

Presented pursuant to section 33(1) and section 33(2) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998)

National Lottery Distribution Fund

Account 2004-05

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 19 JANUARY 2006

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Foreword

Introduction

These accounts have been prepared in accordance with section 33 of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998), and the Accounts Direction given by HM Treasury. The Act requires that the accounts are examined and certified by the Comptroller and Auditor General and laid, together with his report thereon, before each House of Parliament.

The National Lottery Distribution Fund (NLDF) was established in accordance with section 21 of the National Lottery etc. Act 1993. The Fund is maintained under the control and management of the Secretary of State for Culture, Media and Sport. Monies not immediately required for distribution are invested by the Commissioners for the Reduction of the National Debt (CRND), in accordance with Investment Directions issued by HM Treasury (under section 32 of the National Lottery etc. Act 1993).

The purpose of the Fund is to receive monies generated by the National Lottery for good causes, to allocate these to Distributing Bodies and to invest the funds, until such time as they are drawn down by the bodies for payment to approved grant applicants and to meet expenses.

Shares of sums received into the Fund (net of operating expenses) were allocated to five good causes: the Arts; Sports; the National Heritage; the National Lottery Charities Board (known as the Community Fund) and the Millennium Commission. The New Opportunities Fund was subsequently established on 14 October 1997. On 1 July 1999, 1 October 1999 and on 7 April 2000 the UK Sports Council, the UK Film Council and Scottish Screen respectively became new distributing bodies. The percentages received by each Distributing Body were set out in sections 22 and 23 of the National Lottery etc. Act 1993 as amended by section 6 of the National Lottery Act 1998 and subsequent secondary legislation. This analysis of percentage shares can be found in Note 14 of the accounts (page 22).

On 21 August 2001, the Millennium Commission ceased receiving a share of National Lottery ticket sales income. The 20% share that it had been receiving, and any income it had received above a gross figure of £2,286.5m was, from 21 August 2001, allocated to the New Opportunities Fund (NOF), thereby increasing NOF's share of income to 33.3333333%.

The shares for the arts and sport are further divided between the four Arts Councils, the UK Film Council, Scottish Screen and the five Sports Councils to give percentages as shown in Note 14 of the accounts.

Interest received on the investments is attributed to the fifteen Distributing Bodies in proportion to the share of the balance on the Fund held by each body. However, the National Lottery Bill introduced in Parliament in May 2005 contains a measure that, if enacted, will alter the attribution of investment income so that it is divided between distributors in the same fixed proportions as operator-related income to the NLDF.

The accounts show a statement of income and expenditure of the NLDF for the year ending 31 March 2005.

Review of Activities

The National Lottery was launched on 14 November 1994, with the first prize draw on 19 November and the first payment into the NLDF on 22 November. Including interest earned on the NLDF balances, more than £17.1 billion had been raised for the Good Causes by 31 March 2005.

Camelot Group plc was awarded the first licence to operate the National Lottery between 29 July 1994 and 30 September 2001. As the award of the next licence was delayed, an interim licence was granted to Camelot plc between 1 October 2001 and 26 January 2002. Camelot was awarded the second licence by the regulator of the National Lottery, the National Lottery Commission, which runs between 27 January 2002 and 31 January 2009. Principal categories of income into the NLDF for the period to 31 March 2005 comprise:

- A proportion of Lottery ticket sales, as determined by the licence granted to the Operator, Camelot Group plc, by the National Lottery Commission under section 5 of the National Lottery etc. Act 1993 as amended;
- Any prizes which are not claimed within 180 days of the draw date for the National Lottery Game or 180 days of the close of any Scratchcards game. These unclaimed prizes fall due to the NLDF after the 180 days;

- Income from National Lottery ancillary activities: this is income from commercial transactions, which utilise the existence of the National Lottery for profit. In this way the NLDF shares in the benefits of any commercial activities which are derived from their connection with the National Lottery; and
- Interest on the Players Trust Fund – The Inland Revenue agreed during 1997-98 that the NLDF should be allowed to reclaim tax deducted on interest received from the Players Trust Fund.

When the Lottery was set up five good causes were identified: the arts, sport, the national heritage, charitable expenditure and projects to mark the year 2000 and the beginning of the third millennium. After prizes, Lottery duty and returns to the operator and retailers had been deducted, each of these five causes received 20% of the remaining proceeds of the Lottery. In 1998/99 a sixth good cause of health, education and the environment was set up and was allocated a 13.33% share, with the arts, sport, the national heritage and charitable expenditure each reducing to 16.66%. During 2001/02, the income stream to the millennium cause was ended and the share going to health, education and the environment raised to 33.33%.

By the end of 2004/05, the portfolio of Lottery games including Lotto, Lotto Extra, Daily Play, Scratchcards and interactive games had generated £15.4 billion for good causes, with investment returns adding a further £1.7 billion. Lottery distributing bodies had awarded over 200,000 grants, with a total value of over £16.1 billion in value. Fresh commitments continue to be made. Awards to the end of 2004/05 had been made to projects with a total cost of almost £31.4 billion meaning that, on average, each Lottery grant levered in almost the same amount of additional money from other sources.

The Lottery supports a huge range of projects in terms of both types and sizes. There have been 58 awards of £20 million or more, including:

- £44.4 million to Sustrans Ltd in September 1995 towards the development of a 5,000-mile cycle network connecting towns and cities throughout the UK;
- £20.2 million in April 1996 to develop the Royal Albert Hall in London;
- £55.9 million in May 1997 to help create the Eden Project in Cornwall;
- £36.2 million in November 1997 to the Glasgow Science Centre Charitable Trust to create a variety of exhibition and community facilities on a five-acre site;
- £92 million in February 2000 towards Eastlands SportCity in Manchester, incorporating the Commonwealth Games stadium.

