

**National Lottery Commission
Annual Report & Accounts
2007/2008**

HC 677 (Session 2007-08)

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CORRECTION

Please note the following correction:

Page 5

Paragraph 1, beginning 7th line down and continuing through 8th line down should read:

We were pleased to see sales of £4.966 billion this year and total returns to good causes of £1.360 billion.

September 2008

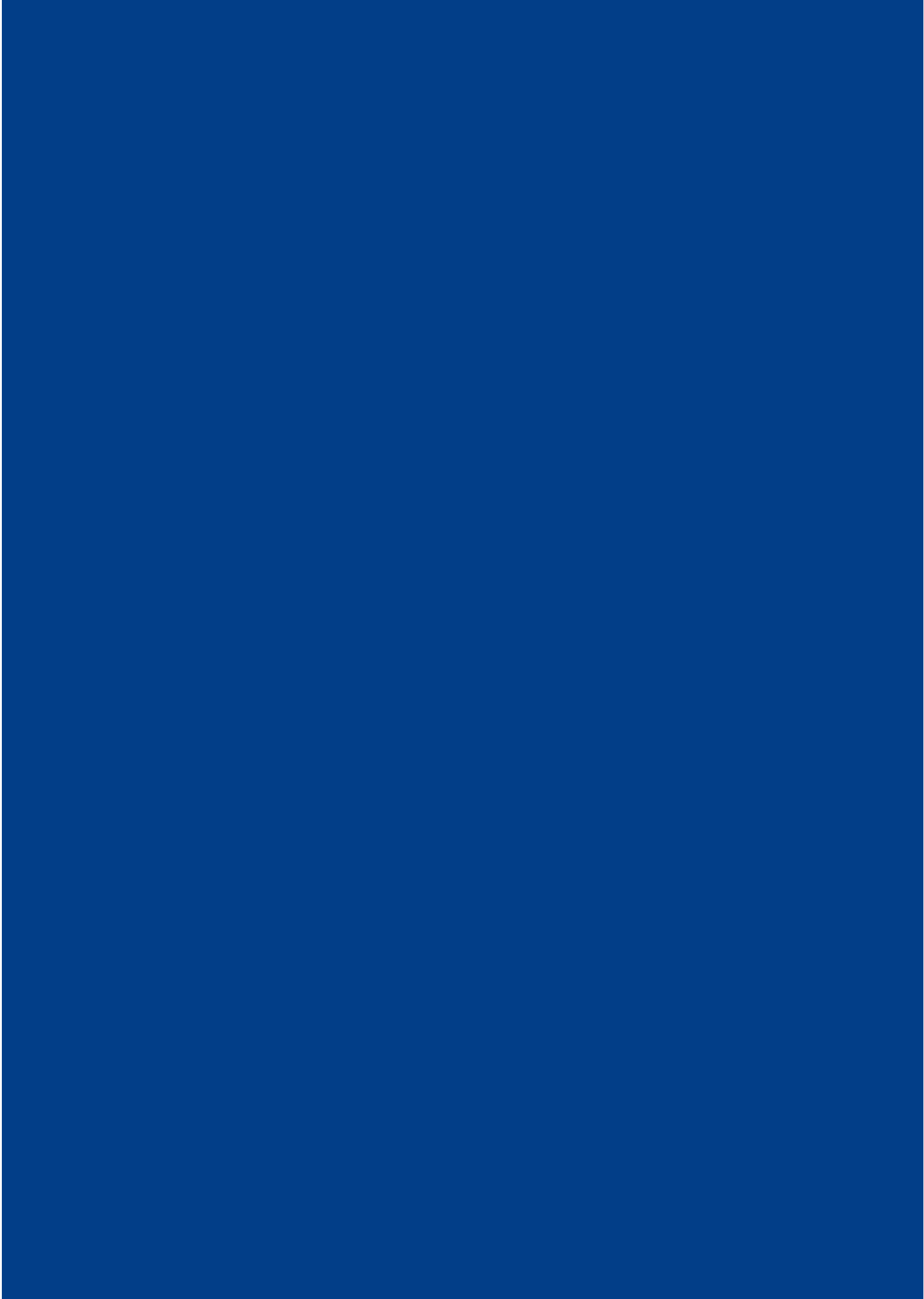
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National Lottery
Commission

Annual Report & Accounts
2007/2008

Transition
Regulation
Reputation
Organisation
Performance



Annual Report prepared in compliance with Section 14 (1) of the National Lottery etc. Act 1993 (as amended) by the Secretary of State for the Department of Culture, Media and Sport.

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Major events of the year

2007

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7 August

The Commission announces Camelot as Preferred Bidder for the Third Licence

10 August

Angela Kelly wins the biggest ever UK jackpot on EuroMillions

30 August

The Commission announced finalised terms and signed an Enabling Agreement for the Third National Lottery Licence with Camelot Group plc

1 September

Deep Sagar appointed as Commissioner

13 September

Speaking at the 11th Annual Lottery Monitor Conference at the British Library, Dr Anne Wright, CBE sets out her vision for the Third Licence period

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2008

19 September

NLC welcomes a benchmark report into gambling prevalence published by the Gambling Commission which showed National Lottery products continue to be one of the most widely played but safest forms of gambling

30 September

Brian Pomeroy CBE leaves the Commission

1 October

Mark Harris appointed as Commissioner

10 October

Total National Lottery funds raised for the 2012 Olympic Games reach £200m

9 November

The Commission publishes *Women and UK National Lottery Play* and *Gender and the Jackpot* research

14 January

Mary Chapman and James Froomberg appointed as Commissioners

1 February

One year countdown to the beginning of the Third Licence

25 March

Timothy Hornsby steps down as Commissioner

Chair's foreword



This year, we have delivered a professional and vigorous competition to operate the National Lottery from 2009 to 2019 and announced Camelot Group plc as the successful bidder in August 2007.

