with the police and local authorities combating the supply and use of illegal gaming machines.
- Successful introduction of online lottery returns.
- Appointment of two new Commissioners with particular expertise in the field of social responsibility.
- Determination of the majority of new policies which will apply when the Gambling Act 2005 comes into full force on 1 September 2007 following extensive consultation. 46 issues papers, consultation and responses documents were published during the year.
- 2,357 operating licence applications received before the 27 April 2007 deadline for guaranteed continuation rights, covering the vast majority of those entitled to continuation rights.
- Over 170 staff recruited including a number with gambling industry experience.
- A successful move to purpose-designed energy efficient offices in Birmingham from the London premises where the Commission and its predecessor, the Gaming Board, had been based for more than 35 years.
- Completion of fieldwork and research into first National Prevalence Study by the end of 2006.



Regulation under the 1968 Act

Throughout 2006/07 both the licensing staff and the Inspectorate have managed the balance between continued regulation under the 1968 Act and related legislation whilst preparing for the new regime. The retention of Inspectors from the Gaming Board, together with key individuals from the London secretariat, has ensured that important relationships are maintained and that expertise and experience have remained in the Commission. The home based Inspectorate has undergone a major reorganisation in preparation for the full implementation of the Gambling Act 2005 and from 1 April 2007 has been absorbed into the Compliance function. National compliance managers for each sector have been appointed to manage the relationship between the Commission and the major licensees. Regional compliance managers have been appointed to the six geographical regions to coordinate the work of local staff and provide a point of contact for the larger regional operators, and it is planned to double the number of local compliance staff to deal with the Commission's new responsibilities.

Further details of the work of the licensing staff and the Inspectorate in relation to the 1968 Act are given in the gambling industry sections below, but a considerable proportion of their time has inevitably been spent in preparation for the implementation of the Gambling Act 2005 and in advising operators on its implications. Nonetheless, 3,322 1968 Act section 19 Certificates of Approval were issued, and 69 casino Certificates of Consent and 36 Certificates of Continuance were determined during the year. Also 28 section 19 certificates of approval were revoked. In addition an inspection programme was maintained and a number of investigations, some jointly with the police and local authorities were successfully conducted. The rush of applications for casino Certificates of Consent made before the 28 April 2006 closing date produced a significant extra workload. However, although it was therefore not possible to meet normal targets for many of these applications, in many cases the applicants themselves were in no

hurry to proceed and by 31 March 2007 there were 41 applications for casino certificates of consent still outstanding, 23 of which were for certificates of continuance.

Poker

During the year there has been a continued increase in the popularity of poker being played in alcohol licensed premises. In view of this in June 2006 the Commission replaced the memorandum on non machine gaming in alcohol licensed premises with new guidance on gaming in alcohol licensed premises. This advice covers 'pub poker leagues' and tournaments played in poker club arrangements.

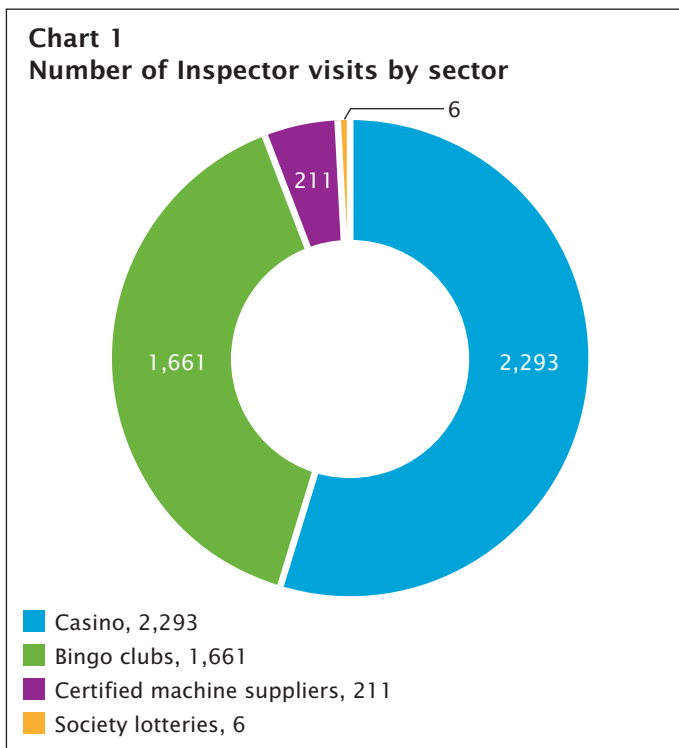
Advertising

Following concerns that many advertisements for overseas internet gaming sites were illegal, in March 2006 the Commission and the Department of Culture, Media and Sport (DCMS) issued joint Guidance on Advertising by Remote Gambling Operators. This appears to have been effective in reducing the number of unsuitable advertisements.

In addition the Committee of Advertising Practice (CAP) and the Broadcast Committee of Advertising Practice (BCAP) published rules on advertising for the gambling industry in March 2007 which will come in to force on 1 September 2007,

Inspection visits

The Inspectors made 2,293 inspections/visits to casino premises and 1,661 to bingo clubs during the year. In addition 211 certified machine suppliers were visited and six lottery inspections were carried out.



Employee certification

The following table gives details of the numbers of applications for certificates of approval processed between 1 April 2006 and 31 March 2007.

Applications for certificates of approval 2002/03 to 2006/07		
	Number of applications dealt with	Number of certificates issued
01/04/06 to 31/03/07	3,490	3,381
01/04/05 to 31/03/06	3,481	3,159
01/04/04 to 31/03/05	4,276	3,736
01/04/03 to 31/03/04	4,206	3,671
01/04/02 to 31/03/03	3,113	2,771

The Commission continued to act decisively where gaming staff acted improperly, dealing on average with around three or four such cases per month. These cases, listed below, mainly involving junior staff in casinos normally come to light as a part of the operator's own compliance and security controls.

Working closely with operators on such cases the Commission's Inspectors were involved in 71 formal investigations during 2006/07, 28 of which resulted in revocations of certificates of approval.

Reasons for revocations of certificates: 1 April 2006 - 31 March 2007 (previous years figures in brackets)		
	Certificate holders	
Theft from employers/falsifying records/misappropriating company funds	11	(8)
Socialising	-	(4)
Incurring convictions after the issue of a section 19 certificate (excluding drug-related convictions)	2	(3)
Theft from colleague/casino member	1	(2)
Collusion with players	2	(1)
Failing to declare convictions in breach of s.23 (6) of the Gaming Act	-	(1)
Breaches of the Gaming Act or other relevant legislation/guidelines	-	(1)
Visiting and gaming in another casino	2	(1)
Involvement with drugs (including drug related convictions)	4	(1)
Accepting gratuities	-	(1)
Others	6	(3)
Total	28	(26)

Largely as a result of the decision to request standard rather than enhanced Criminal Records Bureau (CRB) checks for the majority of applicants, staff were able to substantially improve the turnaround time for applications for section 19 Certificates of Approval.

Enquiries and complaints

In total 19,546 enquiries were received by the licensing team of which 99% were dealt with within 3 days. During the year 2006/07 only 5% concerned the 2005 Act but, for the period of 26 March to 25 April 2007, as the deadline for guaranteed continuation rights approached (27 April) the number of enquiries escalated to 4,100 in April.

Complaints received from members of the public, players and certified staff in respect of gaming licensed premises and other gaming activities, both lawful and unlawful, resulted in an average of 21 complaint cases each month under the 1968 legislation.



Development of regulatory framework

The development of policy and operational framework needed for the 2005 Act has required a programme of consultation with trade bodies, local authorities, faith groups, charities concerned with problem gambling and other stakeholders as well as with the sponsor department DCMS, often involving vigorous debate and differences of opinion. Regular meetings were held, ranging from one to one discussions with key stakeholders to workshops with a cross sector range of participants and, despite differences of opinion,

constructive relationships have been established. In addition to meetings a range of mechanisms were used including our website, a fortnightly e-bulletin, leaflets and industry specific briefings to explain our new role and the growing programme of activity.

In total 46 issues papers, consultation and response documents were produced by the Commission between the end of March 2006 and the beginning of June 2007. The final versions of the Compliance and

Key policy documents produced during 2006/07

Guidance to Licensing Authorities, to help licensing authorities to exercise their functions correctly. Part 1 published 28 April 2006, Part 2 published 18 May 2007

Fees Paper, a joint consultation with DCMS that set the proposals for the Commission's fee levels to apply from 1 January 2007. Published 24 July 2006

Licensing, which set out the arrangements for issuing the various licences and was the first element of the proposals for the Commission's licensing, compliance and enforcement activities. Published 13 October 2006

Licence Conditions and Codes of Practice, which all operators in the gambling industry must follow from 1 September 2007. An initial document was published in November 2006 with a further version available from 1 June 2007

Statement of Principles, sets out the principles that the Gambling Commission will apply when exercising its functions under the Gambling Act 2005. Published 29 December 2006

Financial requirements, which set out the financial requirements and conditions on gambling operators and personal licence holders. Published 30 December 2006

Advertising and Responsible Gambling, which looked at how gambling advertising could promote responsible gambling. Published 23 January 2007.

Remote and Gaming Machine Technical Standards, which set out the technical standards required for remote systems and gaming machines. Published 1 June 2007

All our consultation and policy documents are available on our website at www.gamblingcommission.gov.uk under Policy and Consultation.

Enforcement policy statement and Statement on Financial Penalties, following consultation, are at a late stage in development and will be published in early summer of 2007.

The Commission also recognises the need for collaboration with bodies outside the gambling industry such as the police, HM Revenue and Customs, the Serious Organised Crime Agency (SOCA) and local authorities primarily via the Local Authorities Coordinators of Regulatory Services (LACORS). Working relationships and partnership agreements are being established and maintained with such organisations. During the year the Commission gave 17 talks to the police, seven to magistrates, eight talks to Local Authorities' representative groups in England and Scotland as well as 20 talks to the Institute of Licensing.

forms are daunting for some applicants and need further refinement. The application forms will be reviewed during the next year, again in consultation with the industry.

In addition stakeholders have been widely consulted on the development of the Commission's licensing processes. As a result the contact process has already been enhanced and the speed and quality of the service improved. The targets now set for licensing are more challenging and it is planned that 80% of operating licence applications will be decided within six weeks of receipt.

Licensing under the 2005 Act

Licensing is the first stage of the new regulatory process for the gambling industry and so the licensing team is the first point of contact with the Commission for many operators.

The new licensing process began in January 2007 and involves processing some 2,500 operating licences applications and between 8,000 to 10,000 personal licence applications for the commencement of the new regime from 1 September 2007. Existing operators who need a 2005 Act licence and who applied by 27 April 2007 will be able to continue to operate after 1 September even if the application has not been determined.

New licensing process application forms were extensively trialled with the industry before they went live on 2 January 2007. A wide ranging campaign was developed with the industry to publicise the application deadline for guaranteed continuation rights for operating licences (27 April 2007). This included licensing staff taking part in meetings and surgeries for potential applicants, giving media interviews and distributing sector specific leaflets, press articles, newsletters and letters sent via trade associations to their members. As a result 2,357 gambling operators, the vast majority of those expected, applied for their new operating licences before the deadline of 27 April 2007.

It was a demanding exercise involving new processes, systems, IT, staff, types of operator and requirements laid on the licensees. This required a major team effort from within the Commission to ensure people apply for the correct licences. It is clear that despite extensive trialling and consultation the application

Remote gambling and international operators

Under the current legislation, it is illegal to carry on a remote gaming operation (as opposed to remote betting) in Great Britain. From September 2007, remote gaming operators (including operators of bingo, poker and casino sites) will be able to operate from Great Britain provided they obtain a remote operating licence. The Commission is already accepting such applications, but this does not mean that the Commission will regulate the majority of remote sites that are accessible to British citizens. Some operators will run their non remote operations in Great Britain under a Commission licence, but their remote operations will be located overseas and will not be regulated by the Commission.

For fiscal and other operational reasons many operators have chosen to remain in their current off shore jurisdictions where they will be regulated in that location. Where those jurisdictions are in the European Community (which, for this purpose, includes Gibraltar) or where the jurisdiction has successfully applied to the Secretary of State (DCMS) for approval (White Listing), the operators will be able to advertise in Great Britain. The Commission has provided technical advice to the DCMS on the (White Listing) process.



Commission funding and fee levels

The operating and capital costs of the Commission's activities for 2006/07 were largely funded by capital grant and grant-in-aid from DCMS as set out in the Commission's funding agreement which covers the period 1 April 2005 to 31 March 2008. This funding was designed to cover the operational costs associated with establishing and running the Commission in 2006/07 and included the costs associated with the transition of the Gaming Board to the Gambling Commission, including relocation to new accommodation in Birmingham and the installation of new IT systems. For 2006/07 total operational costs of £14.4 million were incurred. In December 2006 the Department asked the Commission to reduce its expenditure plans for the financial year by £1.7million as a part of the Department's management of its overall financial position. The Commission reviewed its position and was able to deliver a revised, balanced budget for the remainder of the year by deferring planned staff recruitment until 2007/08. The impact of this delay is being managed so as to minimise the impact on operational delivery. A small element of activity in the year, relating to the processing of licence applications under the new 2005 Act, was funded by licence fees received before 31 March 2007.

Other than for residual activities under the 1968 Act, from 1 April 2007, the Commission is required to fully cover its expenditure on its operational activities, including enforcement activity, through licence fees charged under the 2005 Act. The fees are set out in Appendix 3. During the year, the new fee regime necessary to support the Commission's work was subject to a joint consultation exercise with DCMS prior to the issue of the fees order by the Secretary of State. As a result of that consultation significant changes were made particularly in relation to fees for smaller betting operators. Further changes are being made to the annual fees payable by lottery operators and certain other categories in the light of the additional work and consultation with the industry in recent months. Grant-in-aid from DCMS will continue to be provided in respect of research studies undertaken or commissioned by the Commission. These include studies on the prevalence of gambling and the collection and monitoring of information to enable the Commission to provide advice to the government and to measure its effectiveness in meeting its licensing objectives.