At the other end of the scale, over half of Lottery awards have been below £5,000, again to support an enormous variety of projects and activities. To give only a few examples, these include sports and social clubs for people with disabilities; play groups, scout groups and pensioners' groups; ethnic minority community and arts bodies, and local history, archives and archaeological societies.

Many Lottery distributing bodies have set up 'themed' funding programmes to support particular objectives. Examples are:

- the New Opportunities Fund's *PE and Sport Programme* (£750 million) to create new and improved outdoor and indoor sports facilities in schools;
- the Heritage Lottery Fund's *Regeneration of Parks* programme (£320 million) for the enhancement of parks, squares, gardens and cemeteries and the *Your Heritage* programme which provides grants of between £5,000 and £50,000 to support community-focused heritage projects. These projects involve, for example, caring for the natural landscape, conserving historic buildings, places and objects and involving people in exploring local cultures, traditions, languages and ways of life;
- the *Active England* programme (£108.5 million), jointly funded by the Big Lottery Fund and Sport England to drive up physical activity levels and sports participation rates in England in all sections of society; and
- the Millennium Commission's *Foundation for Social Entrepreneurs* (£100 million) to which individuals can apply for grants to undertake projects, of various types, to benefit themselves and their community.

Operating and Financial Review

Operating Review

Under the new operating licence, which began on 27 January 2002, the main portion of the money passing to the NLDF is no longer linked directly to sales. Instead it is calculated as the major share of the pool that is left after deducting from sales the value of prizes, Lottery Duty, and a retention by Camelot. The Camelot retention includes an index-linked flat rate on the excess of annual sales over £4 billion. This aligns Camelot's interests with those of the NLDF.

The Statement of Financial Requirements, issued by the Secretary of State for Culture, Media and Sport to all lottery distributors, establishes a financial framework within which their lottery distribution activities are to be conducted. As the Accounting Officer of the NLDF, I seek annual assurances from the Accounting Officer of each lottery distributor that they have in place adequate financial management systems and controls for the efficient, effective and equitable distribution of Lottery monies. In particular, I expect distributing bodies' Accounting Officers to satisfy themselves on an annual basis that the body has complied with its current Lottery financial directions; has adequate internal and external audit arrangements in place; has adequate arrangements for detecting and responding to inefficiency, conflict of interest and fraud and for minimising losses of Lottery grant, and maintains risk assessment and control procedures and risk registers.

I obtain independent confirmation of the reliability of the assurances provided by each Accounting Officer on the adequacy of their systems from the work of my Department's sponsor branches and from the Department's Internal Audit Unit.

The Euro

DCMS has reviewed the possible impact of the introduction of the Euro. We expect no significant effects or costs on maintaining NLDF systems should the Euro be introduced.

Staffing and Organisation

Members of DCMS Finance and Planning Division and National Lottery Distribution and Communities Division were engaged part time on NLDF matters. Their staff costs are charged to the NLDF in proportion to the amount of time staff spend on NLDF duties.

During the financial year, the NLDF invested its funds with the Commissioners for the Reduction of the National Debt (CRND) whose operations are carried out by the UK Debt Management Office (DMO)

Both the DCMS and the DMO are equal opportunities employers, who do not discriminate against staff or eligible applicants for posts on the grounds of gender, marital status, race, colour, nationality, ethnic origin, religion, disability, age or sexual orientation.

Within the framework of regulation set by the Government, the role of the NLC is to monitor and report on the performance of Camelot (the current operator) and to enforce the terms of its Section 5 licence. This includes ensuring that Camelot complies with licence terms relating to the banking, record keeping and security of monies received, as well as their remittance to the NLDF. The NLC also selects the operator of the Lottery. It does not handle any applications for Lottery funds or distribute any Lottery money.

Future Plans

Work continues on assuring elements of the Distributing Bodies' systems. The Department has asked the distributing bodies for information on the proportion of their funds which is uncommitted and their proposals for the level of future commitments.

The New Opportunities Fund and the Community Fund have undergone an administrative merger and are now operating as the Big Lottery Fund, which was publicly launched on 1 June 2004. We intend to bring forward legislation to formalise the merger as soon as parliamentary time allows. The Big Lottery Fund is responsible for distributing 50% of operator-related proceeds to the NLDF.

On 6 July 2005 London was chosen as the host city for the 2012 summer Olympic and Paralympic Games. National Lottery proceeds will provide up to £1,500m towards the public funding package for staging the 2012 Games. £750 million of this is expected to be raised by new Lottery games set up specifically for this purpose. The Horserace Betting and Olympic Lottery Act 2004 provided for the creation of an Olympic Lottery Distribution Fund (OLDF) to hold the proceeds of the new Lottery games and of a new Olympic Lottery distributing body. The OLDF will be the subject of a separate annual accounting process.

Financial Review

The Income and Expenditure Account for the NLDF is set out on page 12. Expenses incurred in operating the Fund (by the DCMS, the CRND and the National Lottery Commission) are, under section 31 of the Act, to be met from the Fund. These expenses totalled £4.8m for the year. The balance on the Fund at 31 March 2005 is held in investments by the CRND as set out in Note 2 of the 2004-05 CRND accounts. The allocation of these funds across the fifteen Distributing Bodies can be seen in Note 10 to these accounts.

The trend over the last 5 years for Income, and Fund balance, is as follows (£m)

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Lottery Income	1,773	1,842	1,592	1,394	1,475
Fund Balance	3,431	3,560	3,256	2,736	2,502

During 2004-05 the Department has continued to work with the Lottery distributing bodies to manage down their NLDF balances so that projects and communities receive the benefits of Lottery funding sooner. During the four and a half years (approximately) from the inception of the Lottery to the end of 1998/99, around £7.3bn (including investment earnings) was raised for good causes, and around £3.7bn drawn down by the distributors, leaving a balance of around £3.6bn. During the six years from 1999-2000 to 2004-05, drawdown of around £11bn exceeded income of about £9.8bn, but for the first three years of that period the balance remained broadly constant at around £3.5bn.