The competition has created refreshed and reinvigorated plans for the National Lottery which will enable it to continue generating billions of pounds for the nations' good causes. It also means that we have an operator who has thought hard and planned carefully for the future challenges and who will tailor its operations and strategies to reflect changing consumer demands and lifestyles. I would like to thank my colleague Robert Foster, who chaired the Project Board which has overseen such a professional and rigorous competition. Robert will continue to chair this Project Board and oversee progress with Camelot's transition.

The National Lottery Commission is proud of its track record as the independent guardian which maintains the propriety of the Lottery and is here to protect players' interests. We have developed a clear framework to refine our regulatory approach, so we can continue to regulate firmly and flexibly whilst keeping the interests of players and the public at our heart.

The National Lottery will continue to deliver funds for the London 2012 Olympic and Paralympic Games over the coming year and we will ensure the delivery of these funds remains on track. We will also scrutinise Camelot

to ensure the transition to the new Licence does not take the focus away from generating returns for all the good causes over the remaining ten months of the 2002-2009 Licence.

The last year has also seen us continue to work constructively with the Gambling Commission, exploring opportunities for both formal and informal exchanging of views and sharing skills, knowledge and experience. While there are areas of common interest between us, the National Lottery is set apart with its responsibility to raise money for good causes and this requires a specialised regulatory approach. We will continue to speak up vigorously when we believe there are circumstances where the unique nature of the Lottery must be considered for the benefit of good causes.

Finally, I would like to highlight the hard work and commitment of the staff and Commissioners at the National Lottery Commission this year. I would like to thank Brian Pomeroy and Timothy Hornsby who both stepped down as Commissioners this year having made an enormous contribution to the success of the National Lottery. I look forward to continuing work with Brian in his new role as Chairman of the Gambling Commission and I am pleased to welcome our new Commissioners, Deep Sagar, Mary Chapman and James Froomberg. Our Commission team has been further strengthened this year with the appointment of the Chief Executive, Mark Harris, as a Commissioner¹. Mark's appointment adds an even greater depth to our regulatory expertise and knowledge.

We look forward to another challenging and exciting year for the National Lottery and we will continue to regulate efficiently and expertly to ensure its continuing success.

Dr Anne Wright CBE
Chair of the National Lottery Commission

¹ The appointment was made under the terms of the National Lottery Act 2006, which allows the Secretary of State to appoint the Chief Executive as a Commission member. The appointment will be for a four year term beginning on 1 October 2007.

Chief Executive's report



We were pleased to see sales of £4.911 billion this year and total returns to good causes of £1.360 billion.

We have made good progress against our strategic objectives for the financial year 2007/08².

We have run a vigorous competition to operate the National Lottery and awarded Camelot Group plc the new ten-year Licence which begins on 1 February 2009. Alongside the intense activity of the competition, we worked hard to ensure that Camelot remained focused on its commitment under the Second Licence to deliver as much money as possible for good causes. We were pleased to see sales of £4.911 billion this year and total returns to good causes of £1.360 billion.

Licence competition and transition

This year, we selected Camelot Group plc to operate the National Lottery from 2009/2019 following a rigorous competition with Sugal & Damani UK Ltd. The process was overseen by the Project Board, chaired by Robert Foster, which met regularly throughout the competition and ensured tight project management.

Our main aim was to secure as great a return as possible for good causes. We estimate that, at a constant level of sales of £5 billion per annum, the Third Licence is likely to result in an average annual increase in returns to good causes of between £60-£100 million when compared with the position for the remainder of the current Licence. This amounts to a total of between £600 million and £1 billion over the ten years of the Third Licence period.

We published a report about the competition, *Creating a Lottery for the Future*³, in April 2008 to provide a full and open record of the competition process. The purpose of this report is to record our experience and help shape thinking for the award of the Fourth Licence. In addition, we hope it may be useful to others who run significant competitive processes.

Having concluded the competition in August, we moved into the transition phase in the second half of 2007/2008 in preparation for the start of the new Licence. Camelot set out ambitious plans in its bid and we should see exciting developments for the National Lottery over the coming years. To begin with, there will be at least 27,500 new terminals installed, supported by a satellite communications network along with a phased roll-out of new games. This is a significant change programme and these innovations will raise new issues for us to consider when making licensing decisions. We will need to consider carefully any game plans in the light of our statutory duties to ensure the Lottery remains fair and safe.

Transition remains our priority and to ensure progress remains on track, we are using the same project management systems we employed during the competition. The Project Board is conducting Transition Stage Reviews throughout the year and shares the findings from each review with Camelot to check progress and assist them in their transition.

² Our corporate strategic objectives are set out in full in the National Lottery Commission's Corporate Plan 2007/10 and available on our website in the About the National Lottery Commission section www.natlotcomm.gov.uk

³ *Creating a Lottery for the Future*, a record of the competition process to award the third National Lottery Licence was prepared during 2007/08 and published in April 2008. Available to download from the Licence competition section of our website under Overview of the Competition, www.natlotcomm.gov.uk

Regulating with excellence

During 2007/2008, we reviewed our licensing, compliance and enforcement functions. This review, together with results from our Regulatory Model consultation in 2006/2007⁴, has been the foundation of our Regulating with Excellence programme. This will enable us to meet the principles of better regulation in a manner appropriate to the Lottery's regulatory regime. In particular, we will develop our approach to place greater focus on areas of risk, to recognise Camelot's past performance, and to deliver regulatory decisions in a timely and transparent manner. We will publish the principles of Regulating with Excellence in the next financial year.