The Commission and its people

Employees

Over 170 new employees have been recruited during the year with a wide range of experience and expertise to deliver the new extended regulatory regime. This has been a considerable exercise involving recruitment, induction and on-going training. There have, inevitably, been challenges in such an extensive programme, particularly concerning the recruitment of some key positions. The Commission revised its recruitment processes during the year, and is now working with Birmingham's Eastside City Jobs Partnership to target the local community for elements of its recruitment.

Ex-Gaming Board personnel, including the home based Inspectors, who stayed with the Commission following the move to Birmingham, have played a key role in providing continuity.

Newly recruited staff are put through induction programmes and both new and existing staff are trained in the Commission's processes and the new legislation. Teams have been developed and inter-directorate team building promoted across the organisation through events such as an outward bound course and an Employee Conference. For the future the focus will be on raising diversity awareness, working towards achieving the Investors in People Award and developing leadership programmes. *(Employee statistics are included at Appendix 2, page 64).*

Location and offices

In July 2006 the Commission moved from central London to Birmingham to a new, energy efficient city centre office. The site is cost efficient in terms of layout and overheads compared with the previous London base and the central Birmingham location means that the offices are easily accessed by staff and visitors using public transport. The opening was attended by the Minister for Sport, Richard Caborn, and the Lord Mayor of Birmingham, Councillor Mike Sharpe.

Technology

The Commission, working with external partners, has put in place a new IT infrastructure, including efficient systems to facilitate home working. The Commission's original plans to move straight to fully integrated systems with minimal use of paper proved over optimistic and have been delayed. However, this risk was identified in good time and the basic infrastructure together with contingency planning procedures secured the arrangements for licensing the existing industry - albeit with more staff than originally planned. There are still significant issues to be resolved and future IT requirements are being reviewed. More integrated systems will be developed over the coming year as part of the drive to ensure cost-effective, risk-based regulation. The priorities for IT delivery have been kept under review to ensure that the most effective and economic use of the new systems is made as they become available.

Commissioners

Details of the Commissioners, who are appointed by the Secretary of State for Culture, Media and Sport and include the Commission's Chief Executive, are given at Appendix 1, page 63 of this Report. Recruitment is now underway for a new Chairman and one new Commissioner. The former will succeed Peter Dean whose second term was extended to December 2007 to see the new Commission through its transition period and the latter will take over from Michael Steen as chair of the Audit Committee. Mr Steen's second term was similarly extended to the end of August 2007. Commissioners are responsible for the strategic direction of the Commission and for the performance of the executive. They also determine some licence applications and revocations.

The Board meets each month, except August, with minutes and attendance published on the Commission's website. The terms of reference for the Board are also available on the website. In addition to

the Commissioners, Board meetings are regularly attended by senior executives from the Commission.

As a matter of routine, agendas for these meetings cover:

- approval of the Commission’s policies and procedures;
- receiving reports from the Chief Executive;
- receiving reports concerning the financial position of the Commission, and operational performance;
- approval of the annual budget and corporate and business plans;
- receiving and approving the annual report and accounts; and
- reviewing the corporate risk register and risk policy and procedure.

In addition, the Board monitors and receives regular reports from its committees. The current committees of the Board are the Audit Committee, the Remuneration Committee and the Regulatory Panel. During the year the Board also continued to monitor and control the transition project through a Project Management Group.

During the year the emphasis of the business of the Board has been on:

- The approval of the policies and procedures of the Commission, pursuant to the requirements of the Gambling Act 2005.
- Monitoring the progress of the transition project, ensuring that key risks are identified, managed and where necessary appropriate contingency plans are in place.
- Monitoring the implementation and operation of internal control procedures, and where necessary, implementation of improvement actions.
- Developing strategy and business plans in anticipation of completion of the full implementation of the Gambling Act 2005 from 1 September 2007.
- Effective communication to stakeholders.

Attendance at the 11 Board meetings in 2006/07 was as follows:

	Number of times
Peter Dean (Chairman)	11
Gill Milburn	11
Michael Steen	11
Jenny Williams	11
Ben Gunn	10
Roy Penrose	10
Eve Salomon	10
Bill Knight	9
Rachel Lampard	8 (there were three meetings prior to appointment)
Andrew McIntosh	5 (there were three meetings prior to appointment)

Audit Committee

The Audit Committee has been established to support the Board of Commissioners and the Accounting Officer, in their responsibilities for issues of:

- control and governance;
- risk management; and
- associated assurance.

The Committee comprises Michael Steen as Chair, Bill Knight, Andrew McIntosh and Gill Milburn.

In exercising its responsibilities the Committee advises the Board and Chief Executive on:

- the reports it has received on the strategic framework and processes for the control and governance and the management of risk;
- the accounts, the accounting policies and other accounting information, the Statement of Internal Control, and the assurances relating to corporate governance contained in the annual report;
- the planned activity and results of both internal and external audit, including the quality of service;
- the adequacy of management response to issues identified by audit activity, including the external auditor’s management letter and reports prepared by internal audit;

- the proposals for the tendering of internal audit services, or for the purchase of non – audit services from organisations that provide audit services, where appropriate;
- the arrangements by which the Commission’s employees may, in confidence, raise concerns about possible improprieties; and
- any other matters at the request of the Board of Commissioners.

During the year the Committee oversaw the process for the appointment of RSM Robson Rhodes as internal auditors and approved their appointment on 26 October 2006. Subsequent to this appointment, the Committee approved an accelerated audit plan utilising 46 days, covering agreed risk areas, in order to provide assurances prior to the end of the year.

The Committee received and reviewed all the internal audit reports together with the recommendations arising, and monitored the implementation of the agreed actions.

In particular, the Committee noted that in certain areas key controls were not operating as they should be and monitored the response from management to ensure that these weaknesses were rectified by the end of the year. This situation has been reported in the Chief Executive’s annual statement of internal control, which the Committee has reviewed as part of the review of the annual report and accounts.

In addition to the above, and of particular note during the year, the Committee has:

- reviewed and received assurances from management on the Commission’s anti fraud and corruption policy and procedures;
- ensured the co-ordination of the planned activities of both internal and external audit; and
- received reports from management regarding the key corporate risks and associated mitigation actions and contingency plans.

In reviewing its own performance the Committee has agreed a number of proposals for improvement, which it will monitor in the coming year.

The Committee met six times during 2006/07, and attendance was as follows:

	Number of times
Michael Steen (chair)	6
Gill Milburn	6
Bill Knight	6
Andrew McIntosh	4 (there were two meetings prior to Andrew McIntosh’s appointment)

Remuneration Committee

The Remuneration Committee has been established to support the Board and the Accounting Officer, in their responsibilities for:

- confirming a strategic direction for remuneration policies and systems, and other significant terms and conditions of employment;
- reviewing the performance, and remuneration of the Chief Executive;
- reviewing the remuneration proposed for the senior management team;
- reviewing the annual remuneration report; and
- recruitment (as required) of the Chief Executive.

The Committee comprises Bill Knight as Chair, Ben Gunn, Rachel Lampard and Eve Salomon.

In exercising its responsibilities the Committee has regard to the following considerations:

- The need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities.
- The need to set challenging performance objectives.
- The need to achieve value for money whilst supporting the Commission’s corporate and business planning objectives.
- The funds available to meet on-going commitments.

During the year, and of particular note, the Committee:

- considered and agreed revisions to the Commission’s pay arrangements and the plan to implement performance related pay;

- reviewed the process for the setting of the Chief Executive's and Directors' pay, and agreed the pay levels determined accordingly; and
- considered and agreed revisions to the Commission's arrangements for probationary periods and notice periods.

As part of the above the Committee has reviewed and agreed the Chief Executive's annual Remuneration Report within the Annual Report and Accounts.

The Committee met three times during 2006/07, and attendance was as follows:

	Number of times
Bill Knight (chair)	3
Ben Gunn	3
Eve Salomon	2
Rachel Lampard	1 (there was one meeting prior to Rachel Lampard's appointment)

Project Management Group

In addition to the above, the Board has also established a Project Management Group (PMG), the purpose of which is to provide assurances to all stakeholders and to the Board of Commissioners over the conduct, resources and delivery of the transition project. The aim of this project is to successfully manage the transition of the Gaming Board for Great Britain to the Gambling Commission.

The PMG meets monthly and reports formally to each Board meeting on the identification and management of the risks associated with the creation and establishment of the new Gambling Commission.

This PMG is a joint Commissioner and executive management group, also drawing in DCMS and advisory representatives. Membership is as follows:

Jenny Williams (Chief Executive, Chair)

Eve Salomon (Commissioner)

Ben Gunn (Commissioner)

Phill Brear (Director of Operations)

Bill Butler (Director of Corporate Services)

Andy McLellan (DCMS) - replaced by Matthew Hill on 1 November 2006

Cath Hardaker (PKF – external adviser)

Eve Brown (PKF – external adviser)

Through a risk management approach, the PMG has played a key role in ensuring that the strategic objectives of the Commission, as they relate to the transition, are being achieved.

Transition Executive Group

Day to day executive management of the Commission is delivered through a Transition Executive Group (TEG) chaired by the Chief Executive. The Chief Executive reports progress on performance and any issues to the Board each month. Members of the TEG are:

Jenny Williams (Chief Executive, Chair)

Phill Brear (Director of Operations)

Beryl Brown (Director of Policy and Communications)

Bill Butler (Director of Corporate Services)

Hazel Canter (Director of Licensing and Compliance)

Justine Kenny (Director of Human Resources)

Andrew Lyman (Director of Monitoring and Enforcement)

Neil McArthur (Commission Legal Adviser)

Julia Mackisack (Director of Communications)

Andy Rennison (Director of Intelligence)



2007 and beyond...

- Final guidance and advice on how the Gambling Act 2005 will be applied from 1 September 2007 will be published following further consultation with the industry.
- The Gambling Act 2005 comes fully into force on 1 September 2007. From that date the Commission:
 - takes on responsibility for regulating arcades as well as the regulation of remote gambling and the betting industry; and
 - will take up significant new legal powers to prosecute illegal gambling.
- A new corporate plan is being developed for September 2007.
- The Licence Conditions and Codes of Practice, published at the beginning of June 2007, come into effect on 1 September 2007.
- The findings of the latest Prevalence Study to measure the nature and scope of gambling in Great Britain will be published.
- The Commission will cover expenditure on its operational activities, including enforcement activity, through fees charged under the Gambling Act 2005.
- The Commission is working towards the Investors in People Award.

The gambling industry 2006/07

Some key statistics at a glance

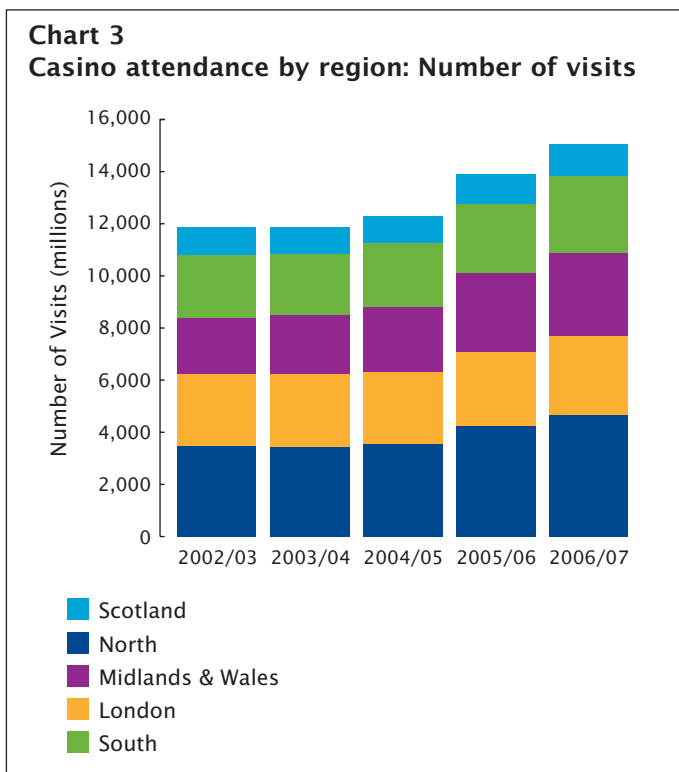
Chart 2		
Casinos:	Number operating	138
	Drop (money exchanged for gaming chips)	£4,314 million
	Duty paid*	£143 million
Bingo clubs:	Number operating	634
	Money staked*	£1,820 million
	Duty paid*	£79.6 million
Gaming machines:	Number of machines**	234,000
	Number certificated to sell, supply or maintain machines	599
	Duty paid*	£208 million
Charity lotteries:	Number of registered societies	651
Gambling Commission:	Cost of Transition to 2005 Act	£11.9 million
	Cost of 1968 Act activity	£2.5 million
	Number of staff	218

* Provisional figures. Confirmation of 2006/07 figures will be available later in 2007.