This trend in balances prompted the Department to seek suggestions from distributors as how to reduce balances, thus realising the public benefits of Lottery funding more quickly without endangering future commitments. The good practice ideas generated were incorporated into formal guidance, which was issued to distributors in August 2003. The guidance also discussed the flexibility in the rules about the timing of Lottery grant payments to successful applicants, and called on distributors to draw up individual policies for balance management with targets for future reductions. In addition, the Department agreed to issue more frequent projections of future NLDF income.

The overall NLDF balance fell to approximately £3.3bn at the end of 2002-03, £2.7bn at the end of 2003-04 and £2.5bn at the end of 2004/05. In July 2003, the National Audit Office undertook to conduct an examination of NLDF balance management to inform policy and practice in this area. The NAO published its report in July 2004, concluding that there was scope for distributors to reduce balances further, mainly by making more commitments, although this would take time to take effect. The report also highlighted the uncertainties distributors faced relating to both future income levels and the end of the current National Lottery operator's licence in 2009. It suggested DCMS take action to address these uncertainties. The Department accepted the NAO recommendations and has implemented those directed at the Department. It has, for example, set out a clear timetable for making decisions on the division of Lottery proceeds between good causes after 2009 and sharpening the timeliness with which quarterly projections of NLDF income are issued to the distributing bodies as well as improving the clarity of the projections.

Sue Street
Permanent Secretary and Accounting Officer,
Department for Culture, Media and Sport

20 December 2005

Statement of Responsibilities of Secretary of State, Accounting Officer and the National Lottery Commission

Under section 33(1) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998), the Secretary of State for Culture, Media and Sport is required to prepare a statement of accounts for each financial year in the form and on the basis directed by the Treasury. A copy of the Accounts Direction may be obtained from the Finance & Planning Division, within the Department for Culture, Media & Sport. The accounts are prepared on an accruals basis and must give a true and fair view of the Distribution Fund's state of affairs at the year-end and of its income and expenditure and cash flows for the period.

In preparing the accounts the Secretary of State is required to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates 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 a going concern basis, unless it is inappropriate to presume that the Fund will continue in operation.

The Treasury has appointed the Permanent Secretary of the Department for Culture, Media and Sport as the Accounting Officer for the Distribution Fund. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in "Government Accounting".

The Permanent Secretary's responsibilities over the Fund extend to the receipt of Lottery revenues from Camelot Group plc, their placement with the CRND and disbursements to the fifteen distributing bodies. The National Lottery Commission, which took over the functions of the Office of the National Lottery and its Director General from 1 April 1999, is responsible, using the powers set out in the 1993 Act, as amended by the National Lottery Act 1998, and in the licence granted to Camelot Group plc under section 5 of the National Lottery etc. Act 1993, for ensuring that Camelot Group plc meet their obligations under the licence, including their financial obligations to the National Lottery Distribution Fund. The Permanent Secretary has no locus in operational matters related to the licence.

The Department is notified of amounts due to be paid to the NLDF by Camelot; this is overseen by the National Lottery Commission. The Commissioners are also required to report after the end of each financial year to the Secretary of State on the exercise of their functions during the year. The Accounting Officer of the Commission has provided me with a statement of assurance and in this he outlines the compliance work undertaken at Camelot Group plc during the year ended 31 March 2005 which has led him to be satisfied that the payments to the NLDF during the year to 31 March 2005 are complete and accurate in all material respects.

Sue Street
Permanent Secretary and Accounting Officer,
Department for Culture, Media and Sport

20 December 2005

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the operation of the National Lottery Distribution Fund (NLDF), whilst safeguarding NLDF funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

Financial Directions have been given by the Secretary of State (or by Ministers in Scotland and Northern Ireland with the Secretary of State's consent) under the National Lottery etc. Act 1993 (as amended) to Lottery Distribution Bodies covering:

- i) a Statement of Financial Requirements, which includes requirements for the Bodies to provide independent verification that their systems for the award of grants and for the control of administration expenditure are adequate before funds are released from the NLDF, and to carry out independent reviews of live running, reporting systems changes to me; and
- ii) the need to establish and report on the ongoing effectiveness of procedures for handling potential conflicts of interest.

The National Lottery Commission is responsible, using the powers set out in the 1993 Act, as amended by the National Lottery Act 1998, and in the licence granted to Camelot Group plc under section 5 of the National Lottery etc. Act 1993, for ensuring that Camelot Group plc meets its obligations under the licence, including financial obligations to the NLDF. The National Lottery Commission notifies the Department of the amounts due to be paid over by Camelot Group plc to the NLDF. The Commissioners are also required to report after the year-end of each financial year to the Secretary of State on the exercise of their functions during the year.

Distributing body Accounting Officers have separate responsibility for ensuring that Lottery funds are distributed with due regularity and propriety, and for identifying and reporting to me any systems failure significant enough to call into question the fitness of the body to continue to draw down funds from the NLDF.

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 the Fund's purposes; it can therefore provide only a 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 Fund, 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 for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

Capacity to Handle Risk

As Accounting Officer I acknowledge my overall responsibility for ensuring the Department is committed to high standards of corporate governance, including the effective management of risk throughout the Department.

The NLDF follows the DCMS risk management policy and process. The Department's risk management policy has been agreed by the DCMS Board and is subject to regular review and revision to ensure it reflects best risk management practice. It defines what is meant by risk and risk management, outlines the key principles underpinning the Department's approach to risk management, the risk management process and the roles and responsibilities of staff. Risk Management Guidance is available to all staff. The last revision in February 2005 included the DCMS Board's agreed statement of the Department's risk appetite. Both the Policy and the Guidance are available on the Department's intranet.

The Department has a Risk Improvement Manager and seeks to learn from good practice via the Risk Improvement Manager network and Internal Audit contacts in other bodies, results of internal audit reports and discussions with our many NDPBs.