Reputation of the National Lottery and shaping the environment

We have a strong record of using research evidence to inform our regulatory decisions⁵. This year, we conducted in-depth research into female participation in the National Lottery. We had identified that this was an under-researched area and, working with Dr Emma Casey, we undertook research into female play and gender differences⁶. Some 56 per cent⁷ of women regularly play the Lottery and it is important that we understand their motivations and attitudes to ensure that we continue to regulate appropriately.

During 2008/2009 we will develop this work and discuss issues arising from the research with leading academics, researchers and industry groups. Our aim is to stimulate interest and debate across all sectors of the industry and to inform our regulation of the National Lottery going forward.

This year, we have also engaged with the public, seeking their views of the National Lottery to understand their expectations of how the Lottery should be regulated. This work is at an early stage and we will be developing this approach further in 2008/2009.

Camelot's performance

We are pleased that returns to good causes have risen slightly this year. The Primary Contribution⁸ has grown from £1.248 billion to £1.259 billion, an increase of just under 1%. This means that over £21 billion has now been raised since the start of the National Lottery in 1994. It is pleasing to note that there has been no discernible impact from the competition process for the Third National Lottery Licence. Ensuring that Camelot's performance under the second Licence was not distracted by the process was a key priority for us and we are pleased that this focus was maintained.

There has been an overall increase in sales of just over 1%⁹. Camelot has worked hard on developing the internet as a sales channel, and re-focusing the marketing strategy on regular play. This, together with the continued growth of Scratchcards, has balanced the slow down of Lotto sales, which remain the key contributor to good causes. We continue to discuss these changes in consumer behaviour with Camelot, to understand how they are managing their game portfolio to maintain returns to good causes. We were pleased to note that Lotto sales were stronger during the second half of the year and will continue to monitor this situation closely over the coming year.

The National Lottery is committed to raising £750m towards the staging of the London 2012 Olympic Games and Paralympic Games. Specific games are designated to provide the necessary funding and we monitor progress and publish quarterly summaries on our website¹⁰. Camelot and the National Lottery remain on track to meet this target and a total of £264.3 million has been raised to date.

Developing our internal capability

Our work over the past year on the competition, the evaluation phase and our regulatory approach is changing the way we work. We work increasingly in cross-functional teams and are adopting project management disciplines in the management and delivery of our work. We will continue to embed these approaches within our organisation over the coming year. I have been impressed by the way everyone at the Commission has approached these changes positively and contributed to the successful outcome of the competition and the first stages of transition.

4 A Review of the National Lottery Commission's Approach to Regulation, was published in April 2006. Available to download from the Regulating the Lottery section of our website under Regulatory Model Review www.natlotcomm.gov.uk

5 Visit the research section of the National Lottery Commission's website for more details of our research programmes.

6 Women and UK National Lottery Play, Casey E, 2007 and Gender & the Jackpot, Hawkes D and Lepper J 2007 www.natlotcomm.gov.uk

7 Source: British Gambling Prevalence Study, Natcen, 2007.

8 Primary contribution is the amount generated through sales and does not include unclaimed prizes or other miscellaneous payments. As such, it is a better measure of Camelot's sales performance than the gross returns to good causes.

9 Primary contributions did not increase at the same rate as sales due to the changing games mix of the portfolio where a growing percentage of sales came from games that pay more in prizes and less to good causes.

10 Quarterly reports are published in the Regulating the Lottery section of our website under Proceeds Reporting www.natlotcomm.gov.uk

The National Lottery is committed to raising £750m towards the staging of the London 2012 Olympic Games and Paralympic Games.

The Regulating with Excellence programme will see us review thoroughly the systems and structures which determine the way we work. We will review our organisational structure and competencies, pay and reward and performance management systems. This will ensure that we use our resources to best effect and focus the organisation on delivering our strategic objectives. All this will impact on our organisational culture, and we have made progress over the past year in reviewing our values.

Priorities for the year ahead

Transition to the new Licence will remain the uppermost priority for the coming year. The Third Licence begins on 1 February 2009 and it is imperative that the transition from the Second to Third Licence is managed expertly and professionally, and that the levels of sales and returns are maintained for the remainder of the Second Licence period. We have every confidence that Camelot will deliver this and our own transition monitoring process will ensure that we are fully informed of progress.

Alongside this, we will continue to develop and implement our programme to regulate with excellence; play our part in maintaining the reputation of the National Lottery and its environment; and develop our internal capacity and strengthen our organisational culture. We will continue to scrutinise our financial and management systems to ensure they deliver value for money and adopt the best in public sector management and procurement practice.

I and my senior team are very grateful for the way all staff have risen to the substantial challenges we have faced over the past year. I have no doubt that we will all approach the challenges of the coming year with professionalism, commitment and enthusiasm.



Mark Harris
Chief Executive

Introduction

**Throughout 2007/2008,
the National Lottery
Commission has
remained focused on
our strategic objectives:**

Transition

Smooth management of transition

Regulation

Reviewing our operations

Reputation

Upholding reputation

Organisation

Developing excellence

Performance

Monitoring Camelot's performance

Smooth management of transition

This past year has seen the successful conclusion of the Third Licence competition and the start of the transition period. The transition period is the time during which the Lottery operator will prepare for the next Licence.

Transition

In February 2007, the Commission was pleased to receive two high-quality bids, which were rigorously evaluated. On 7 August 2007, the Commission announced that both Camelot Group plc (Camelot) and Sugal & Damani UK Ltd (SDUK) had met each of the seven demanding Required Standards for the competition.

The Commission then concluded that there was a high probability Camelot would achieve higher sales than SDUK. More significantly, it concluded that Camelot would be slightly more generous to good causes than SDUK. The Commission therefore selected Camelot as Preferred Bidder, with SDUK appointed as Reserve Bidder.

At the end of August 2007, the Commission announced that it had signed an enabling agreement with Camelot – governing the transition period – for the Third Licence. In line with its commitment to transparency, the Commission issued a detailed report on the competition process in April 2008.