** BACTA estimations (see page 29).

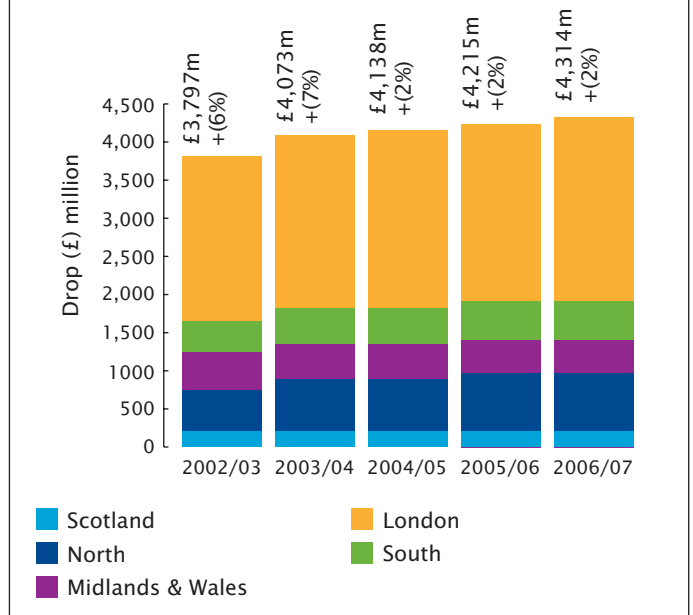
Casinos

There were 138 licensed operating casinos in Great Britain at 31 March 2007 (this figure includes one long established 'card club' in Kent), the same number as at 31 March 2006. A further 40 casinos are licensed but not yet open and it is expected that, of these 40, some will replace casinos currently operating.



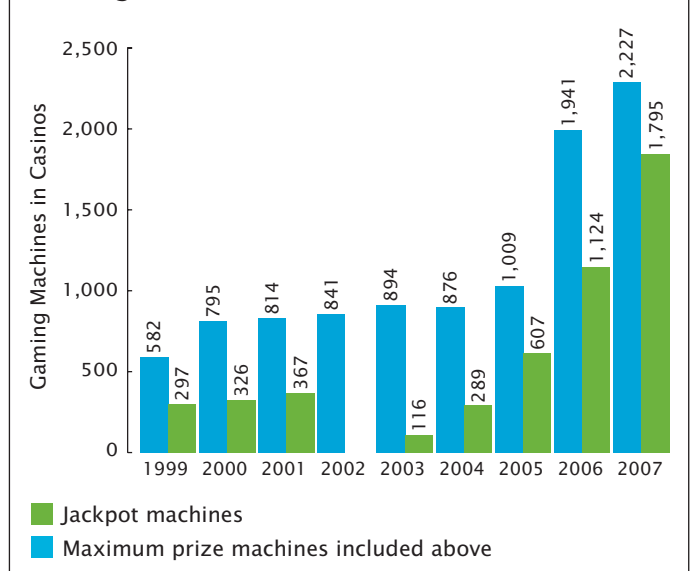
There were over 15 million visits to casinos in Great Britain in 2006/07, an increase of 8% over 2005/06 (see chart 3).

Chart 4
Total Drop by year & region



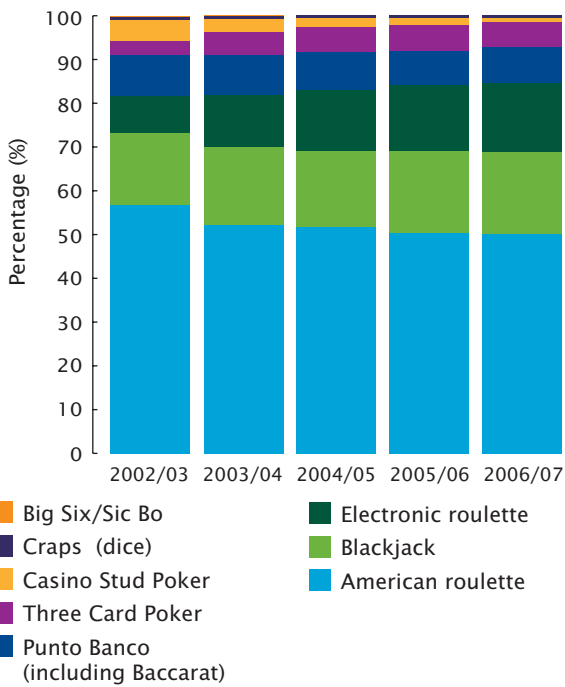
The total drop (money exchanged for gaming chips) in casinos in Great Britain during the financial year 2006/07 was £4,314 million, an increase of £99 million on the 2005/06 figure. The totals for the last five years are set out above (see chart 4). These figures exclude income from gaming machines. Chart 5 shows an increase of 15% in the number of gaming machines in casinos in Great Britain in the last 12 months.

Chart 5⁵
Gaming Machines in Casinos



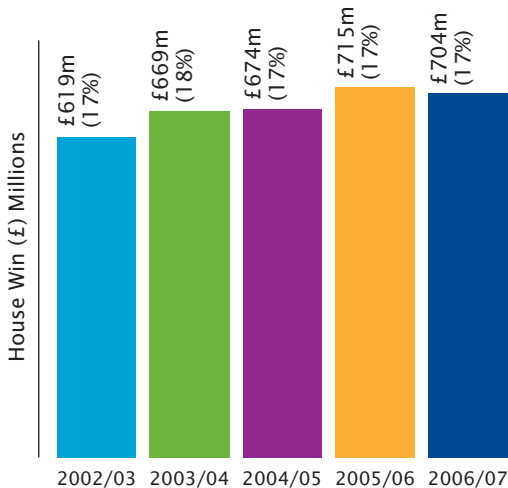
⁵ Compliance survey completed in April 2007 for gaming machines as at 31 March 2007

Chart 6
Percentage distribution of drop by games



The above graph sets out the percentage distribution of drop by games and shows that American roulette continues to be the most popular game, followed by blackjack and electronic roulette.

Chart 7
House win (overall percentage of drop in brackets)



Note: Figures are rounded to the nearest £1 million, and percentage figures to the nearest whole percentage.

The house win chart (chart 7) shows that the overall house win amount has dropped £11 million to £704 million in 2006/07.

Charts below show the results of consent applications made to the Commission during the period 1 April 2006 to 31 March 2007.

Chart 8

New certificates of consent	England and Wales	Scotland	Total
Applications outstanding on 31 March 2006	25	2	27
New applications received in 2006/07	54	4	58
Total	79	6	85
Certificates issued	45	5	50
Applications withdrawn	15	-	15
Applications refused	-	-	-
Applications not determined by 31 March 2007	19	1	20
Total	79	6	85

90 applicants have been issued with a certificate of consent or the application has been determined and awaits formal issue, of which 50 are new certificates of consent, four transfers of licence and 36 continuance certificates. 43 applications are outstanding or the case is awaiting determination. 15 applications for new certificates of consent have been withdrawn.

Chart 9

Certificates of consent to transfer a licence	England and Wales	Scotland	Total
Applications outstanding on 31 March 2006	3	-	3
New applications received in 2006/07	1	-	1
Total	4	-	4
Certificates issued	4	-	4
Applications withdrawn	-	-	-
Applications refused	-	-	-
Applications not determined by 31 March 2007	-	-	-
Total	4	-	4

Chart 10

Continuance of certificates of consent	England and Wales	Scotland	Total
Applications outstanding on 31 March 2006	28	7	35
New applications received in 2006/07	23	1	24
Total	51	8	59
Certificates issued	29	7	36
Applications withdrawn	-	-	-
Applications refused	-	-	-
Applications not determined by 31 March 2007	22	1	23
Total	51	8	59

Structure of the industry

Three major changes of casino ownership took place during the year:

- The Genting Group, based in Malaysia, took complete control of Stanley Leisure and now operates 45 casinos under our jurisdiction.
- Harrah's Entertainment Inc, a company incorporated in the United States, purchased London Clubs International Ltd and now operate seven casinos and holds a further five licences.

- BIL Gaming, a wholly owned subsidiary of BIL International based in Singapore, is another recent entrant to Great Britain. This Company has been granted a total of 25 certificates of consent over the last two years and has so far obtained two gaming licences for their hotel based operation, in addition to operating the Clermont Club in London.

Chart 11 shown opposite shows the structure of casino ownership in Great Britain.

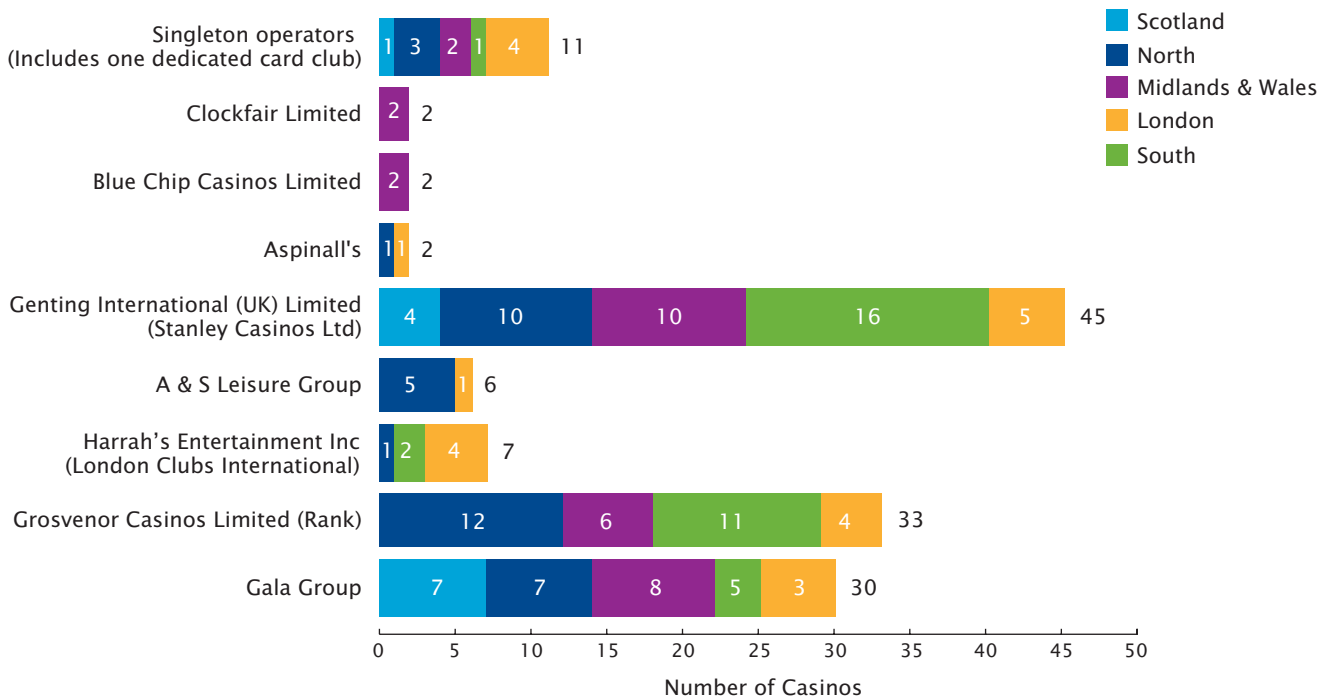
Regional casino and other new casinos

There has been a great deal of publicity around the Casino Advisory Panel's decision to recommend Manchester as the site of the regional casino and the sites of the further 16 other new casinos (which would be larger than most current casinos). The Commission is not concerned with the siting of casinos, purely with their regulation. However, the regulations relating to the areas where the casinos are to be located were not approved by the House of Lords and as such cannot proceed. At the time of publication the government has not returned to Parliament on this issue.

New casino games

The Commission has agreed to the trialling of a number of new games and side bets in casinos from 1 September 2007. The games to be trialled are Pai Gow Poker, Let it Ride Poker and four versions of Texas Hold'Em Poker, each of which include side bets. A further six side bets will be trialled for existing games, three variants in Blackjack and one each relating to Casino Stud Poker, Roulette and Punto Banco. The trials will run initially for six months although the games and side bets will then remain available, if operators wish, until a final decision has been reached on formal approval. *The number of casinos by permitted area are shown at Appendix 4.*

Chart 11
Structure of casino ownership



Bingo

The number of bingo clubs holding the Commission's certificate of consent at 31 March 2007 was 647, with 634 actually operating. At 31 March 2006, 679 were holding certificates of consent and 657 were operating. This continues the long term steady downward trend in the number of clubs balanced to a certain degree by the opening of larger and more modern clubs.

Chart 12 shows that the amount staked on bingo (based on provisional figures) has decreased by 0.3%. This excludes income from gaming machines.

Chart 12

Amount staked on licensed bingo by year

	Amount staked in £million	Percentage change from previous year
April 2002 to March 2003	1,227	5.1%
April 2003 to March 2004	1,445*	17.8%*
April 2004 to March 2005	1,783	23.4%*
April 2005 to March 2006	1,826	2.4%
April 2006 to March 2007	1,820**	(0.3%)

*Source: HM Revenue and Customs. As a result of a change in the method of calculating bingo duty announced in the Budget 2003 and implemented later that year, the figures for the amounts staked from then onwards are on a somewhat different basis to earlier years. The main difference is that figures for November 2003 and later include participation fees.

**Provisional figures. Confirmation of 2006/07 figures will be available later in the year and will be published on our website.

The number of gaming machines is set out in Chart 13 below.