Risk Management features in departmental training courses as appropriate and was covered in the event to launch the 2005-06 business planning round. Facilitated risk workshops are also available. One-to-one training sessions on risk and Assurance were provided to new senior members of staff prior to the year-end Assurance and risk reporting process.

The Risk and Control Framework

The NLDF has a risk register which is subject to regular review by the DCMS Head of National Lottery Distribution and Communities Division (NLDCD) and the Head of Financial Management & Accounting, with areas of concern reported to the DCMS Audit Committee. A self-assessment approach to risk identification is used with risks evaluated in respect of both impact and likelihood. As part of the business planning process, Divisions are encouraged to hold facilitated workshops to identify the risks to divisional objectives, to evaluate these and to identify the necessary controls. Guidance is available on the types of risk that the Fund could face. Risks are evaluated in respect of both the impact if the risk is realised and the likelihood of it being realised. Each significant risk is required to have a contingency plan which identifies the risk "trigger points" which give early warning of the risk materialising. All risks are assigned Risk Owners i.e. someone with sufficient authority to ensure the risk is addressed and that clear responsibility to manage the risk is allocated to specific offices. The final stage of the process is to complete the risk register and to keep it under review.

The NLDCD co-ordinates the Department's annual Lottery Assurance Review. The Department derives assurance primarily from the Statements on Internal Control (SICs) submitted annually by each distributing body. The NLDCD reviews the SICs with Finance and Planning Division, and the distributing bodies' sponsoring divisions, contributing additional information and comments as appropriate. The Internal Audit Unit monitors and audits this process.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of executive managers within the NLDF who have responsibility for the development and maintenance of the internal control framework, audits by the DCMS Internal Audit Unit and recommendations from 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 Audit Committee, and a plan to address any weaknesses and ensure continuous improvement of the system is in place.

The key elements of the system of internal control are set out above and contribute to my review of the system's effectiveness. The following bodies also inform my view:

DCMS Board and Strategy Group – the DCMS Board (comprising me, the Department's Directors General (DG), Directors and two non-executive members) meets regularly to review the Department's priorities, oversee their delivery and the strategic framework within which detailed business planning takes place, and to review the strategic risks and the effectiveness of the risk management process.

The governance arrangements for the Board were reviewed during the year following the appointment of three DGs and the issue of the draft Cabinet Office Code on Corporate Governance. A small Strategy Group has been set up, chaired by me, for horizon scanning and to advise on the long term strategic challenges facing the Department. New terms of reference for both the DCMS Board and Strategy Group have been agreed.

Audit Committee – the Committee comprises the Chairman (a non-executive Board member), an independent external member, the Chief Operating Officer, one other Director General and one divisional head. The Committee meets four times a year and advises me on the adequacy and effectiveness of risk management and internal control, including the strategic risk register processes. The Committee also assesses: the internal and external audit activity plans and the results of that activity; the adequacy of management responses to audits and the adequacy of internal audit arrangements in DCMS's NDPBs.

Internal Audit – the Department has an Internal Audit Unit, which operates to Government Internal Audit Standards. The Unit submits regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the arrangements for risk management, control and governance, together with recommendations for improvement.

I outline below the one significant internal control issue for the Department:

During 2004-05 one of the Lottery distributors identified a significant suspected multiple application fraud. Action is being taken against the suspected perpetrators, and the distributor concerned has taken steps to reduce significantly the risk of similar fraud in future. The Secretary of State gave more information in a Written Statement to Parliament in July 2005 (House of Commons Official Report, 13 July 2005, column 27WS).

Sue Street
Permanent Secretary and Accounting Officer,
Department for Culture, Media and Sport

20 December 2005

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

I certify that I have audited the financial statements on pages 12 to 23 under the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998). These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets, and the accounting policies set out on page 15.

Respective responsibilities of the Secretary of State, Accounting Officer and Auditors

As described on page 6 the Secretary of State for Culture, Media and Sport is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Secretary of State for Culture, Media and Sport is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and Treasury directions made thereunder, and 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Fund has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 7 to 9 reflects the Fund's compliance with Treasury's guidance "Corporate Governance: Statement on Internal Control." I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am not required to form an opinion on the effectiveness of the National Lottery Distribution Fund's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Secretary of State in the preparation of the financial statements and of whether the accounting policies are appropriate to the Fund'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 are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the income and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. With regard to the completeness of income to the Fund, my audit included a review of the Statement of Assurance provided by the Accounting Officer of the National Lottery Commission to the Accounting Officer of the National Lottery Distribution Fund, mentioned on page 6, and the work of the Commission in this respect. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Audit Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the National Lottery Distribution Fund as at 31 March 2005 and of the decrease in funds available and cash flows for the year then ended and have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and with the directions made thereunder by the Treasury; and
- in all material respects the income and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

13 January 2006

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

Income and Expenditure Account for the Year Ended 31 March 2005

	Note	2004-05 £000	2003-04 £000
Income			
National Lottery	2	1,361,295	1,303,006
Investment Income	3a	137,353	156,078
Net (loss) on Sale of Investments	3b	(47,559)	(48,259)
Revaluation gain/(loss) on investments	3c	23,982	(16,424)
Total Income		1,475,071	1,394,401
<i>Less: Operational Costs</i>			
Department for Culture, Media and Sport	4	236	243
National Lottery Commission Grant in Aid	5	4,401	3,765
Other Expenses	6	190	154
		(4,827)	(4,162)
Net Realised Income for Distribution		1,470,244	1,390,239
Amounts Drawn Down by Distributing Bodies	10	(1,704,291)	(1,910,472)
Increase/(decrease) in Amounts Held for Distributing Bodies		(234,047)	(520,233)
Balance brought forward		2,736,184	3,256,417
		2,502,137	2,736,184

All transactions are in respect of continuing operations.