The Third Licence starts on 1 February 2009, giving Camelot 17 months in which to prepare. The Commission is committed to, and is working towards, a successful transition, to ensure that the overall operation of the Lottery will not be disrupted and that there is a state-of-the-art and efficient Lottery in place from the start of the Third Licence. This will maintain the flow of funds to good causes.

As part of this commitment, we are undertaking regular monitoring of Camelot's progress against its transition plan. The first of those reviews took place in September 2007, with further reviews taking place on a regular basis throughout transition. The results of the reviews are considered by the Commission's Project Board, at which Camelot is also present.

The Third Licence requires Camelot to seek input from the regulator during the transition period. Therefore, project management structures¹¹ have been set up within the Commission in order to manage reviews of Camelot's transition plans and also to support our internal co-ordination of work.

As part of this commitment, we are undertaking regular monitoring of Camelot's progress against its transition plan.

¹¹ The Commission uses PRINCE2 (PRjects IN Controlled Environments), which is a process-based method for effective project management. PRINCE2 is a de facto standard used extensively by the UK Government and is widely recognised and used in the private sector, both in the UK and internationally. For more information see www.prince2.com

Reviewing our operations

Following the conclusion of the competition, the Commission has recommenced work on its own approach to regulation. We intend to take the opportunity during the transition period to review relevant aspects of our own regulatory regime to ensure that we can regulate in a way which enhances the development of the National Lottery.

Regul**ation**

Alongside work on transition to the Third Licence, we have continued to ensure that Camelot complies with the terms and conditions and other regulatory obligations under the Second Licence. We regularly review our work programme to ensure we focus on key risk areas.

We have looked at a range of Camelot's operations including:

Funds management

We have verified all payments to the National Lottery Distribution Fund (NLDF) and Olympic Lottery Distribution Fund (OLDF) of over £1.36 billion.

Payment of Prizes

We have ensured that prizes due to players are adequately protected by reviewing the payments made into the Players' Trust. We also periodically observe the payment process for paying major prizes to ensure that proper procedures are followed and that winners are offered appropriate financial and legal advice.

The Draw

We have attended Saturday and Wednesday draws throughout the year as well as attending a Daily Play draw once month. We have also undertaken a visit to the EuroMillions draw site in Paris.

Retailers

We have undertaken visits to 250 UK retailers to ensure that appropriate information is available for players.

IT

We have reviewed Camelot's arrangements for developing its IT systems and maintained oversight of its Information Security processes. We continued to operate our Independent Verification System that verifies sales and prize data produced by Camelot's system.

Licensing and the games portfolio

The focus has remained on efficiently handling the routine issues that arise under the current Licence, and in working towards the successful launch of the next Licence. Part of the work for the Third Licence will involve reviewing and, where appropriate, licensing or approving Camelot's proposals in relation to the development of its games portfolio or its systems of operation.

The main activity this year was as follows:

- The Commission consented to two EuroMillions Event Draws taking place, one in September 2007 and the other in February 2008, with guaranteed jackpots each of 130 million euros. The advertised value of the jackpots for these draws varied, due to fluctuations in exchange rates;
- We reviewed Camelot's proposals for trials of new Scratchcard products and sales channels, ensuring that players' interests continue to be addressed;
- We agreed changes to the Section 6 Licence for Scratchcard games to enable Camelot to produce additional tickets for popular games, giving players extra chances to win;
- The Commission designated 37 Lottery games to contribute to the London 2012 Olympic Games and Paralympic Games during the year, 15 of which were Scratchcard games and 22 were Interactive Instant Win Games. Details of designated games that are currently on sale are available on the Commission's website¹²; and
- EuroMillions moved to the BBC to be screened on Friday nights (Daily Play is no longer screened on the BBC website).

Enforcement

We have recorded ten Licence breaches against Camelot in this financial year – an increase of two on the previous year. There were no financial penalties imposed and, in the main, the breaches related to software errors which affected the experience for some players. A full list of breaches recorded this year is in Appendix C and breaches are published in full on our website¹³.

We have created a new Head of Enforcement role which will take the lead in ensuring that the Commission's stance on enforcement reflects better regulation principles and emerging best practice. We have also identified scope to reduce some of the obligations imposed on Camelot under the Third Licence, in recognition of its skills and track record in operating the National Lottery over the past 14 years, while maintaining the necessary oversight of National Lottery operations to enable the Commission to fulfill its regulatory functions.

¹² www.natlotcomm.gov.uk Regulating the Lottery, London 2012 Olympic Games and Paralympic Games.
¹³ www.natlotcomm.gov.uk Regulating the Lottery, Licence Breaches.

Upholding reputation

Reputation

The Commission has a statutory duty to ensure the propriety and integrity of the Lottery is upheld. Our activity focused on these areas over the past year:

Vetting & Propriety

During February – August 2007, the vetting team focused on checking the fitness and propriety of the two bidding consortia. This was a significant task and a Commission team ensured that checks were carried out for certain companies and individuals connected with each bid, as outlined in the Invitation to Apply. We carried out some 3,490 checks on 348 individuals to obtain the information required by the Commission to satisfy itself as to their fitness and propriety.

During 2008, the Commission will review its vetting policy and procedures to ensure that they remain the most appropriate means to monitor the fitness and propriety of key organisations and individuals connected with the National Lottery in the Third Licence period.

Consumer Protection

The National Lottery remains one of the safest forms of gambling in the UK with problem gambling prevalence for National Lottery Draws at 1% and 1.9% for Scratchcards¹⁴. We want to be certain that the Lottery remains safe and we support Camelot's innovative work to help players set their spend limits and manage their online accounts responsibly. This year, we agreed the introduction of enhanced player protection measures for interactive play, which included:

Wallet Load Limits – players can limit the funds they can load from their bank into their Interactive Account each week and the maximum weekly load limit is £350.