Chart 13

Number of Gaming Machines as at 31 March 2007 ⁶	
Number of section 31 Jackpot Machines (£250 payout)	510
Number of section 31 Jackpot Machines (£500 payout)	1,273
Number of section 34 machines under a section 32 direction	16,263
Total number of automated section 21 terminals	2,668
Total	20,714

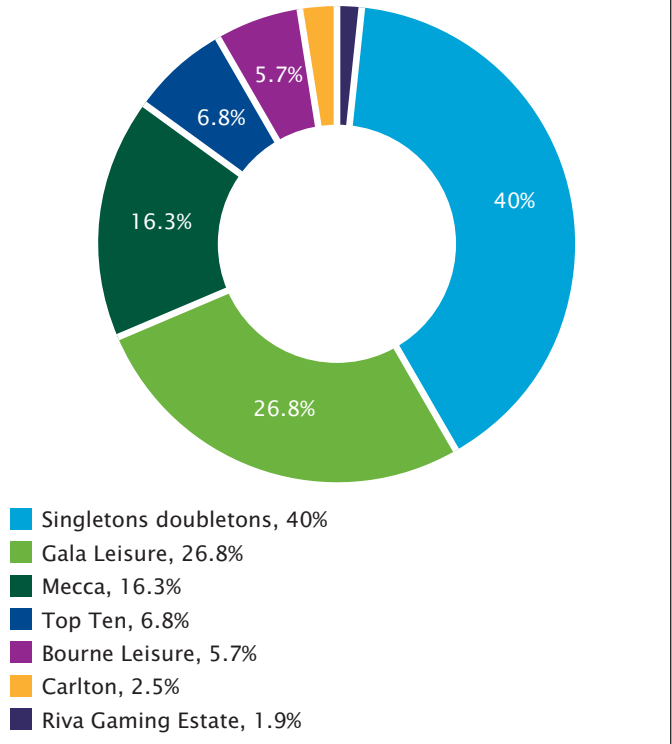
Structure of the industry

The major owners continue to be Gala Leisure with 170 operating clubs and Mecca with 103 operating clubs. Other multiple site operators include Top Ten Bingo with 43 operating clubs, Bourne Leisure with 36 and Carlton with 16 operating clubs.

The major change in ownership over the last 12 months has been the emergence of Riva Gaming (12 bingo clubs) incorporating Mayfair Bingo Clubs and Beacon Bingo Clubs. Both trade under the name Riva Bingo.

The trend of private investment companies buying into bingo operations has continued, with the latest instance of this being Hermes Private Equity acquisition of the Riva Gaming Estate in April 2006.

Chart 14
Bingo ownership



Number of certificates of consent and licence applications

The following charts show the results of consent applications made to the Commission during the period 1 April 2006 to 31 March 2007 and the number and outcome of licence applications.

Chart 15

New certificates of consent	England and Wales	Scotland	Total
Applications outstanding on 31 March 2006	4	-	4
New applications received in 2006/07	10	1	11
Total	14	1	15
Certificates issued	8	1	9
Applications withdrawn	3	-	3
Applications refused	-	-	-
Applications not determined by 31 March 2007	3	-	3
Total	14	1	15

⁶ GC Compliance Survey completed in April 2007 for gaming machines as at 31 March 2007

Chart 16

New Licences	England and Wales	Scotland	Total
Applications outstanding on 31 March 2006	1	-	1
New applications received in 2006/07	9	1	10
Total	10	1	11
Licences issued	7	1	8
Applications withdrawn	1	-	1
Applications refused	-	-	-
Applications not determined by 31 March 2007	2	-	2
Total	10	1	11

Chart 17

Certificates of consent to transfer a licence	England and Wales	Scotland	Total
Applications outstanding on 31 March 2006	1	-	1
New applications received in 2006/07	5	1	6
Total	6	1	7
Certificates issued	5	1	6
Applications withdrawn	1	-	1
Applications refused	-	-	-
Applications not determined by 31 March 2007	-	-	-
Total	6	1	7

Chart 18

Transfer of licences	England and Wales	Scotland	Total
Applications outstanding on 31 March 2006	2	-	2
New applications received in 2006/07	7	1	8
Total	9	1	10
Licences issued	7	1	8
Applications withdrawn	-	-	-
Applications refused	-	-	-
Applications not determined by 31 March 2007	2	-	2
Total	9	1	10

Electronic bingo terminals

Electronic bingo terminals (EBT) continue to be introduced by bingo operators and many clubs now offer these terminals in addition to normal paper tickets. The Commission has approved a number of EBT variants both in hard wired and hand held radio frequency forms.

Impact of the smoking ban in Scotland (and potential impact in England and Wales)

The smoking ban came into effect in Scotland in April 2006. Scottish operators have reported significant losses in revenue for the first six months of trading since the introduction of the smoking ban⁷. A number of operators in Scotland have already ceased trading and the Bingo Association predicts that this trend is likely to follow across England (from 1 July 2007) and Wales (from 1 April 2007) once the smoking ban comes into full effect.

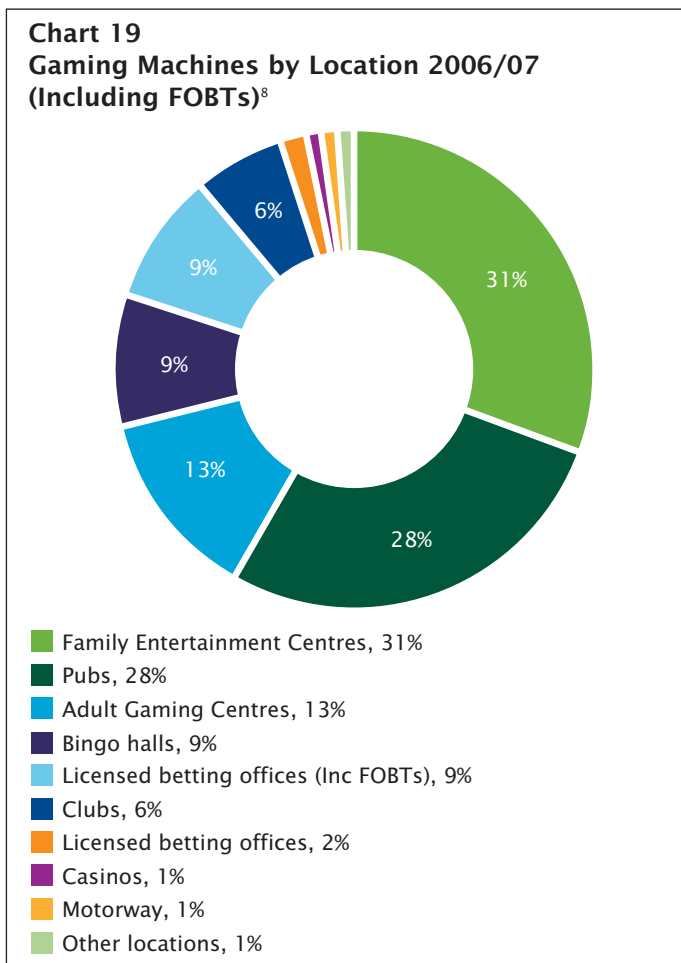
Gaming machines

The British Amusement Catering Trade Association (BACTA) estimates that there were approximately 234,000 gaming machines in the UK in 2006. These consisted of around 177,000 AWP (amusements with prizes) machines, whether all cash or cash/token machines, 17,500 section 16 & section 21 machines, 21,500 club or jackpot machines and 18,000 pinball, pusher and crane grab machines. In addition there were 24,500 Fixed Odd Betting Terminals (FOBTs)

⁷ Rank Group plc annual review and summary of financial statements 2006

located in Licensed Betting Offices (LBOs). An estimate of the distribution of these machines by location is provided below.

When the Gambling Act 2005 is fully implemented the Commission will receive regulatory returns that will enable the provision of our own figures on the number of gaming machines available.



Gaming machines in other commercial premises

Fruit machines are available in certain premises such as take-away food shops, minicab and taxi offices. Under the Gambling Act 2005 gaming machines will no longer be permitted in these premises. As a result over 6,000 fruit machines are now being phased out, once their current three year permit expires.

⁸ Compliance survey completed in 2007 for gaming machines as at 31 March 2007

New technical standards and testing regime

From 1 September 2007 gaming machines will be required to meet relevant aspects of both DCMS regulations (section 240 and other relevant regulations) and the Commission’s technical standards. Depending on the category of machine, machines may need to be tested to ensure they comply with the Commission’s technical standards by a testing house approved by the Commission and, which has been accredited by UKAS or an equivalent international organisation for BS EN ISO 17025 (General requirements for the competence of testing and calibration laboratories).

Permits

In the past year the Commission has issued 62 permits under sub-sections 27(1) and 27(5) of the 1968 Act. It is Commission policy to issue such permits, free of charge, to allow for ‘one off’ isolated transactions involving the disposal of gaming machines by persons not normally in the trade. It is not intended that these permits should be issued on a regular or continuing basis to a person or business involved in the frequent sale, supply or maintenance of gaming machines. This will continue under the Gambling Act 2005 section 250.

Applications for certificates under section 27

The number of new applications under section 27 of the Gaming Act 1968 to sell, supply and/or maintain gaming machines received during 2006/07, and their outcome, are shown in Chart 20.

Chart 20

New applications for section 27 certificates 2006/07			
	England & Wales	Scotland	Total
New applications outstanding on 31 March 2006	9	-	9
New applications received 2006/07	16	1	17
Total	25	1	26
Certificates issued	17	-	17
Applications withdrawn	-	-	-
To be determined, or awaiting payment	8	1	9
Total	25	1	26

Renewal of certificates

The outcome of applications made, together with applications carried over from 2005/06, is shown in Chart 21.

If a certificate expires and has not been renewed, the holder may continue to honour existing contracts but is not entitled to negotiate new contracts or new rental or maintenance terms for machines already on site; nor can these machines be replaced or taken away and subsequently returned.

Chart 21

Applications for the renewal of section 27 certificates 2006/07			
	England & Wales	Scotland	Total
New applications outstanding on 31 March 2006	31	4	35
Applications received 2006/07	49	13	62
Total	80	17	97
Certificates issued	72	15	87
Applications withdrawn	-	-	-
To be determined, or awaiting payment of fee at 31 March 2007	8	2	10
Total	80	17	97

Lotteries

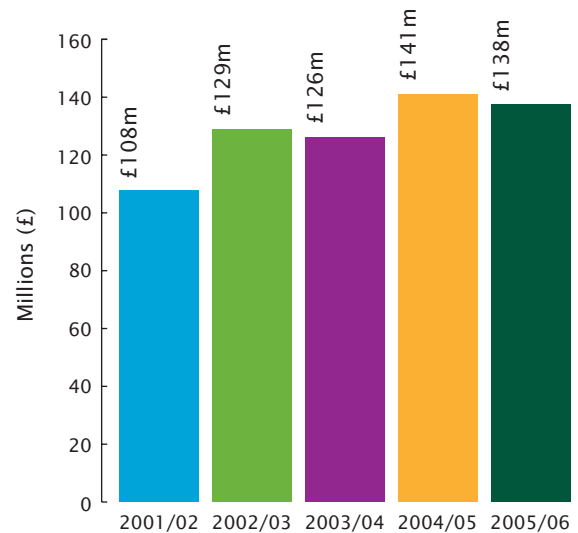
Information on lotteries for 2006/07 will be available later in 2007 and will be published on our website.

Under the 1976 Lotteries and Amusements Act lotteries may be promoted by societies (charities, sporting clubs, cultural bodies and others) to assist good causes and by local authorities.

Proceeds raised by societies' lotteries fell from £141.1 million in 2004/05 to £138.7 million in 2005/06, a decrease of £2.4 million or nearly 2%. Figures for proceeds in recent years are shown in chart 22.

Of the society ticket sales in 2005/06, around £29 million (21%) went on prizes, around £35 million (25%) went on expenses and the remaining £73 million (53%) went to the good cause.

Chart 22
Figures for lottery proceeds



Lottery frauds (scams)

The Commission continues to receive a large number of enquiries from within Great Britain and overseas concerning lottery scams. The Commission works with the Office of Fair Trading's (OFT) 'scambusters group' to combat lottery scams and its website provides warnings and advice.

Potential unlawful commercial lotteries

The Commission continues to think that some competitions and quizzes, including for instance those run on TV programmes, could amount to unlawful commercial lotteries operating under the guise of skill competitions or free draws. The 2005 Act has been drafted in a way that is intended to provide a clear distinction between lotteries on the one hand and competitions or draws on the other. During the year, the Commission published for consultation an issues paper which set out its view of where the border lies and what the organisers of competitions and draws will need to do if they are to ensure they operate according to the requirements of the 2005 Act. At the same time, much public interest was generated by new types of TV quizzes which make use of premium rate telephone numbers for entry and the Commission supported Ofcom and the Independent Committee for the Supervision of Standards for Telephone Information Services (ICSTIS) in their efforts to tighten up control in this area. The three bodies jointly gave evidence to the House of Commons Culture, Media and Sport Committee's inquiry into Call TV quiz shows.

Betting

The betting industry consists of off-course betting offices, on-course bookmakers at race meetings, greyhound races and point to point meetings and remote betting operators i.e. those offering betting over the internet, phone or television. The Commission will start regulating the betting industry from 1 September 2007. In preparation for this, the Commission has had secondees from the industry helping it develop policies and building up the Commission's expertise. The Commission has been working closely with the Association of British Bookmakers (ABB) and the Remote Gambling Association (RGA) and consulting widely within the sector including the trade bodies representing the on-course bookmakers.

The Commission has held extensive discussions with the betting industry about the potential risks to the licensing objectives posed by those betting or using machines in betting shops and the degree of

regulation that would be proportionate. These discussions have been robust and prolonged. However the trade bodies and industry representatives have contributed constructively both to the development of the regulatory regime and to making sure operators were aware of the timetable for licence applications.

Fixed Odd Betting Terminals (FOBTs)

Under the 2005 Act FOBTs, typically situated in betting offices, will be designated as gaming machines and will be categorised according to their stake and prize limits (*see under Gaming Machines for further information*).

Betting offices will be able to have up to four machines, in any category other than A or B1 (the gaming machines with the highest prizes), but these will have to comply with the technical standards which the Commission has developed and recently published at the beginning of June 2007.



Management Commentary

Financial position

The Commission's expenditure for 2006/07 was £14.4 million, £28,000 more than available resources. This expenditure was funded from income (£0.3 million), grant-in-aid financing from DCMS (£13.8 million) and the release of deferred government grant reserve (£0.3 million). A change in accounting policy means that grant-in-aid is now treated as financing, not income as was previously the case. This is explained further on page 50.

Net assets at 31 March 2007 amounted to £3.4 million.