NLDF has no recognised gains or losses in year other than those that appear in the Income and Expenditure Account.

The notes on pages 15 to 23 form an integral part of these accounts.

Balance Sheet as at 31 March 2005

	Note	2004-05 £000	2003-04 £000
Current Assets			
Debtors	7	18,903	15,780
Investments	8	2,483,313	2,720,492
Cash at Bank and in Hand		–	–
		<u>2,502,216</u>	<u>2,736,272</u>
Creditors: Amounts falling due within one year	8	(79)	(88)
Net Current Assets		<u>2,502,137</u>	<u>2,736,184</u>
Represented by:			
Amounts held for Distributing Bodies	10	<u>2,502,137</u>	<u>2,736,184</u>

The notes on pages 15 to 23 form an integral part of these accounts.

Sue Street
Permanent Secretary and Accounting Officer,
Department for Culture, Media and Sport

20 December 2005

Cash Flow Statement for Year Ended 31 March 2005

	Note	2004-05 £000	2003-04 £000
Operating Activities			
Cash received from Lottery operator		1,358,172	1,312,403
Cash paid for operating expenses		(4,836)	(4,165)
Cash paid to Distributing Bodies	10	(1,704,291)	(1,910,472)
Net cash (outflow) from operating activities	9	(350,955)	(602,234)
Management of liquid resources			
Cash Paid to CRND for Investment		(1,353,336)	(1,308,238)
Cash received from CRND for distribution	10	1,704,291	1,910,472
Net cash inflow from management of liquid resources		350,955	602,234
Change in cash		—	—

All investment income is re-invested by the Commissioners for the Reduction of the National Debt and therefore there are no cashflows arising from investments.

The notes on pages 15 to 23 form an integral part of these accounts.

Notes to the Financial Statements

1 Statement of Accounting Policies

Basis of Accounting

The financial statements have been prepared on a historical cost basis, modified by assets at their value to the business by reference to current costs, and in accordance with the Accounts Direction given by the Treasury on 8 July 2004. These Directions have been consistently applied throughout the year. Without limiting the information given, these financial statements meet the accounting and disclosure requirements of the Companies Act 1985 and Accounting Standards issued or adopted by the Accounting Standards Board in so far as these requirements are appropriate.

Nature of Account Balances

Balances held in the NLDF remain under the stewardship of the Secretary of State for Culture, Media and Sport. The share of the Fund attributable to each Distributing Body at the balance sheet date and shown in these accounts has been certified by the Secretary of State for Culture, Media and Sport as being available for distribution by each body in respect of current and future commitments.

Recognition of Lottery Income

Proceeds from the Lottery due to the NLDF from the operator, Camelot Group plc, are calculated on an annual basis as set out in the Section 5 Licence. Payments are made to the NLDF each week on the basis of actual sales and prizes. The amounts recognised in these accounts for the Lottery Primary Contribution include income receivable on ticket sales from 1 April 2004 in respect of all draws within the year up to and including 30 March 2005.

The Lottery Primary Contribution also includes income due to the NLDF from the sale of Scratchcards. Under the terms of the licence, income is collected by Camelot and paid to the NLDF on packs of cards once a pack becomes settled. The retail value of each pack is £120. This occurs 30 days after a pack is activated or once 60% of the low tier prizes have been won, whichever is the sooner.

Lottery prizes that remain unclaimed for 180 days after a draw, or closure of a scratchcard game, are paid to the NLDF. Accruals have been made for prizes expiring on or before 31 March but not paid to NLDF at this date.

The prize target shortfall was built into the financial arrangements under the first Section 5 licence that ran from 1994 to 2001 and the interim licence that ran until January 2002. The shortfall was the difference between anticipated prize payments (50%) and actual prize payments (48%).

The 50% 'target' was based on the expected average prize payout for all National Lottery games. Different games paid out different levels of prizes. The main game paid out 45% and sold more than 'Instants' (which paid out 55% or more). As a result, the actual average was lower than expected. The shortfall was paid into an account that earned interest and passed to the NLDF annually.

Under the second licence, there is no estimated prize amount. Actual prizes, together with Lottery duty and an element of Camelot's fixed costs relating to sales, are deducted from sales. The balance is pooled, to be shared between Camelot and the good causes. Therefore, the amounts that would previously have passed annually to the NLDF account now pass directly to the NLDF as part of Camelot's regular weekly contributions.

Interest on the Players Trust Fund is recognised in the accounts on an accruals basis.

Recognition of Amounts Drawn by Distributors

The amounts recorded as drawn down by the Distributing Bodies represent the actual cash claims made by them.

Investments

Investments held by the CRND are valued in these accounts at market value.

2 Income from Lottery Activities

	2004-05	2003-04
	£000	£000
Primary Contribution (see note a below)	1,254,497	1,226,412
Unclaimed Prizes	100,215	73,412
Interest on Players Trust Fund (see note b below)	5,961	2,787
Income from Ancillary Activities	622	395
	<u>1,361,295</u>	<u>1,303,006</u>

- a) Under the Section 5 Licence to run the National Lottery, Camelot is allowed to recover certain amounts from the Primary Contribution figures. These adjustments are made after the year end and, due to the effect they would have on the share of proceeds to the Distributing Bodies and consequently their accounts, the adjustments are reflected in the following year's accounts. The total of the adjustment relating to 2004-05 (which will be taken from 2005-06 income) was £7,151k, where £1,800k is in respect of New Media (Interactive) sales, £2,044k to recover 50% of the actual spend of the National Lottery Promotions Unit (NLPU), and £3,307k to recover an overpayment in respect of Primary Contribution receipts. The corresponding amount deducted in the above figures in respect of 2003-04 was £2,610k, and the breakdown was £2,100k, £386k, and £123k for New Media, NLPU and Primary Contribution receipts respectively.
- b) The Inland Revenue agreed that the NLDF should be allowed to reclaim tax deducted on interest received from the Players Trust Fund.