Interactive Instant Win Games Play Limit – players can set a daily limit on the number of Interactive Instant Win Games they can buy. The maximum number of Interactive Instant Win Games a player can buy in one day is 75.

'Try'-Versions¹⁵ of Interactive Instant Win Games – 'Try'-versions of Interactive Instant Win Games have been moved to the registered area of the website, meaning that only registered National Lottery players can now access them. The number of plays is limited to 75 per day.

Instant Win Games Exclusions – players can choose to exclude themselves from some or all Interactive Instant Win Games. Players will also be excluded from playing relevant 'Try'-versions of the games.

Temporary Account Exclusion – players can temporarily exclude themselves from using their Interactive Account to play all draw based and both 'Buy' and 'Try'-versions of Interactive Instant Win Games for a minimum of six months.

Permanent Self Exclusion – players now have the ability to exclude themselves permanently from playing all National Lottery Games via their interactive account.

We continue to provide information to members of the public around the world in response to enquiries about lottery scams and, over the course of the year, dealt with over 1,200 enquiries. We also established arrangements with Yahoo, which enable the closure of Yahoo email accounts found using National Lottery logos owned by the National Lottery Commission.

We have responded to over 1,500 complaints and enquiries from players and the public. In addition to reviewing complaints, the Commission also acts as a source of information on National Lottery issues. Priority areas of interest last year included:

- How the Commission ensures the integrity of National Lottery games;
- Scratchcard game designs.

We have taken player feedback into account when overseeing the service provided by the operator, and have implemented improvements where possible.

Evidence-based Regulation

Another important area of our work in maintaining the reputation of the Lottery is to ensure our regulatory actions are informed through an independent programme of research.

This year, we conducted in-depth research into female participation in the National Lottery. We had identified that this was an under-researched area and, working with Dr Emma Casey, we commissioned research into female play and gender differences. Some 56 per cent of women regularly play the Lottery¹⁶ and it is important that we understand their motivations and attitudes to ensure that we continue to regulate appropriately. We published the results of this research in September 2007 and it is available on our website¹⁷.

We are also preparing to re-tender our research into under-16 year olds and their attitudes and attempted participation in the National Lottery. This study will take place in 2008/2009. We have an excellent record in preventing underage play and want to ensure that this remains the case. We will continue to monitor trends through our targeted programme of independent research¹⁸.

Engaging with Stakeholders

During the past year, we have sought to maintain co-operative relationships with stakeholders and to develop our knowledge of gambling and regulatory issues. We have also maintained our support for players and the public in general.

Over the course of the year we have:

- Ensured all stakeholders with an interest in the Lottery competition were provided with information about the competition and the way the competition process was conducted;
- Met delegations from the Nigerian, French and Chinese governments to explain our work and share our knowledge of lottery regulation and operation;
- Made keynote speeches at the 2007 Lottery Monitor Conference and the ESRC/RIGT International Transformations: Preventing UK Gambling Harm conference in October 2007;
- Hosted a seminar and roundtable to peer review our female participation research and held our fifth annual stakeholder reception.

The Commission works closely with a number of organisations across the gambling environment to ensure the interests of the Lottery are represented and that the significant differences between the Lottery and other offerings are recognised. We work closely with the Department for Culture, Media and Sport, the Gambling Commission and other regulatory bodies. Our Chief Executive, Mark Harris was appointed to the Responsibility in Gambling Trust Board this year. We are observers on the National Lottery Promotions Unit Management Board, and participate in other key regulatory, professional and industry groups.

Engaging with our stakeholders will remain a key priority for 2008/2009 as we move through transition and into the 2009/2019 Licence. We will also finalise our Welsh Language Policy and publish this on our website.

¹⁴ Source: British Gambling Prevalence Survey 2007, National Centre for Social Research.

¹⁵ Try-versions are free trial versions of Interactive Instant Win Games which can be played free-of-charge, do not pay out prizes and which enable players to try a game prior to purchase.

¹⁶ Source: British Gambling Prevalence Survey 2007, National Centre for Social Research.

¹⁷ www.natlotcomm.gov.uk Publications and Research, Participation and attitudes, Women and UK National Lottery Play 2007 Casey E.

¹⁸ www.natlotcomm.gov.uk Publications and Research, Research Programme, Underage Play.

This year we conducted a staff survey and we were pleased to see a significant improvement from the last survey in 2005/2006. The survey showed that our employees consider the Commission an understanding, fair and respectful employer.

This year, staff at junior management level were offered the opportunity to attend training to develop their management competencies. This training was delivered on a modular basis allowing the participant's time to apply their skills in real work situations and review their learning with their peers at subsequent sessions. Staff at administrator level were offered training tailored to their specific needs and provided the opportunity to discuss issues relevant to their role and as well as being given the opportunity to learn from each other and seek support from their peers.

The National Lottery Commission values diversity in our workforce and this year saw the launch of a new Equal Opportunities and Diversity policy for the organisation. We ran participative training aimed all staff as well as training specifically focused on managers and Commissioners within the organisation. As part of our work on raising awareness of disability, we asked MIND¹⁹ to run a training session for us on mental health awareness. This has given staff who may deal with players and the public with mental health issues a better understanding of their needs.

Family-friendly policies

We also introduced a childcare voucher system giving staff the opportunity to use some of their salary for childcare vouchers. This scheme is in addition to the other family friendly policies we operate such as flexible working arrangements and paid special leave for domestic emergencies.

Updating processes

To improve our payroll function we appointed a new outsourced payroll provider and improvements to the service include a dedicated pay team and helpline for staff.