Fixed assets

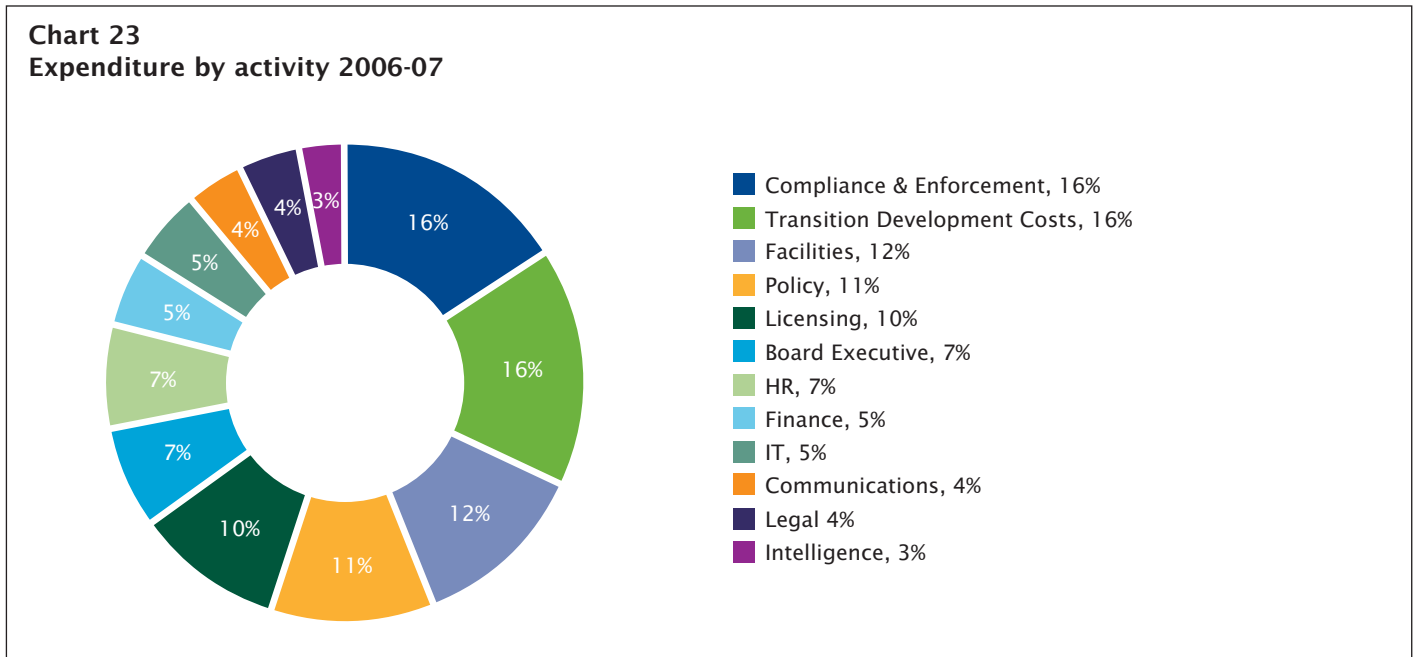
In the period to 31 March 2007 the book value of fixed assets increased from £398,000, to £3.8 million. This represents the investment by the Commission in new IT systems to facilitate the work of the organisation as it goes forward under the new licensing regime and also the capitalisation of costs related to the fit-out of the new offices in Birmingham.

Financial statements

The following table sets out a summary of the fee income recovered and costs incurred in respect of the Gaming Act 1968 and the transitional activities the Commission has incurred over the twelve months to 31 March 2007.

	Act 1968	Transition to 2005 Act	Total
Total Income	-	245,000	245,000
Total Expenditure	(2,488,000)	(11,908,000)	(14,396,000)
Operating deficit	(2,488,000)	(11,663,000)	(14,151,000)
Interest Receivable	-	24,000	24,000
Release of Deferred Government Grant Reserve	-	346,000	346,000
Other non-operating costs	-	(13,000)	(13,000)
Deficit for the year	(2,488,000)	(11,306,000)	(13,794,000)
Financed by grant-in-aid	2,488,000	11,278,000	13,766,000
Difference	-	(28,000)	(28,000)

The deficit of fee income compared to expenditure incurred in 2006/07 was £13.8 million (2005/06 £5.6 million deficit). This has been financed from grant in aid from DCMS of £13.8 million, and resulted in an end of year cumulative Income and Expenditure reserve to 31 March 2007 of £421,000 deficit.



The above fee income and cost analysis, including calculations of the notional element of costs, conforms with the HM Treasury's 'Fees and Charges Guide' as far as is practicable, and is not intended to comply with SSAP 25 (Segmental Reporting).

Compliance with public sector payment policy

The Commission's policy, in line with government requirements, is to pay all invoices within 30 days of receipt unless a longer payment period has been agreed, or amount billed is in dispute. In the year to 31 March 2007, 92% (target 95%) of invoices, totalling £11,354,674, were paid within 30 days of receipt.

Risk management

The Board of Commissioners is responsible for identification and agreement of the key corporate risks. These risks are documented on the Corporate Risk Register, along with results of analysis and evaluation to enable risk mitigation. The Risk Management Committee (members of this committee are Jenny Williams (Chair), Phill Brear, Hazel Canter, Bill Butler and Beryl Brown) provide a quarterly report to the board summarising progress in identifying, allocating ownership of, evaluating, responding to, and reviewing risk. The Corporate Risk Register is then reviewed at least quarterly by the Board. Further details on the Commission's approach to risk management can be found on pages 42-44.

Risk	Failure to:	Risk Area
1	develop appropriate and balanced relationships with industry and stakeholder groups.	External relationships
2	anticipate shifts in public/political expectations and/or industry trends.	External relationships
3	recruit and retain the right balance of staff at all levels of the Commission.	Internal culture
4	develop a new, challenging culture and approach among staff.	Internal culture
5	ensure the adequacy of financial resourcing for the Commission's work through the new fees regime and brought forward surplus.	Financial matters
6	ensure compliance with Commission's governance arrangements to avoid impropriety.	Financial matters
7	deliver key IT systems or delays affecting processes.	Commission systems
8	key systems/processes, in particular operator risk assessment.	Commission systems
9	deliver new licensing system and/or required volumes in agreed timescale.	Performance and delivery
10	deliver existing regime whilst introducing new arrangements.	Performance and delivery

The Commission and the environment

The Commission's approach to sustainable development covers all aspects of its work:

- Energy efficient lighting and heating in the offices.
- Use of biodegradable materials in the office furnishings and construction.
- A recycling policy that incorporates such items as paper, plastics, cans, glass and light tubes.
- Commissioners and members of staff are encouraged to use public transport and the central Birmingham office location is in walking distance of both main rail and bus stations.
- Contractors are vetted against their own environmental policies.

Financial statements and accounts

Remuneration Report

This report covers the twelve months ending 31 March 2007 and sets out the policy and disclosures in relation to the remuneration of the senior managers of the Gambling Commission (the Commission).

Remuneration of senior management

Board of 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. The Chair and Commissioners may resign by written notice and may be dismissed if the Secretary of State thinks them unable, unfit or unwilling to perform their duties.

The Chairman, Peter Dean was appointed for a three year term commencing 1 July 1998. This was renewed on 1 July 2001 for a further five years and has now been extended to 31 December 2007. This contract provides for the Chairman to work an average of four days per week.

Commissioners work an average of two days per week.

Senior Managers

Senior managers are, in most cases, not established civil servants but are employed directly by the Commission. The Commission's standard terms of employment for senior managers are contracts for three years, reviewable twelve weeks before the end. 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 senior managers' performance targets, achievements against targets, and recommendations on changes in remuneration are reviewed by the Remuneration Committee. Except during probation or where guilty of gross misconduct, senior managers are entitled to receive and required to give twelve weeks' notice of early termination.

Existing civil servants on loan to the Commission remain in the employment of their home department. The costs associated with their employment are recharged to the Commission. Except where stated otherwise, these staff are on civil service contracts that are open-ended until they reach normal retirement age of 60.

Jenny Williams was appointed as Chief Executive to the Gaming Board for Great Britain on 17 November 2004. Her salary and bonus arrangements are comparable with other Non Departmental Public Bodies' chief executives. Her contract provides for retirement at age 65 and continues under the Commission pursuant to

schedule 4 to the Gambling Act 2005. The contract may be terminated by either party giving six months written notice.

Tom Kavanagh, deputy Chief Executive, is a senior civil servant on secondment to the Commission.

Phill Brear was appointed as Director of Operations on 14 November 2005 for a period of three years.

Hazel Canter was appointed as Director of Licensing & Compliance on 3 January 2006 for a period of three years.

Bill Butler was appointed as Director of Corporate Services on 20 February 2006 for a period of three years. His contract includes provision of a lease car.

Beryl Brown was appointed as Director of Policy and Communications on 19 April 2006 for a period of three years.

All the contracts of senior staff employed by the Commission are renewable by agreement.

Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the most senior managers of the Commission and are covered by the external audit opinion.

(i) Remuneration

	2007 (12 months to 31 March 2007)		2006 (six months to 31 March 2006)	
	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Peter Dean Chairman	95-100	20,700	45-50 (95-100 full year equivalent)	2,400
Jenny Williams Chief Executive	155-160	19,200	85-90 (155-160 full year equivalent)	-
Tom Kavanagh Deputy Chief Executive	90-95	-	40-45 (80-85 full year equivalent)	-
Phill Brear Director of Operations	110-115	-	35-40 (100-105 full year equivalent)	-
Hazel Canter Director of Licensing & Compliance	100-105	-	20-25 (95-100 full year equivalent)	-
Bill Butler Director of Corporate Services (from 20 February 2006)	100-105	3,300	10-15 (95-100 full year equivalent)	300
Beryl Brown Director of Policy & Communications (from 19 April 2006)	75-80	-	n/a	-

Commissioners receive a non pensionable salary. In the year 2006/07 six Commissioners received between £25,000 and £30,000 and two Commissioners, who joined during the year, received between £15,000 and £20,000 (£25,000 to £30,000 equivalent).

Salary: 'Salary' includes gross salary; performance pay or bonuses; 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. Apart from the Chief Executive all Commissioners are part-time and only the Chairman's post is pensionable.

Benefits in kind: The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. In the twelve months to 31 March 2007, Peter Dean was reimbursed for home to office travel, accommodation costs and subsistence, on which the Commission also paid the tax due. Jenny Williams was reimbursed for costs associated with her detached duties on which the Commission also paid the tax due. Bill Butler was provided with a lease car.

(ii) Pension benefits 2006/07

	Accrued pension at age 60 as at 31/03/07 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at end date	CETV at start date	Employee contributions and transfers in	Real increase in CETV
	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)
2007 (12 months to 31 March 2007)						
Peter Dean Chairman	5-10 plus 20-25 lump sum	0-2.5 plus 2.5-5 lump sum	169	134	0-2.5	30
Jenny Williams** Chief Executive	-	-	-	-	-	-
Tom Kavanagh Deputy Chief Executive	35-40 plus 110-115 lump sum	0-2.5 plus 0-2.5 lump sum	894	843	0-2.5	11
Phill Brear Director of Operations (from 14 November 2005)	0-5 lump sum N/A	0-2.5 lump sum N/A	47	10	2.5-5	36
Hazel Canter Director of Licensing & Compliance (from 3 January 2006)	0-5 lump sum N/A	0-2.5 lump sum N/A	41	8	2.5-5	33
Bill Butler Director of Corporate Services (from 20 February 2006)	50-55 lump sum N/A	5-7.5 lump sum N/A	781	686*	2.5-5	80
Beryl Brown Director of Policy & Communications (from 19 April 2006)	0-5 lump sum N/A	0-2.5 lump sum N/A	18	N/A	2.5-5	18

(iii) Pension benefits 2005/06

	Accrued pension at age 60 as at 31/03/06 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at end date	CETV at start date	Employee contributions and transfers in	Real increase in CETV
	(£000)	(£000)	(£000)	(£000)	(£000)	(£000)
2006 (12 months to 31 March 2006)						
Peter Dean Chairman	5-10 plus 15-20 lump sum	0-2.5 plus 5-7.5 lump sum	134	91	0-2.5	38
Jenny Williams** Chief Executive	-	-	-	-	-	-
Tom Kavanagh Deputy Chief Executive	35-40 plus 105-110 lump sum	0-2.5 plus 0-2.5 lump sum	843	785	0-2.5	10
Phill Brear Director of Operations (from 14 November 2005)	0-5 lump sum N/A	0-2.5 lump sum N/A	10	-	2.5-5	9
Hazel Canter Director of Licensing & Compliance (from 3 January 2006)	0-5 lump sum N/A	0-2.5 lump sum N/A	7	-	2.5-5	6
Bill Butler Director of Corporate Services (from 20 February 2006)	0-5 lump sum N/A	0-2.5 lump sum N/A	3	-	2.5-5	3

* During 2006, the transfer into the PCSPS in relation to Bill Butler's accrued pension rights, was completed following his transfer to the Gambling Commission from the Healthcare Commission. Comparative numbers have therefore been adjusted for 2005/06 in this table.

** The appointment is not pensionable under the Civil Service pension scheme and no contributions have been paid by the Commission to any other scheme.

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements, details of which can be found at note 4 of the accounts.

Further details about the Civil Service pension arrangements can be found at the website.

www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

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 CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the Civil Service vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

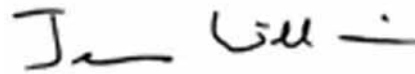
The factors used to calculate the CETV were revised on 1 April 2006 on the advice of the Scheme Actuary. The CETV figure for 31 March 2006 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2007.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of 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.

Remuneration Committee

The members of the Remuneration Committee are Bill Knight (Chair), Ben Gunn, Rachel Lampard (appointed July 2006) and Eve Salomon.