3 Investment income

	2004-05	2003-04
	£000	£000
<i>3a Investment Income</i>		
Interest Received on investments	<u>137,353</u>	<u>156,078</u>
<i>3b Net Loss on sale of investments</i>		
Profits on sales of investments	1,486	2,485
(Losses) on sales of investments	<u>(49,045)</u>	<u>(50,744)</u>
	<u>(47,559)</u>	<u>(48,259)</u>

The NLDF's objective is to provide for Distributing Bodies' liquidity needs, and to maximise returns over the medium term. The range of permitted investments is restricted to those contained within a Direction made by HM Treasury.

From the start of 2004-05, the investment stance taken by CRND was changed so that 50% of the Fund was invested in a range of up to 6-month 'cash' instruments and 50% was invested in a range of passively managed up to 3-year gilt-edged securities (gilts). The gilts part of the Fund is re-balanced at the end of each month to ensure the holdings match the proportions of the up to 3-year gilts then available in the market.

Gilts purchased by CRND are normally intended to be held until their redemption dates, although portions may be sold prior to this to maintain the 50/50 split between cash and gilts and to maintain the correct relative percentages of the individual gilt holdings. Profits and losses realised on the disposal of gilts reflect the differences between the original market prices paid and the disposal/redemption values.

The majority of the capital losses taken to account during 2004-05 were as a consequence of the disposal of two large gilt holdings. A holding of 6¾% Treasury Stock 2004, purchased some years earlier at £105.87%, matured at par value and, in addition, a holding of 5% Treasury 2008 was disposed of as a consequence of the decision to change the Fund's investment stance noted above. During the period that these gilts were held, the Fund received higher than average dividend flows as compensation for the run down in their capital value towards their respective end dates.

3c Revaluation gain/(loss) on investments

	2004-05	2003-04
	£000	£000
Unrealised (Loss)	(9,291)	(33,273)
Amount brought forward and recognised in year	33,273	16,849
	23,982	(16,424)

Revaluation gains/(losses) reflect the difference between the price at which gilts were acquired and the market price at the balance sheet date.

4 Operational Costs: Department for Culture, Media and Sport

	2004-05	2003-04
	£000	£000
Staff Costs	128	129
Charge for the use of DCMS assets	10	11
Audit fee: Comptroller and Auditor General	21	20
Accommodation and Central Services	45	46
Bank of England charges	5	4
IT, Consultancy, and Training	27	33
	236	243

The Auditor's remuneration for the year was £21,000 (£20,000 in 2003-04).

In 2004-05 eight members of DCMS Finance Division and National Lottery Division were engaged, part time, on NLDF matters. Their staff costs are charged to the NLDF in proportion to the amount of time they spend on NLDF duties.

Staff costs comprise:

	2004-05	2003-04
	£000	£000
Salaries	100	103
National Insurance	11	10
Superannuation	17	16
	128	129

All staff are members of the Principal Civil Service Pension Scheme hence superannuation is included in staff costs. Further details on the PCSPS can be found in the DCMS Resource Accounts for 2004-05. The Head of Financial Management and Accounting is Robert Wright who is an employee of the Department for Culture, Media and Sport. Ten percent of his salary costs are recharged to the NLDF. The Head of the National Lottery Distribution and Communities Division is Simon Broadley who is an employee of the Department for Culture, Media and Sport. Ten percent of his salary costs are recharged to the NLDF. The Accounting Officer of DCMS is also the Accounting Officer of the NLDF. None of the Accounting Officer's salary is recharged from DCMS to NLDF.

A share of the accommodation costs of the building occupied by DCMS has been charged to the NLDF, on the basis of the floor area occupied by DCMS staff engaged on NLDF matters as a proportion of the building as a whole. Similarly a share of the Central Service Costs incurred by DCMS has been charged on the basis of the number of DCMS staff engaged on NLDF matters as a proportion of the total number of DCMS staff.

5 Reconciliation of National Lottery Commission Operational Costs

DCMS Grant in Aid funding for National Lottery Commission's operational costs is funded by the NLDF. However, DCMS, and hence the NLDF, only fund the balance of gross Grant in Aid less lottery operator licence fee income received by the NLC.

	2004-05	2003-04
	£000	£000
Grant in Aid (gross)	4,666	4,226
Lottery Operator licence fee income	(265)	(461)
Grant in Aid payable by NLDF via DCMS	<u>4,401</u>	<u>3,765</u>

NLDF paid DCMS £4,401k for 2004-05, although necessary adjustments made by DCMS after the year-end resulted in a final gross grant in aid figure for the NLC of £4,293k, as stated in the DCMS and NLC Accounts. Therefore, the final NLDF sum due was £4,028k and the £373k difference will be adjusted for in 2005-06.

6 Other expenses:

	2004-05	2003-04
	£000	£000
Commissioners for the Reduction of the National Debt	<u>190</u>	<u>154</u>

Amounts paid to the CRND for Management of the NLDF Investment Fund Account.

7 Debtors:

	2004-05	2003-04
	£000	£000
Ticket sales income due as a result of draws prior to year end	<u>18,903</u>	<u>15,780</u>

8 Balance on National Lottery Distribution Fund

	at 31 March 2005		at 31 March 2004	
	Cost	MV	Cost	MV
	£000	£000	£000	£000
Investments held by the CRND	2,492,604	2,483,313	2,753,765	2,720,492
Debtors (note 7)	18,903	18,903	15,780	15,780
Creditors	(79)	(79)	(88)	(88)
Balance held	<u>2,511,428</u>	<u>2,502,137</u>	<u>2,769,457</u>	<u>2,736,184</u>

An analysis of the types of investments held on behalf of the NLDF is shown in the accounts of the CRND.