We have continued to review our policies on staff terms and conditions: this year saw the launch of revised policies on discipline and grievance and also performance improvement procedures. These revisions have brought the NLC's policies and procedures up-to-date so they continue to meet the needs of the organisation.

The survey showed that our employees consider the Commission an understanding, fair and respectful employer.

¹⁹ The National Association for Mental Health in the UK www.mind.org.uk

Monitoring Camelot's performance

A fundamental part of our regulatory role is to monitor and challenge the performance of Camelot, and to motivate Camelot to ensure its sales remain high, so that the maximum money is generated for good causes²⁰.

Per
form
ance

We are pleased to report that this year returns to good causes have risen slightly. Primary contributions exclude unclaimed prizes and other adjustments, and so represent the best measure of Camelot's performance. These have grown from £1.248 billion to £1.259 billion, an increase of just under 1%. This means that over £21 billion has now been raised since the start of the National Lottery.

This reflects an overall increase in sales of just over 1%²¹. Camelot has worked hard on maximising the growth of the Internet as an accepted sales channel, and re-focusing the marketing strategy on regular play. Together with the continued growth of Scratchcards, this has balanced the continuing decline of Lotto, which remains the key contributor to good causes. Through ongoing discussions, we have sought to understand how Camelot is managing this decline, which slowed during the second half of the year.

It is particularly pleasing to note that there has been no discernable impact from the competition process for the Third National Lottery Licence. Ensuring that Camelot's performance under the Second Licence was not distracted by the process was a key challenge for the Commission.

Camelot is also committed to raise £750 million to contribute towards the staging of the London 2012 Olympic Games and Paralympic Games. Specific National Lottery games have been designated to provide the necessary funding. £136.7 million was raised from designated games over the year, bringing the total raised to £264.3 million. The National Lottery remains on course to meet the £750 million target.

Looking ahead, as Camelot goes through transition into the next Licence period, it will again be critical that the Commission scrutinises current performance as well as assessing the long-term outlook of the National Lottery. We will be seeking another rise in the level of returns to good causes and will be assessing and challenging the performance of Camelot to ensure it is fully focused on doing so.

Over £21 billion has now been raised since the start of the National Lottery

The Commission also considers non-financial indicators when assessing the performance of Camelot. It is important that returns are not at the cost of player protection and that the National Lottery remains an institution that is trusted and played by the many rather than the few. Our research indicates that trust in the National Lottery remains high and that levels of under-16 year old play has not increased²² and participation is still widespread across the UK²³. This is a healthy base to continue to improve performance over the remainder of the Second Licence.

²⁰ Subject to the overriding duties to ensure the Lottery is run with propriety and that the interests of players are protected.

²¹ Primary contribution did not increase at the same rate as sales due to the changing games mix of the portfolio where a growing percentage of sales came from games that pay more in prizes and less to good causes.

²² Source: Under 16s and the National Lottery, MORI and the International Gaming Research Unit at Nottingham Trent University June 2006 www.natlotcom.gov.uk

²³ 57% of the UK population have entered a National Lottery Draw in the past year (Source: NatCen British Gambling Prevalence Survey 2007).

Commissioners' biographies



Dr Anne Wright CBE was appointed as Chair of the Commission in October 2005. She is also Director of AWA Ltd, an educational consultancy which advises Government and academia. One of her current assignments is as the e-learning consultant to the Department for Education and Skills. She holds a number of non-executive roles including Member of the Armed Forces Pay Review Body and Board Member, English Partnerships. Former posts include Chief Executive of the University for Industry and Vice-chancellor of the University of Sunderland.



Mary Chapman was appointed as a National Lottery Commissioner in January 2008. She has a background in marketing, HR and general management. Most recently she was Chief Executive of the Chartered Management Institute, leading on vision, strategic development and performance. Previously, she was the founding Chief Executive of Investors in People UK, the company responsible for the development and quality assurance of the Investors in People Standard. Before that, her career within the L'OREAL UK Group Companies included posts as Director of Personnel Operations and Managing Director of Helena Rubinstein. Mary is also a Council Member of the Girls' Day School Trust, the largest educational charity in the UK.



Sarah Thane CBE was appointed as a National Lottery Commissioner in September 2005. She is an independent consultant on broadcasting regulation and is currently advising the BBC Trust on regulatory and compliance matters. Prior to joining the Commission, Sarah was Advisor, Content and Standards at Ofcom, the UK's communications regulator. She has also spent time at the ITC, where she was Director of Programmes and Advertising. Sarah is a non-executive director of Films of Record, an independent film production company, and has recently been appointed a justice of the peace in West Suffolk. She is a Fellow and former Chair of the Royal Television Society.



James Froomberg was appointed as a National Lottery Commissioner in January 2008. He is a leisure and property industry director with over 20 years experience in the private, public and consultancy sectors. He is currently the Commercial Director of British Waterways where he leads the development of a number of commercial businesses and public / private partnerships, and is responsible for a £600 million property portfolio. James was previously the Director of Corporate Development at Wembley plc, responsible for developing and implementing a new strategy for the Group. Before that, he was the KPMG Partner, leading its UK Leisure, Tourism, Property and PFI consultancy business.



Deep Sagar became a Commissioner of the National Lottery Commission in September 2007. He is a management consultant who has extensive experience of governance and management across various sectors. From 2001-04 he was Client Director at Ashridge Business School. This followed senior management roles internationally with multi-nationals including UnileverBestfoods and Coca-Cola for over 15 years. Among the appointments he holds currently are Chair of LEASE and of Turnstone Support Limited. He was also a Member of the Casino Advisory Panel.