Jenny Williams

Chief Executive and Accounting Officer

The Gambling Commission
3 July 2007

Statement of the Gambling Commission's and Chief Executive's responsibilities


The Gambling Commission (the Commission) is required to prepare a statement of accounts for each financial year in the form and on the basis directed by the Secretary of State for Culture, Media and Sport, with the consent of the Treasury. The accounts are prepared on an accruals basis and must show a true and fair view of the Commission's state of affairs at the year end and on its income and expenditure, total recognised gains and losses and cash flows for the financial year. These accounts have been prepared for the period from 1 April 2006 to 31 March 2007. As the Commission was not established until 1 October 2005, the comparative numbers represent the six month period to 31 March 2006.

In preparing the accounts the Commission is required to:

- observe the accounts direction given by the Secretary of State for Culture, Media and Sport with the approval of the Treasury, in accordance with the Gambling Act 2005, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Commission will continue in operation.

The Accounting Officer for the Department of Culture, Media and Sport has designated me as the Accounting Officer for the Commission. The relevant responsibilities of Accounting Officer, which include the responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, and for keeping proper records, are set out in the Non Departmental Public Bodies' Accounting Officer' Memorandum issued by the Treasury and published in Government Accounting.

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



Jenny Williams
Chief Executive and Accounting Officer

The Gambling Commission
3 July 2007

Statement on Internal Control for the year ended 31 March 2007

Period of coverage

This Statement on Internal Control covers the first full year of operation of the Gambling Commission (the Commission). The Commission, which was established in accordance with Part 2 of the Gambling Act 2005, assumed responsibility for the functions, rights and liabilities of the Gaming Board for Great Britain with effect from 1 October 2005. During 2006/07, the Commission has, at the same time, been establishing the systems, processes, structures and necessary capital investment to facilitate the transition to Gambling Act 2005 functions and responsibilities. This is being achieved through a formal transition programme. The systems of internal control that support this statement have therefore also continued to evolve during the last twelve months.

Scope of responsibility

As Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of the Gambling Commission's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

In undertaking this role, I report to the Chair of the Commission on a day to day basis, and to the Commissioners at their regular meetings. The Commission produces an annual report, including financial statements, which is presented to Parliament setting out how the duties and responsibilities of the Commission have been fulfilled. I operate within the terms of the Management Statement and Financial Memorandum agreed with the Department for Culture, Media and Sport, the responsible government department for the Commission's work, and have regular meetings with officials to discuss issues relevant to the Commission's functions.

The purpose of the system of internal control

The system of internal control 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. The system of internal control is based on an ongoing 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 them efficiently, effectively and economically. The system of internal control has been in place in the Commission for the year ended 31 March 2007, and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Commission's capacity to handle risk is based upon, and the new systems and strategy are being designed around, a combination of key components: leadership; staff involvement; and the organisation structure. The responsibility for managing risk within the Commission rests with me as the Chief Executive. As the Chief Executive, I am also the Commission's Accounting Officer, and am supported by a Risk Management Committee formed for this purpose. The Board of Commissioners, supported by the Audit Committee, oversee the risk management function which operates within the Commission.

The Risk Management Committee is comprised of senior personnel who provide the direction and resources with which to assess and manage risk. Senior managers involve staff in the risk assessment and management process through induction programmes, and the support of job roles and responsibilities through policy and procedures guides, and specific training and development programmes. The guides and programmes assist in the identification and management of risk and related contingency planning.

Risk registers are maintained by executive management and the risk management committee plays a proactive role in ensuring that risks are identified, recorded and the outcome of the risk management strategies are monitored.

The risk and control framework

The Commission's risk management framework has been in operation through the year, and has been reviewed by the Risk Management Committee, which has overseen its development. Initially the approach to the management of risk was primarily focussed on the transition project. As the transition phase nears completion, the emphasis of the risk management framework and the risk appetite of the Commission is changing to reflect the Commission's increasing focus on operational delivery and strategic development. The risk management process will therefore continue to recognise risks identified as they arise within the evolving organisation.

The risk and control framework implemented by the Commission comprises the following key elements:

- A Risk Management Committee – The Committee has been established as the key forum for key risk identification, recording and management, and overseeing the operation of the risk management policies and procedures throughout the Commission. The Chief Executive, who is also the Accounting Officer, chairs the committee;
- A risk management strategy and framework - The risk management strategy outlines the objectives, and policies directed towards managing risk, including the organisation's tolerance for risk, and 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. Risk registers are used to assist the risk management process which extend over both the day to day business of the Commission as well as the transition activities; and
- An internal audit programme - The internal audit programme has, as its focus, 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 management, who will be responsible for determining and implementing an appropriate response.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Commission who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board of Commissioners, the Audit Committee, and the Commission's Risk Management Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

More specifically, the maintenance and review of the effectiveness of the system of internal control within the Commission is achieved through the co-ordination of the control and governance functions of the following organisation components:

- The Board of Commissioners – The Commissioners, who have been appointed by the Secretary of State, meet regularly to confirm the strategic direction of the Commission, to review financial and operational performance against current plans, to monitor risk assessments, and to approve any expenditure in accordance with the government's established regime of financial delegations;
- The Audit Committee – The Committee, which is an advisory committee of the Board of Commissioners, meet at least four times each year to review the annual financial statements, to consider the annual reports submitted by the internal and external audit teams and to monitor the progress towards resolution of any internal and external audit recommendations. The Committee has also monitored the systems of internal control as they have continued to evolve during the year, together with the general improvement in compliance with the documented control environment. The committee also oversees the functions of the Commission's Risk Management Committee. This year I received a positive annual report from the Audit Committee Chair. This report sets out the progress it has made in fulfilling these functions and duties, of particular note, and in support of the Commission, the Committee have; appointed RSM Robson Rhodes as Internal Auditor; approved a comprehensive internal audit programme covering

the identified risk areas, reviewed the corporate risk management process and received various reports and assurances from senior managers on the key areas of risk. The Committee proactively challenges and supports the corporate assurance framework as the systems of internal control continues to evolve;

- The Risk Management Committee – The Committee, whose membership is comprised of the senior management group responsible for operations, licensing and corporate services, meets at least four times each year to plan and oversee the implementation of the Commission’s risk management strategies, to monitor progress against those plans, arrange independent audit and to direct any necessary improvement action. During the year the Committee has fulfilled a supporting role to the Project Management Group in the management of the key risks relating to the transition project, and has established arrangements for embedding risk management into the business in preparation for the completion of the transition phase. This has been slower than planned, however to rectify this dedicated resource has been identified to support the Committee;
- Senior management meetings – Regular meetings of the senior management group are held to monitor progress by operations, policy and corporate affairs including finance, against plans, to review risk, and to make any necessary and appropriate decisions relating to the day to day performance of the Commission’s business;
- Project Management Group – This Group, whose membership is comprised of senior management, Commissioners and external advisers, oversees the effective delivery of the transition programme, ensuring that all associated risks are identified, adequately managed and that necessary contingency plans are in place to ensure continuity of the business; and
- Internal audit – An internal audit function is performed by a qualified and independent third party organisation in accordance with the standards defined in the government’s internal audit manual. Each year in his annual report, the head of the internal audit provides an independent opinion on the adequacy and effectiveness of the Board’s system of internal control together with recommendations for improvement. His opinion for 2006/07 is that, whilst acknowledging the evolution of the internal control frameworks, that the Commission has adequately designed systems and procedures, and that the key controls were operating as intended by the end of the year.

Whilst there were no significant internal control problems to report during the period covered by this statement and annual report, the audit and assurance process has highlighted a number of areas during the period where the Commission has had to improve both key controls and compliance with those controls. Controls which are adequately designed and which were operating effectively by the end of the year, had not in some areas, been operating fully during the full year. This has been the case in the following areas:

- Full compliance with risk management procedures.
- Independent review and authorisation of internal financial controls.
- Quality assurance within licensing.

I am pleased to report that follow up work completed by the head of internal audit has confirmed that audit recommendations have been satisfactorily addressed by management and key controls were operating as intended by the end of the year.



Jenny Williams
 Chief Executive and Accounting Officer
 Gambling Commission
 3 July 2007

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

I have audited the financial statements of the Gambling Commission for the year ended 31st March 2007 under the Gambling Act 2005. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement, Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having being audited.

Respective responsibilities of the Gambling Commission, Chief Executive and auditor

The Gambling Commission and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Gambling Act 2005 and the Secretary of State for Culture, Media and Sport's directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Gambling Commission's and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Gambling Act 2005 and the Secretary of State for Culture, Media and Sport's directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Chairman's Statement, CEO's Introduction, Annual Report, Management Commentary, and Remuneration Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Gambling Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal control reflects the Gambling Commission's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Gambling Commission's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Gambling Commission and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Gambling Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Gambling Act 2005 and directions made thereunder by the Secretary of State for Culture, Media and Sport, of the state of the Gambling Commission's affairs as at 31 March 2007 and of its deficit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Gambling Act 2005 and the directions of the Secretary of State for Culture, Media and Sport, made thereunder; and
- information given within the Annual Report, which comprises Chairman's Statement, CEO's Introduction, Annual Report, Management Commentary, and Remuneration Report is consistent with the financial statements.

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

5 July 2007

Income & Expenditure Account

for the 12 months ended 31 March 2007

	Notes	2007 £'000s	Restated 2006 (6 months) £'000s
Income			
Licence fee income	2	148	-
Other income	3	97	195
Total Income		245	195
Expenditure			
Staff costs	4	(6,161)	(2,069)
Other operating costs	5	(7,889)	(3,687)
Depreciation	6 & 7	(346)	(8)
Total Expenditure		(14,396)	(5,764)
Operating surplus/(deficit)		(14,151)	(5,569)
Release of deferred government grant reserve	12	346	8
Interest receivable		24	13
Interest cost on pensions	4	(13)	(6)
Notional capital charges		(59)	(7)
Surplus/(deficit) on ordinary activities		(13,853)	(5,561)
Write back notional capital charges		59	7
Surplus/(deficit) for the year	12	(13,794)	(5,554)

The notes on pages 49 to 62 form part of these accounts

Statement of total recognised gains and losses

for the 12 months ended 31 March 2007

	Notes	2007 £'000s	Restated 2006 (6 months) £'000s
Deficit for the year		(13,794)	(5,554)
(Loss) on pension liability	4	(26)	(47)
Movement on deferred government grant reserve - additions		3,733	388
Movement on deferred government grant reserve - release		(346)	(8)
Movement on deferred government grant reserve - disposal		(12)	-
Total recognised losses since the previous Annual Report		(10,445)	(5,221)

The notes on pages 49 to 62 form part of these accounts

Balance sheet

as at 31 March 2007

	Notes	2007 £'000s	Restated 2006 £'000s
Fixed Assets			
Intangible assets	7	284	3
Tangible assets	6	3,495	395
Current Assets			
Debtors and prepayments	8	268	130
Cash at bank and in hand	16	3,896	1,889
Total Current Assets		4,164	2,019
Creditors (falling due within one year)	9	(4,293)	(2,145)
Net Current Assets		(129)	(126)
Net Assets excluding pension liability and other provisions		3,649	272
Pension liability	10	(284)	(232)
Other provisions	11	-	(14)
Net Assets including pension liability and other provisions		3,365	26
Capital and Reserves			
Reserves	12	3,786	405
Income and Expenditure Reserve	12	(421)	(379)
Total Capital and Reserves		3,365	26

The notes on pages 49 to 62 form part of these accounts

These accounts were authorised for issue by the Accounting Officer on 10 July 2007



Jenny Williams

Chief Executive and Accounting Officer

The Gambling Commission

3 July 2007

Cash flow statement

for the 12 months ended 31 March 2007

	Notes	2007 £'000s	Restated 2006 (6 months) £'000s
Net cash outflow from operating activities	15	(11,786)	(4,489)
Capital grant received	12 & 13	3,733	386
Returns on investment & servicing of finance			
Interest received		24	13
Interest charged	4	(13)	-
Investing activities			
Payments to acquire fixed assets	6 & 7	(3,733)	(386)
Proceeds from disposal of fixed assets		3	-
Net cash inflow before financing		(11,772)	(4,476)
Financing			
Grant-in-aid for revenue expenditure	13	13,766	5,287
Fee income received	2	2,488	1,314
Less fees appropriated to DCMS	2	(2,471)	(1,191)
		13,783	5,410
Increase/Decrease in cash	16	2,011	934

The notes on pages 49 to 62 form part of these accounts

Notes to the Accounts

1: Accounting policies

a) Accounting conventions

These are the accounts for the Gambling Commission (the Commission) covering the twelve months from 1 April 2006 to 31 March 2007. They have been prepared in a form directed by the Secretary of State for Culture, Media, and Sport with the approval of the Treasury, in accordance with Schedule 4 of the Gambling Act 2005 (the 2005 Act). A copy of the accounts direction can be obtained from the Commission. As the Commission came into existence on 1st October 2005, comparative figures for 2005/06 are for the 6 months from 1st October 2005.

The policies adopted follow Generally Accepted Accounting Practice (GAAP) in the UK, to the extent it is meaningful and appropriate in the public sector context, in accordance with the 2006/07 Financial Reporting Manual (FRM) issued by HM Treasury. The accounts meet the accounting and disclosure requirements of the Companies Act 1985 (as amended by the Companies Act 1989) and accounting standards issued or adopted by the Accounting Standards Board to the extent that they are appropriate. The accounts have been prepared using the historical cost convention modified by the inclusion of fixed assets at current cost. The Treasury have announced that accounts for public sector entities will be produced in accordance with IFRS in 2008/09.

b) Change of accounting policy

With effect from 2006/07 reporting period the FReM requires NDPBs to account for grant in aid received for revenue purposes as financing because they are regarded as contributions from a controlling party which gives rise to a financial interest in the residual interests of NDPBs. This is a change in accounting policy from earlier periods where such items were recorded as income. The effects of this change on certified 2005/06 accounts and the impact of the change on results for the current year is shown below.