9 Reconciliation of decrease in Amounts Held for Distributing Bodies as disclosed in Income and Expenditure Account with Net Cash Inflow/(Outflow) from operating activities.

	2004-05	2003-04
	£000	£000
(Decrease) in Amounts Held for Distributing Bodies	(234,047)	(520,233)
Less Investment Income	(137,353)	(156,078)
Add Loss on Sale of Investments	47,559	48,259
Add Impairment loss/ (gain) on revaluation of investments	(23,982)	16,424
	(347,823)	(611,628)
(Increase)/Decrease in Lottery operator debtor	(3,123)	9,397
Decrease in professional penalty debtor	0	5
(Decrease) in creditors for operating expenses	(9)	(8)
Net cash (outflow) from operating activities	(350,955)	(602,234)

It is the policy of the NLDF to hold a nil cash balance whenever possible and to transfer all funds to the CRND for investment on the day of receipt.

10 Reconciliation of Amounts Available to Distributing Bodies At 31st March 2005.

BENEFICIARY SECTORS	Arts	Sports	National Heritage Memorial Fund	Community Fund	The Millennium Commission	The New Opportunities Fund	TOTAL
	£000	£000	£000	£000	£000	£000	£000
National Lottery proceeds							
Share of income from Lottery	226,882	226,882	226,882	226,882	0	453,767	1,361,295
LESS Share of Operational Costs	(805)	(805)	(805)	(805)	(85)	(1,524)	(4,827)
	<u>226,077</u>	<u>226,077</u>	<u>226,077</u>	<u>226,077</u>	<u>(85)</u>	<u>452,243</u>	1,356,466
Amount authorised for payment to DB's	(297,663)	(241,579)	(308,268)	(272,782)	(53,999)	(530,000)	(1,704,291)
Investment Income	14,986	13,539	40,198	7,917	5,996	31,140	113,776
(Decrease) in balance available	(56,600)	(1,963)	(41,993)	(38,788)	(48,088)	(46,617)	(234,047)
Market Value at 1 April 2004	372,131	315,336	942,570	213,250	155,622	737,276	2,736,184
Market Value at 31 March 2005	<u>315,532</u>	<u>315,373</u>	<u>900,577</u>	<u>174,462</u>	<u>107,534</u>	<u>690,659</u>	2,502,137
Balance at 31 March 2005	316,720	314,555	903,972	175,122	107,799	693,259	2,511,427

ARTS BODIES	Arts Council of England £'000	Scottish Arts Council £'000	Arts Council of Wales £'000	Arts Council of N Ireland £'000	UK Film Council £'000	Scottish Screen £'000	SUBTOTAL ARTS £'000
National Lottery proceeds							
Share of income from Lottery	161,313	17,561	11,344	6,353	27,679	2,632	226,882
LESS Share of Operational Costs	(572)	(63)	(40)	(23)	(98)	(9)	(805)
	<u>160,741</u>	<u>17,498</u>	<u>11,304</u>	<u>6,330</u>	<u>27,581</u>	<u>2,623</u>	226,077
Amount authorised for payment to DB's	(219,984)	(23,660)	(16,175)	(8,248)	(29,370)	(226)	(297,663)
Investment Income	8,428	1,646	907	1,556	2,289	159	14,986
(Decrease)/Increase in balance available	(50,815)	(4,516)	(3,964)	(362)	500	2,557	(56,600)
Market Value at 1 April 2004	224,077	41,964	23,972	35,644	44,280	2,194	372,131
Market Value at 31 March 2005	<u>173,262</u>	<u>37,448</u>	<u>20,008</u>	<u>35,282</u>	<u>44,780</u>	<u>4,751</u>	315,532
Balance at 31 March 2005	173,915	37,590	20,082	35,415	44,950	4,768	316,720
SPORTS BODIES							
		English Sports Council £000	Scottish Sports Council £000	Sports Council for Wales £000	Sports Council for N. Ireland £000	UK Sports Council £000	SUBTOTAL SPORTS £000
National Lottery proceeds							
Share of income from Lottery		171,523	18,377	10,210	5,899	20,873	226,882
LESS Share of Operational Costs		(608)	(65)	(37)	(21)	(74)	(805)
		<u>170,915</u>	<u>18,312</u>	<u>10,173</u>	<u>5,878</u>	<u>20,799</u>	226,077
Amount authorised for payment to DB's		(170,700)	(28,977)	(18,888)	(5,939)	(17,075)	(241,579)
Investment Income		8,965	2,625	722	1,046	181	13,539
(Decrease)/Increase in balance available		9,180	(8,040)	(7,993)	985	3,905	(1,963)
Market Value at 1 April 2004		201,560	65,032	21,471	23,488	3,785	315,336
Market Value at 31 March 2005		<u>210,740</u>	<u>56,992</u>	<u>13,478</u>	<u>24,473</u>	<u>7,690</u>	313,373
Balance at 31 March 2005		211,534	57,206	13,529	24,565	7,719	314,554

Some figures in this note may not cast arithmetically to the totals shown elsewhere in the account due to roundings and the use of percentages in allocating National Lottery proceeds to the Distributing Bodies.

11 Distributing Bodies Grant Commitments

The Lottery distributors are deemed to have 'committed' Lottery funds once they have a signed contract in place between themselves and a grant recipient. Once an award contract is signed, the Lottery distributor becomes legally obliged to pay over the funds on condition that the terms of the grant contract are met.

As at 31st March 2005 the distributors had committed £2.785 billion of the balance held within the National Lottery Distribution Fund and expect that the respective grant awardees would draw down £1.337 billion of those funds within one year of the 31st March 2005 and the balance in the period after that date.

The figures shown are based on amounts recorded in the National Lottery Distributors' accounts. At the time of preparing these accounts, distributors figures marked * are from draft accounts, and not from final, signed accounts.