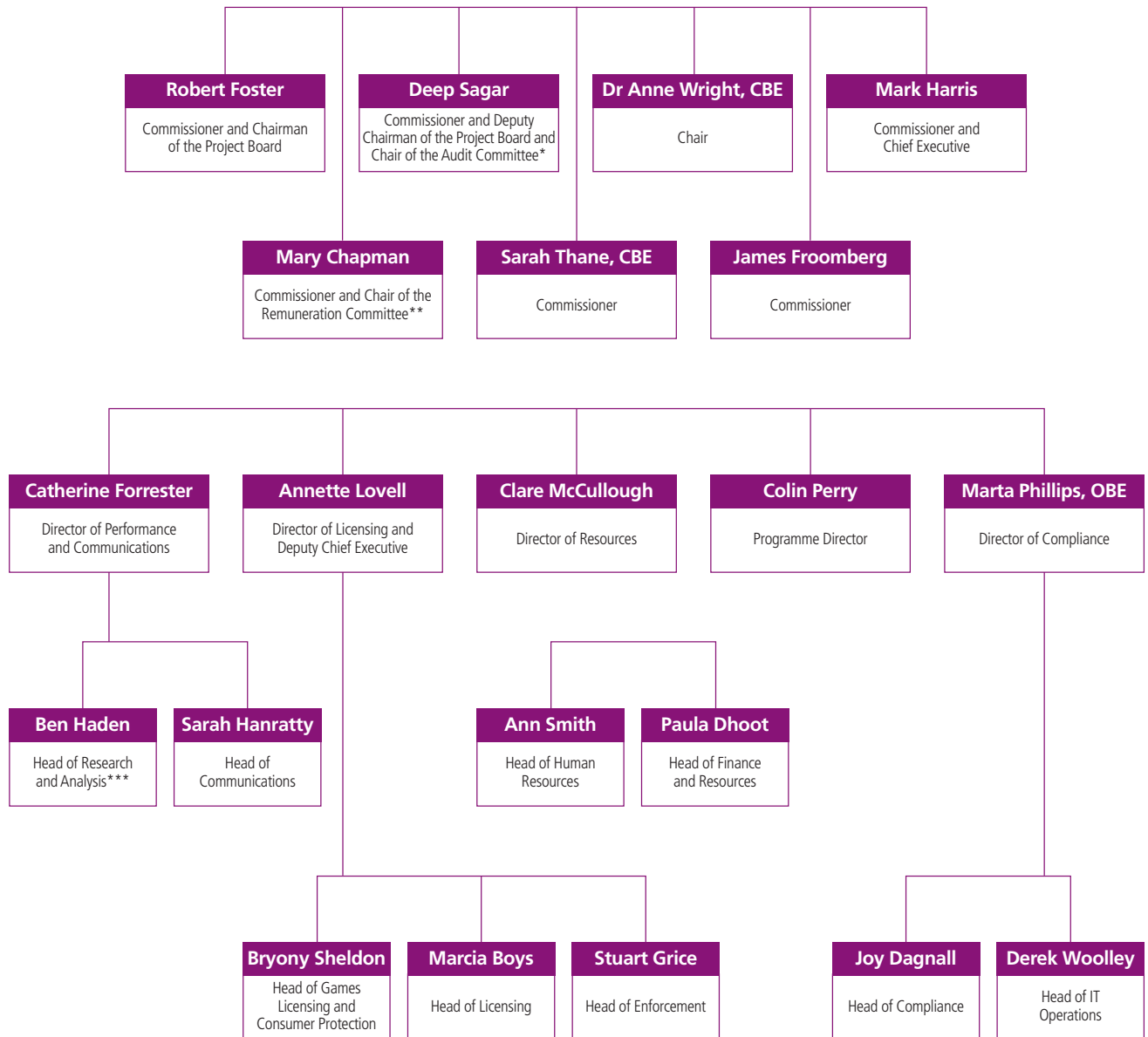


Mark Harris Mark Harris joined the National Lottery Commission from the Audit Commission in April 1999. He is a qualified accountant (CIPFA) and spent his early career in the external audit of local government and in the National Health Service. He moved to the Audit Commission in 1994 as Associate Controller, responsible for the Commission Secretariat and for providing independent advice to the Commission on audit and legal issues.



Robert Foster is Chairman of the Project Board which is responsible for overseeing the transition. He was, until September 2004, Chief Executive of the Competition Commission. He has also held a number of senior posts in Whitehall including responsibility for the Department of Trade and Industry's innovation expenditure and science policy in the Cabinet Office. He is a Chartered Engineer and previously was an engineering manager in the telecommunications industry. He holds a number of non-executive Director appointments including vice chair of King's College Hospital NHS Trust, the Jersey Competition Regulatory Authority, and is a member of the Advisory Council of Oxford Capital Partners.

Organisational structure (as at 31 March 2008)



* Deep Sagar was appointed Chairman of the Audit Committee on 26 March 2008.

** Mary Chapman was appointed Chairman of the Remuneration Committee on 12 February 2008.

*** From February 2007 – September 2007, Dr John Lepper became interim Head of Research to cover Ben Haden who was appointed Head of Evaluation.

Appendix A – Camelot Sales Performance

Sales (£ millions)	2007/8	2006/07
Lotto	2,752.38	2,857.40
Thunderball	309.03	330.40
Scratchcards (inc. IIWGs)	1,109.49	927.70
Lotto Extra	0.00	12.60
Hotpicks	210.10	220.20
Daily Play	50.28	48.60
EuroMillions	475.82	455.80
Dream Number	59.23	58.70
Total	4,966.33	4,911.40
Prizes won by players (including unclaimed prizes)	2,516.80	2,490.70
Payments to the NLDF / OLDF		
Primary contribution (note 1)	1,258.70	1,248.10
Unclaimed Prizes	93.10	88.00
Prize Target Shortfall	0.00	0.00
Ancillary activity income	0.30	0.20
Interest from Trust accounts	7.80	4.80
Other miscellaneous payments	0.20	0.20
Total	1,360.10	1,341.30
Other Payments		
Lottery Duty	595.96	589.37
Retailers' commission	243.50	244.50
Retentions by licensees (note 2)	351	338
Note 1		
Amount payable on sales figure less adjustments for New Media Ad Sales and National Lottery Promotions Unit		
Note 2 (from Camelot's P&L)		
Terminal and data communication costs	133.80	121.00
Gross profit	217.50	217.30
	351.30	338.30