Note: there is no impact on the net liability position of the Commission as a result of this change in policy.

	31/03/2006 As previously stated £'000s	Impact of adopting new policy £'000s	31/03/2006 Restated £'000s
Net expenditure for 2005/06	(267)	(5,287)	(5,554)

	31/03/2007 Without adopting new policy £'000s	Impact of adopting new policy £'000s	31/03/2007 Applying new policy £'000s
Net expenditure for 2006/07	(28)	(13,766)	(13,794)

c) Fixed assets

All capital costs associated with the office move to Birmingham and its fitting out are defined as fixed assets and capitalised accordingly.

Ongoing tangible and intangible fixed asset purchases are capitalised when the original purchase price is £2,500 or more. Purchased software licences are classified as intangible assets.

Depreciation

Depreciation is provided on all assets on a straight line basis to write off the cost or valuation evenly over the asset's currently anticipated life as follows:

IT Hardware	4 years
IT Software Licences	Over the life of the licence
IT Software Development	7 years
Fixtures & Fittings	10 years
Furniture	10 years
Equipment	7 years
Telecoms	7 years

Depreciation is charged in full in the month of acquisition, with no charge being made in the month of disposal except for software development where no depreciation is charged until the asset is completed.

Revaluation

In order to disclose fixed assets in the Balance Sheet by reference to current costs, the appropriate index is applied to each asset⁹ unless the effect of revaluing assets in a particular year would make no material difference to the results for that year. Permanent diminution in the value of fixed assets is charged to the Income and Expenditure Account. Assets are not revalued in their year of acquisition as their current and historical cost would not be materially different. Assets brought forward have been included at their current cost values.

d) Deferred Government Grant Reserve

The capital grants received from Department of Culture, Media and Sport (DCMS) relate specifically to the capital costs associated with the set up and establishment of the Commission. In accordance with SSAP4 and the FReM, these grants have been credited to the Deferred Government Grant Reserve. The amount deferred is released back to the Income and Expenditure Account in line with the depreciation charged against these specific assets. Where assets have been disposed of, the release associated with the remaining grant for those specific assets has been credited directly to reserves.

e) Notional capital charges

In accordance with Treasury guidance, a notional charge for the cost of capital employed in the period is included in the Income and Expenditure Account along with an equivalent reversing entry below operating surplus. The charge for the period is calculated using the Treasury's discount rate of 3.5% applied to the mean value of capital employed during the period.

f) 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.

The current Chairman of the Commission and former Chairmen of the Gaming Board are covered by a pension scheme which is 'by-analogy' with the PCSPS. The Commission makes payments to the former Chairmen as they are due. However the expected cost of providing the pension is recognised over the period which the Commission benefits from the Chairman's services through the building up of a provision for the future liability calculated using actuarially assessed assumptions.

g) Operating leases

Payments made under operating leases on land and buildings and equipment are charged to expenditure as incurred.

h) Value Added Tax (VAT)

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

⁹ Office of National Statistics Price Index Numbers for Current Cost Accounting

i) Licence fee receipts

The Commission collects fee income in relation to both the 1968 Act (current legislation) and the 2005 Act (with effect from the 1 September 2007).

The Commission is currently funded by grant-in-aid from DCMS. The Commission collects 1968 Act licence fee income on behalf of DCMS, and passes on this income in full to the Department. Therefore, because the licence fee receipts are not legally the assets of the Commission they are excluded from the Income and Expenditure account. The fees charged are set by the Secretary of State for Culture, Media and Sport.

From April 2007, the Commission will be mainly funded from the collection of fees payable under the 2005 Act. All 2005 Act operating licence income collected in 2006/07 has been identified as deferred income, and will be released back to the Income and Expenditure account when licensing activity is undertaken towards determination. All 2005 Act personal licence income collected in 2006/07 has been identified as deferred income and will be released to the Income and Expenditure account over the life of the licence.

2: Fee receipts**2(a) - 1968 Act fees**

The Commission collects 1968 Act fees in respect of certificates and registrations and these monies are paid over in full to DCMS for appropriation in aid of DCMS. As a result, the income from fees, and related payments to DCMS, are not included in the Commission's Income and Expenditure Account. Any outstanding balance due to DCMS at the end of the financial year is included within the Balance Sheet within 'Other Creditors'. At 31 March 2007, the balance due to DCMS was £372,000 after appropriations of £2,472,000. Receipts in the period are as follows:

	2007 £'000s	2006 (6 months) £'000s
Section 19 Certificates	701	325
Section 27 Certificates	485	348
Certificates of Consent		
Bingo	139	89
Casino	551	205
Total gaming	1,876	967
Lotteries & Amusement Act	596	343
Total Fee Income	2,472	1,310
Interest on fee income	16	4
Total	2,488	1,314

2(b) - 2005 Act fees

Fees payable under the Gambling Act 2005 are received in respect of application fees, annual fees and changes and variations to licences. These monies are retained by the Gambling Commission to fund operations under the 2005 Act. Processing of personal and operator licence applications under the Act commenced in 2006/07, and fees received are identified as a deferred income liability until licensing activity is undertaken towards determination. Receipts in the period are as follows:

	2007 £'000s
Operator licence applications	168
Personal licence applications	6
Unanalysed licence applications	74
Total Fee Income Received	248
Interest on fee income	-
Total	248

£148,000 of this income has been credited to income being the amount received in respect of applications where work had been completed prior to 31 March 2007.

3: Other income

The Commission is registered with the Criminal Records Bureau (CRB) to obtain disclosures, where necessary, on individuals making application for certificates with the Commission. The CRB charge a fee for this work, currently £31 per application, which is invoiced to the Gambling Commission. The Commission therefore has to collect the relevant fees from applicants and hold them, pending a request for payment from the CRB. The income and expenditure arising from the CRB services are included within the operating income and expenditure respectively.

	2007 £'000s	2006 (6 months) £'000s
Recovery of CRB fees	97	48
Landlord contribution to works on new offices at VSH	-	147
Total other income	97	195

4: Commissioners' and staff costs

a) Analysis of commissioners' and staff costs

	2007 Permanent £'000s	2007 Short term £'000s	2007 £'000s	2006 (6 months) £'000s
Salaries & wages	4,560	389	4,949	1,658
Social security costs	384	33	417	152
Other pension costs:				
Included within operating deficit	740	55	795	259
Included as other finance costs	13	-	13	6
Recognised in statement of total recognised gains and losses	26	-	26	47
Total other pension costs	779	55	834	312
Total commissioners' and staff costs	5,723	477	6,200	2,122

The above analysis comprises the following figures from the income and expenditure statement:

	2007 £'000s	2006 (6 months) £'000s
Commissioners' and staff costs	6,161	2,069
Interest costs on pensions provision	13	6
Actuarial adjustments to pensions provision	26	47
Total	6,200	2,122

b) Retirement benefits

The following disclosures are made in accordance with FRS 17, 'Retirement Benefits'.

(i) Staff

The Commission provides pension benefits for permanent staff under the PCSPS. This is a contributory unfunded multi-employer defined benefit scheme and the Commission is unable to identify its share of the underlying assets and liabilities. The scheme actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For the year ending 31 March 2007, employer contributions of £774,112 were payable to the PCSPS at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (the rates in 2005/06 were between 16.2% and 24.6%). The scheme actuary reviews employer contributions every four years following a full scheme valuation.

The contribution rates are set to meet the cost of the benefits, accruing during 2006/07, 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, a stakeholder pension with an employer contribution. Employers' contributions of £20,440 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay.

Employers also match employee contributions up to 3% of pensionable pay. In addition, the employer is required to pay mini ASLC of 0.8% of pensionable earnings to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement of those employees.

Contributions due to the partnership pension providers at the balance sheet date were £331. No contributions were prepaid.

(ii) Chairman

In addition to the above, pension benefits are provided to the current Chairman of the Commission and three former chairmen of the Gaming Board for Great Britain under a defined benefit scheme which is broadly by analogy with the civil service classic scheme. There is no minimum retirement age and there are certain minor modifications to the standard civil service arrangements in respect of enhancements. The scheme is unfunded and there is no surplus or deficit. Benefits are paid as they fall due.

A full actuarial valuation of the scheme was carried out by the Government Actuary at 31 March 2004. The main financial assumptions used by the actuary in calculation of the liability for the scheme are as follows:

	31 March 2007	31 March 2006
Inflation assumption	2.8%	2.5%
Rate on increase in salaries	4.3%	4.0%
Rate of increase for pensions in payment, in line with inflation	2.8%	2.5%
Discount rate for scheme liabilities	4.6%	5.4%

The present value of the scheme liability at 31 March 2007 is £284,000.

	2007 £'000s	2006 (6 months) £'000s
Analysis of amount charged to operating surplus:		
Current service cost (net of employee contribution)	22	11
Analysis of amount charged to other finance costs:		
Interest on pension scheme liabilities	13	6
Analysis of amount recognised in statement of total recognised gains and losses (STRGL):		
Actuarial (loss)	(26)	4
Adjustment to liability on transfer from Gaming Board	-	(51)
Total (loss) recognised in STRGL	(26)	(47)

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

	2007	2006 (6 months)
Permanent Staff	121	84
Other Staff	54	18
Total	175	102

5: Other operating costs

	2007 £'000s	2006 (6 months) £'000s
Accommodation	1,226	621
Professional & accountancy fees	2,904	1,651
Travelling & subsistence	588	189
Agency and other staff costs	722	510
Recruitment, training and development	604	316
Hospitality	19	10
Office services	1,050	263
External audit fee*	34	17
Internal audit costs	21	6
Amounts payable to CRB	105	48
Other	616	56
Total Operating Costs	7,889	3,687

*The external audit fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. No non audit work was undertaken by the Comptroller and Auditor General during the year.

Included within operating costs are payments made by the Commission during the year under operating leases. These may be analysed as follows:

	2007 £'000s	2006 £'000s
Land and buildings	656	375
Other	16	2
Total	672	377

6: Tangible fixed assets

	Software Development £'000s	Information Technology £'000s	Fixtures & Fittings £'000s	Furniture & Office Equipment £'000s	Telecoms £'000s	Total £'000s
Cost/Valuation						
At 1 April 2006	31	153	226	21	19	450
Revaluations	-	(11)	18	(1)	(1)	5
Additions	849	334	1,386	640	226	3,435
Disposals	-	-	-	(15)	(18)	(33)
At 31 March 2007	880	476	1,630	645	226	3,857
Accumulated depreciation						
At 1 April 2006	-	29	2	11	13	55
Revaluations	-	(2)	2	(1)	(1)	(2)
Provided in year	-	111	137	59	22	329
Disposals	-	-	-	(8)	(12)	(20)
At 31 March 2007	-	138	141	61	22	362
Net book value at 31 March 2007	880	338	1,489	584	204	3,495
Net book value at 31 March 2006	31	124	224	10	6	395

7: Intangible fixed assets

	Software Licences £'000s
Cost/Valuation	
At 1 April 2006	3
Revaluations	-
Additions	298
Disposals	-
At 31 March 2007	301
Accumulated amortisation	
At 1 April 2006	-
Revaluations	-
Provided in year	17
Disposals	-
At 31 March 2007	17
Net book value at 31 March 2007	284
Net book value at 31 March 2006	3

8: Debtors

	2007 £'000s	2006 £'000s
Staff season ticket loans and expense imprests	72	29
Bank interest accrued	3	3
Other debtors	2	6
Prepayments	191	92
Total	268	130

Other Debtors balance relates to £2,000 salary costs recharged to the Home Office.

9: Creditors (amounts falling due within one year)

	2007 £'000s	Restated 2006 £'000s
Trade creditors	162	225
Payroll: Pay and pensions	129	100
Social security	75	43
Taxation	103	63
Other creditors	2,107	725
Deferred Income (Gambling Act 2005 fee income)	100	-
Bank overdraft	-	4
Accruals	1,617	985
Total	4,293	2,145

	As at 31 March 2007 £'000s
Other creditors include:	
Balances due to other government bodies	
DCMS	2,039
HM Revenue and Customs	12

Other creditors include £1,582,000 of capital grant received, representing the amount received from DCMS where the capital expenditure will not occur until 2007/08. Other creditors also include £372,000 due to DCMS for 68 Act fees received and in 2005/06 an amount due to other government departments in respect of seconded staff.

Other creditors for the six months to 31 March 2006 includes an amount of £409,000 representing the restatement of this amount originally credited to deferred government grant reserve.

10: Pension liability

This provision recognises the accruing pension liability for the current Chairman of the Commission, together with payments due in respect of three former chairmen of the Gaming Board.

	2007 £'000s
At 31 March 2006	232
Current service cost	22
Staff contribution	1
Interest cost	13
Actuarial loss in the period	26
Pensions paid in the year	(10)
At 31 March 2007	284

11: Other provisions

This provision recognises a liability brought forward of £13,913 in respect of redundancy payments arising as a result of the relocation of the Commission's offices to Birmingham, and settled in the current year.

	2007 £'000s
At 31 March 2006	14
Settled in the year	(14)
At 31 March 2007	-

12: Reserves

	Revaluation Reserve £'000s	Income & Expenditure Reserve £'000s	Deferred Government Grant Reserve £'000s	Total £'000s
At 1 April 2006	-	(379)	814	435
Adjustment to brought forward deferred government grant reserve	-	-	(409)	(409)
Restated at 1 April 2006	-	(379)	405	26
Deficit for the year	-	(13,794)	-	(13,794)
Grant-in-aid finance	-	13,766	-	13,766
Capital grant received	-	-	3,733	3,733
Release for depreciation	-	-	(346)	(346)
Transfer for disposal of Fixed Assets	-	12	(12)	-
Pension charge	-	(26)	-	(26)
Revaluation reserve	7	-	-	7
At 31 March 2007	7	(421)	3,779	3,365

13: Financing

	2007 £'000s	2006 (6 months) £'000s
Grant-in-aid and capital grant drawn from DCMS for operational purposes		
- Resource	13,766	5,287
- Capital	4,905	796
less transfer to deferred government grant reserve	(3,733)	(386)
less unused capital grant drawn transferred to other Creditors	(1,172)	(410)
Total grant-in-aid financing	13,766	5,287

During the year ended 31 March 2007 a total of £4,905,000 capital grant was drawn to cover specific expenditure on work associated with setting up the new systems for the Commission as well as for the relocation of the offices to Birmingham. Delivery of IT systems has been delayed into 2007/08 and the balance remaining unspent has been transferred to other creditors. The total amount transferred to other creditors is £1,582,000.