	Commitments Falling Due Within One Year £000	2004-05 Commitments Falling Due in Over One Year £000	Total £000	2003-04 Total £000
Arts Council of England	107,028	80,740	187,768	185,189
Arts Council of Wales	13,554	5,095	18,649	18,857
*Scottish Arts Council	22,598	1,240	23,838	28,098
Arts Council of Northern Ireland	10,805	8,867	19,672	18,216
*Sport England	136,480	41,822	178,302	230,315
*Sports Council for Northern Ireland	6,163	604	6,767	8,745
Sport Scotland	20,458	13,339	33,797	46,631
Sports Council for Wales	13,527	3,278	16,805	18,453
The National Heritage Memorial Fund	316,114	416,819	732,933	660,358
*Community Fund	169,049	159,612	328,661	399,860
Millennium Commission	51,555	7,925	59,480	91,633
UK Film Council	13,922	11,862	25,784	5,931
*Scottish Screen			4,244	2,935
New Opportunities Fund	448,754	680,983	1,129,737	1,113,230
UK Sport	7,077	11,151	18,228	14,632
	<u>1,337,084</u>	<u>1,443,337</u>	<u>2,784,665</u>	<u>2,843,083</u>
NLDF Balance Available			<u>2,502,137</u>	<u>2,736,184</u>
(Over committed)/				
Under committed Balance (see below)			<u>(282,528)</u>	<u>(106,899)</u>

* At 31st March 2005, the total level of 'soft'¹ and 'other'² commitments by all Distributors was around £1,178m (£845m at March 2004).

1 A soft commitment is where a distributing body has decided in principle to fund a project.

2 The term 'other commitments' includes:

Stage one approvals which are likely (but not certain) to go on to receive approval for funding at stage 2. Stage 1 approvals more likely to fail at stage 2 are excluded)

Money set aside by a distributing body to fund a specific future project in advance of a formal decision being taken.

12 Financial Instruments

Accounting Standard FRS 13 – Derivatives and Other Financial Instruments, requires that the NLDF discloses the effect that financial instruments have had during the period in creating or changing the risks it faces in undertaking its role.

Liquidity Risks

The NLDF receives its income from the National Lottery and from returns accruing on funds, which have not been drawn down by Distributors. The income into the NLDF is available to the Distributors for drawdown to pay grant commitments, less any operating expenses. Distributors can only draw down funds which are in their share of the portfolio. The Fund is therefore not exposed to Liquidity Risks.

Interest Rate Risks

The Financial assets of the NLDF are invested with the CRND which manages its investments. The investments made by the CRND are made in accordance with directions made by HM Treasury and are therefore not controlled by the NLDF. The average return on the investments in the financial year was 4.5124% for the main part of the Fund and 4.5622% for the Millennium part of the Fund. The difference in return is due to different investment strategies being in place for the two funds. The Millennium part of the Fund is more heavily weighted in favour of cash instruments to reduce interest rate risk. This strategy performed better in 2004-05, because there were fewer revaluation losses to take into account. The NLDF does not consider itself to be exposed to any significant interest rate risks.

Foreign Currency Risks

The NLDF is not exposed to any foreign exchange risks.

13 Related Party Transactions

The NLDF is maintained under the control and management of the Secretary of State of the Department for Culture, Media and Sport (DCMS). The DCMS is considered to be a related party. During the year, a number of staff employed by the DCMS worked on NLDF related activities and the Fund used a number of the assets owned by DCMS. These costs were recharged to the Fund by DCMS and are reflected in Note 4 of the accounts. DCMS is also the sponsoring Department of the UK wide and English based lottery distributors. CRND, which is ultimately part of HM Treasury, is also considered a related party.

14 Distributing Body share of Fund

The percentages received by each Distributing Body were set out in sections 22 and 23 of the National Lottery etc. Act 1993 as amended by section 6 of the National Lottery Act 1998 and subsequent secondary legislation as follows:

	To 13.10.97	14.10.97 to 14.02.99	15.02.99 to 16.05.99	17.05.99 to 20.08.01	21.08.01 to 31.03.05
The Arts	20	16.6666667	5	16.6666667	16.6666667
Sports	20	16.6666667	5	16.6666667	16.6666667
The National Heritage	20	16.6666667	5	16.6666667	16.6666667
Charitable expenditure	20	16.6666667	5	16.6666667	16.6666667
Millennium projects	20	20	20	20	–
Health, education and the environment	–	13.3333333	60	13.3333333	33.3333333

The shares for the arts and sport are further divided as follows:

Arts	To 13.10.97	14.10.97 to 14.02.99	15.02.99 to 16.05.99	17.05.99 to 30.09.99	01.10.99 to 06.04.00	07.04.00 to 31.03.05
Arts Council of England	16.66	13.8833333	4.165	13.8833333	11.8500000	11.850000
Scottish Arts Council	1.78	1.4833333	0.445	1.4833333	1.4833333	1.2900000
Arts Council for Wales	1.0	0.8333333	0.25	0.8333333	0.8333333	0.8333333
Arts Council of Northern Ireland	0.56	0.4666667	0.14	0.4666667	0.4666667	0.4666667
UK Film Council	-	-	-	-	2.0333333	2.0333333
Scottish Screen	-	-	-	-	-	0.1933333
Sports	To 13.10.97	14.10.97 to 14.02.99	15.02.99 to 16.05.99	17.05.99 to 30.06.99	01.07.99 to 31.03.05	
English Sports Council		16.66	13.8833333	4.165	13.8833333	12.6000000
Scottish Sports Council		1.78	1.4833333	0.445	1.4833333	1.3500000
Sports Council for Wales		1.0	0.8333333	0.25	0.8333333	0.7500000
Sports Council of Northern Ireland		0.56	0.4666667	0.14	0.4666667	0.4333333
UK Sports Council		-	-	-	-	1.5333333

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
Tel: 020 7798 7400
Email: enquiries@nao.gsi.gov.uk

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