14: Impact of pension liability on income and expenditure reserve

	Notes	2007 £'000s	2006 (6 months) £'000s
Income and expenditure reserve excluding pension liability		(137)	(147)
Pension liability	10	(284)	(232)
Income and expenditure reserve		(421)	(379)

15: Reconciliation of operating (deficit) to the net cash inflow from operating activities

	2007 £'000s	Restated 2006 £'000s
Operating (deficit)	(14,151)	(5,569)
Depreciation provided in year	346	8
Loss on disposal of fixed assets	9	-
(Increase) in debtors relating to operating activities	(138)	110
Increase in creditors relating to operating activities	2,136	942
Increase in provisions relating to operating activities	12	20
Net cash inflow from operating activities	(11,786)	(4,489)

All of the Commission's cash reserves are held in commercial bank accounts.

16: Analysis of balances of cash as shown in the balance sheet

	Notes	31 March 2006 £'000s	Cashflow £'000s	31 March 2007 £'000s
Cash at bank and in hand		1,889	2,007	3,896
Bank overdraft	9	(4)	4	-
Total		1,885	2,011	3,896

All of the Commission's cash reserves are held in commercial bank accounts.

17: Capital commitments

Capital commitments at 31 March 2007 amounted to £1,048,000 in respect of the new IT systems.

18: Commitments under operating lease

At 31 March 2007, the Commission was committed to making the following payments under operating leases in the year to 31 March 2008.

	2006		2007	
	Land and buildings £'000s	Other £'000s	Land and buildings £'000s	Other £'000s
Operating leases which expire:				
Within one year	67	1	-	15
In the second to fifth years inclusive	-	-	-	-
Over five years	908	-	829	2
Total	975	1	829	17

19: Related party transactions

The Gambling Commission is a Non Departmental Public Body financed by grant-in-aid and capital grant from the Department for Culture Media and Sport.

DCMS is regarded as a related party. During the year to 31 March 2007, the Gambling Commission has had various material transactions with DCMS, comprising largely grant-in-aid, capital grant and appropriation of fee income. These transactions are shown in the Income and Expenditure Account and notes to the accounts.

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

20: Financial instruments

FRS 13 [Derivatives and Other Financial Instruments] requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. The Commission has no borrowings and relies on departmental grants for its cash requirements. It is therefore not exposed to liquidity risks. It also has no material deposits, and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate risk or currency risk.

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.

21: Contingent liabilities

There are no contingent gains or losses to report in the twelve months to 31 March 2007.

22: Post balance sheet events

There are no post balance sheet events to report since 31 March 2007.

Appendix 1

Board of Commissioners

Peter Dean CBE (Chairman)

Peter Dean joined the Gaming Board, now the Gambling Commission, in 1998. He was Deputy Chairman of the Monopolies and Mergers Commission from 1990 to 1997, and from 1996 to 2001 served as the Investment Ombudsman appointed by the Investment Management Regulatory Organisation (IMRO) to handle complaints against IMRO regulated companies. Before that, he was an Executive Director of Rio Tinto Plc for over ten years. He has a legal background and is a former Chairman of the International Association of Gaming Regulators.

Ben Gunn CBE QPM

Benn Gunn was Chief Constable of Cambridgeshire Constabulary until his retirement in 2002. He is now a Partner in Campbell Gunn Associates, a firm of management and marketing consultants specialising in public relations, security and forensic evidence. He is an Independent Director of the Horseracing Regulatory Authority. He was the Independent Chairman of the Joint Jockey Club/British Horseracing Board Security Review, which examined integrity issues in horseracing in Great Britain in 2003. Mr Gunn is a trustee of the Child Victims of Crime charity and a former Chairman.

Bill Knight

Bill Knight is a solicitor. He is Chairman of the Financial Reporting Review Panel and Deputy Chairman of Lloyd's Council. He is a former Chairman of the Enforcement Committee of the General Insurance Standards Council and of the Law Society's Company Law Committee. He was Senior Partner at Simmons & Simmons until 2001.

Rachel Lampard

Rachel Lampard has been the Methodist Church's Secretary for Parliamentary and Political Affairs since 2000 and has taken the lead for the Christian churches on the government's gambling proposals. Since 2004 she has been a Trustee of the Responsibility in Gambling Trust (RIGT) and of the Society for the Study of Gambling.

Andrew McIntosh

Andrew McIntosh is a Member of the House of Lords and has been President of GamCare, the National Association for Gambling Care Educational Resources and Training since 2005. He was DCMS Minister for Media and Heritage (2003–2005) including responsibility for gambling and the passage of the Gambling Act 2005. In his business career, he founded and ran IFF Research Ltd, a market and social research company, for 30 years and was Chairman and then President of the Market Research Society.

Gill Milburn JP

Gill Milburn had a career in taxation and marketing prior to joining the Gaming Board (now the Gambling Commission). She is a Magistrate and has served on Cheshire Magistrates Court's Youth, Licensing and Enforcement Panels. Mrs Milburn also works with a programme to settle and rehabilitate drug offenders.

Roy Penrose OBE QPM

Roy Penrose has had a career of almost 40 years with the police service. He was Director General of the National Crime Squad from 1998 until December 2000 and was previously a Deputy Assistant Commissioner in the Metropolitan Police. Mr Penrose joined the Gaming Board (now the Gambling Commission) in 2001 and was charged with taking a particular interest in the Inspectorate.

Eve Salomon

Eve Salomon is a regulatory and public affairs consultant, and a director of Salomon Whittle Ltd, a company specialising in media-related matters both in the UK and internationally. Prior to joining the Gaming Board she was Director of Legal Affairs and Secretary to the Radio Authority. She is also a member of the Better Regulation Commission and the Press Complaints Commission, and a Director of a theatre charity and a Welsh re-forestation charity.

Michael Steen OBE

Michael Steen OBE was formerly a Partner with, and Board Member of, KPMG. He is a Non-Executive Director of Molins plc. He is an author, and is currently Chairman of the trustees of the Friends of the Victoria and Albert Museum, and a member of the Council of the Open University. He was appointed to the Gaming Board (now the Gambling Commission) in 1999 and holds a special responsibility for the Commission's Scottish affairs.

Jenny Williams (Chief Executive)

Jenny Williams became the Chief Executive of the Gaming Board in 2004. She was previously a Director General and Board Member at the Lord Chancellor's Department (now the Ministry of Justice). Before that she held a variety of policy and project management posts as a senior civil servant in the Inland Revenue, the Departments of Environment and Transport, and the Home Office. She is a Non-Executive Director of Northumbrian Water Group PLC and of the homelessness charity Connections at St Martin's.

Appendix 2

Employment Statistics for 2006/07

Total Employees by Contract Type

Secondees	9
Fixed Term Employees	86
Permanent Employees	123
Grand Total	218

Departmental Split

Communications	5
Compliance and Enforcement	41
Executive	8
Facilities	5
Finance	8
Human Resources	8
Information and Communications Technology	6
Intelligence	9
Legal Services	2
Licensing	108
Policy	17
Transition Team	1
Grand Total	218

Diversity - Gender

Female	105
Male	113
Grand Total	218

Resource Profile Forecast 2007 - 2010

31 03 07	2007/2008				2008/2009				2009/2010				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
TOTAL	265	301	296	294	254	220	220	220	220	217	211	211	210

Diversity - Disability

Employees with a disability	-
Employees without a disability	218
Grand Total	218

Diversity - Ethnic Origin

Asian or Asian British - Indian	15
Asian or Asian British - Pakistani	3
Asian or Asian British - Bangladeshi	3
Black or Black British - Caribbean	8
Other Black Background	1
Chinese	1
Mixed - White and Black Caribbean	2
Mixed - White and Asian	1
Other Mixed Background	1
White - British	158
Other White Background	2
White - Irish	3
Undisclosed	20
Grand Total	218

Diversity - Age

<25	31
26 - 35	85
36 - 45	38
>45	56
undisclosed	8
Grand Total	218

Appendix 3

Licence Application Fee

More details regarding our fees can be found on our website

Licence Application Fee

Operating licence type	Non-Remote					Remote		
	A	B	C	D	E	F	G	H
Casino: 2005 Act	28,988	38,047	43,482	-	-	28,988	34,423	38,047
Casino: 1968 Act	6,588	9,882	19,765	-	-	-	-	-
Bingo	988	1,647	3,294	17,295	20,753	1,647	3,294	16,471
General betting - limited	180	360	990	-	-	-	-	-
General betting - standard	988	988	3,459	17,295	40,518	988	3,294	16,471
Pool betting	659	1,647	4,941	-	-	659	1,647	4,941
Betting intermediary	200	200	200	-	-	9,882	13,176	16,471
Gaming machine general: AGC	988	988	1,647	4,941	16,471	-	-	-
Gaming machine general: FEC	988	988	1,647	4,941	16,471	-	-	-
Gaming machine technical: manufacturer	988	1,647	16,471	-	-	988	1,647	16,471
Gaming machine technical: supplier	988	1,647	4,941	-	-	988	1,647	4,941
Gaming machine technical: software	988	4,941	16,471	-	-	988	4,941	16,471
Gambling software	988	4,941	16,471	-	-	9,882	13,176	16,471
Lottery managers	988	1,647	2,306	-	-	988	1,647	2,306
Society lotteries	165	247	329	-	-	165	247	329

Annual Licence Fee (Gross Fees)

Operating licence type	Non-Remote					Remote		
	A	B	C	D	E	F	G	H
Casino: 2005 Act	48,825	96,925	193,851	-	-	12,733	34,176	66,341
Casino: 1968 Act	16,356	20,716	295,539	-	-	-	-	-
Bingo	1,769	7,077	16,860	35,790	78,098	12,733	34,176	66,341
General betting - limited	200	467	1,267	-	-	-	-	-
General betting - standard	1,769	7,077	16,860	36,862	212,372	12,733	34,176	66,341
Pool betting	2,121	4,083	4,083	-	-	1,500	34,176	66,341
Betting intermediary	267	4,083	4,083	-	-	12,733	34,176	66,341
Gaming machine general: AGC	1,616	6,464	12,928	26,488	36,862	-	-	-
Gaming machine general: FEC	1,171	4,683	9,365	21,288	35,790	-	-	-
Gaming machine technical: manufacturer	2,961	6,325	14,175	-	-	6,367	17,088	33,171
Gaming machine technical: supplier	1,201	3,243	4,083	-	-	6,367	17,088	33,171
Gaming machine technical: software	1,535	3,861	6,188	-	-	6,367	17,088	33,171
Gambling software	1,535	3,861	6,188	-	-	6,367	17,088	33,171
Lottery managers	1,981	2,261	2,541	-	-	6,367	17,088	33,171
Society lotteries	348	692	1,392	-	-	348	692	1,392

Personal Licence Fees

PML (Personal Management Licence)	330
PFL (Personal functional licence)	165

Appendix 4

Casino permitted areas

List of areas in which the licensing of clubs for gaming other than bingo is permitted showing the number of licensed clubs operating on 1 April 2006 and 31 March 2007.

England			01 April 06	31 March 07	
That area which is within the area specified in the licensing (Metropolitan Special Hours Area) Order 1961 - Plus of Westminster and the Royal Borough of Kensington and Chelsea.					
			24	25	
The areas of the Former County Boroughs, Non-County Boroughs and Urban Districts of:					
	01 April 06	31 March 07	01 April 06	31 March 07	
Birkenhead	1	1	Northampton	2	2
Birmingham	7	7	Nottingham	2	2
Blackpool	3	3	Plymouth	2	2
Bolton	2	2	Portsmouth	3	3
Bournemouth	2	2	Ramsgate	1	1
Bradford	2	2	Reading	2	2
Brighton	3	3	Ryde	0	0
Bristol	4	5	Salford	2	2
Coventry	2	2	Sandown/Shanklin	0	0
Derby	2	2	Scarborough	2	1
Dudley	1	1	Sheffield	3	3
Great Yarmouth	2	2	Southampton	3	3
Hove	1	1	Southend-on-Sea	3	3
Huddersfield	1	1	Southport	1	1
Kingston-upon-Hull	2	2	Stockport	2	2
Leeds	4	4	Stoke-on-Trent	2	2
Leicester	3	3	Sunderland	1	1
Liverpool	4	4	Teesside/Middlesbrough	1	1
Luton	3	3	Torbay	1	1
Lytham St Annes	1	0	Walsall	2	1
Manchester	6	6	Warley	0	0
Margate	2	2	West Bromwich	1	1
Newcastle upon Tyne	4	3	Wolverhampton	2	2
Wales					
The areas of the Former County Boroughs of:			01 April 06	31 March 07	
Cardiff			3	3	
Swansea			1	1	
Scotland					
The areas of the Former Counties of the Cities of:			01 April 06	31 March 07	
Aberdeen			2	2	
Dundee			1	1	
Edinburgh			4	4	
Glasgow			5	5	
Total			140	138	

The Gambling Commission regulates gambling in the public interest. It does so by keeping crime out of gambling, by ensuring that gambling is conducted fairly and openly, and by protecting children and vulnerable people. The Commission also provides independent advice to government on gambling in Great Britain.

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