Appendix B – Section 5 Licence variations made between 1 April 2006 and 31 March 2007

Condition etc	Effect of variation	Date effective
15(2)	Camelot is required to ensure that clear and fair criteria are specified for the selection and de-selection of retailers. The variation requires Camelot to make the criteria available on request.	14 December 2007
Interpretation section: definition of 'regulated intellectual property'	While the definition in the Licence refers, amongst other things, to each game name, it was acknowledged that it was not intended to apply to the word "EuroMillions". The rights to "EuroMillions" are owned by a company set up by the operators of that game. Rights in respect of the use of "EuroMillions" were granted to the Commission, and sub-licensed to Camelot.	14 February 2008

Appendix C – Breaches of the Section 5 and 6 Licences recorded between 1 April 2007 and 31 March 2008

Section 5 Licence			
Condition/Schedule	The Licence provision	Description/regulatory action	Outcome
Condition 18(1) and 18(2) of the Section 5 Licence	Camelot is required to ensure that payments are made to the National Lottery Distribution Fund (NLDF) and the Olympic Lottery Distribution Fund (OLDF) by 3pm on the date that they fall due. This includes payments in respect of prizes that have not been claimed within the time period allowed under the relevant game rules (unclaimed prizes). Any payments made after 3pm on the due date are subject to daily penalty interest at 3% above base rate.	Camelot underpaid the OLDF by £20,440 in respect of unclaimed prizes. This was due to human error, compounded by a weakness in the report sign-off process. The shortfall was subsequently transferred to the OLDF. Due to an oversight, Camelot also failed to pay penalty interest on time. This was highlighted by the Commission and Camelot subsequently paid the interest due. Licence breaches were recorded on 8 June 2007.	Camelot put additional measures in place to ensure the accuracy of unclaimed prize payments in future. It is a key concern for the Commission that all sums due to the NLDF and OLDF should be paid in a proper and timely manner. Due to the payment of penalty interest, the Commission was satisfied that there was no loss to the OLDF as a result of the incident.

Appendix C – continued

Section 5 Licence			
Condition/Schedule	The Licence provision	Description/regulatory action	Outcome
Condition 2(8) and 2(9) of the Section 5 Licence	Camelot is required to comply with procedures that have been approved by the Commission and to notify the Commission of any proposed changes to those procedures. The procedures approved by the Commission cover the core elements of the National Lottery, including procedures to be followed when the EuroMillions draw is conducted. EuroMillions draws are carried out by La Française des Jeux on behalf of the EuroMillions member lotteries.	A report by Camelot noted non-compliance with draw validation and draw machine storage procedures approved by the Commission for EuroMillions. Licence breaches were recorded on 8 June 2007.	Camelot amended the procedure in the light of changes in working practices. The Commission approved the changes. The Commission regards compliance with approved procedures as extremely important. It noted that there was no suggestion or evidence that the EuroMillions draw was conducted improperly in any way.
Condition 11(5)(d) and 11(6) of Schedule 4 of the Section 6 Licence for EuroMillions	Camelot is required to seek the consent of the Commission before entering into certain agreements with other lottery operators participating in the EuroMillions game, or agreeing to any amendment, variation or waiver of the terms of those agreements.	In early 2007 the Commission became aware that during 2005 and 2006 Camelot had entered into agreements and had agreed to the variation and amendment of certain agreements, without first seeking the Commission's consent. Licence breaches were recorded on 5 July 2007.	Camelot amended its processes to prevent similar incidents occurring in future. The Commission is satisfied that the failure to seek consent did not have a detrimental impact on propriety, National Lottery players or returns to the good causes.
Condition 9(31) of the Section 5 Licence	Camelot is required to ensure that any material designed to encourage or enable a player to enter into or play a Lottery game is accurate, does not mislead players and is compatible with the relevant game rules and procedures.	Software errors in the Buried Treasure Interactive Instant Win Game (IIWG) caused animation inconsistencies, which gave rise to the game displaying incorrect information to a number of players regarding the prizes available to be won and whether they had won a prize. The written on-screen message displayed at the end of each game (which included a statement of the amount won) was correct in every case, and players received the prizes to which they were entitled under the game rules. Camelot received 14 enquiries and/or complaints from members of the public. A Licence breach was recorded on 10 September 2007.	Camelot corrected the fault that caused the animation error and additional controls and checks were identified to minimise the risk of a repetition of this incident. The Commission is satisfied that all players received the prizes to which they were entitled under the rules of the game.
Condition 9(31) of the Section 5 Licence	Camelot is required to ensure that any material designed to encourage or enable a player to enter into or play a Lottery game is accurate, does not mislead players and is compatible with the relevant game rules and procedures.	Incorrect results for the Daily Play draw were broadcast during the Saturday night draw shown on 3 February 2007. The correct results were broadcast later the same evening. Camelot received 11 queries and/or complaints from members of the public. A Licence breach was recorded on 13 September 2007.	Camelot introduced additional controls and checks to minimise the risk of a repeat of this incident.
Condition 21(1)(a) of the Section 5 Licence and Paragraph 2 of Schedule 1 of the Section 6 Dream Number Licence.	Under the Section 5 Licence, Camelot is required to establish and operate an adequate system of internal control to the satisfaction of the National Lottery Commission over financial and other affairs securing the effective and efficient operation of the National Lottery. The Dream Number Licence requires that each entry in the game must comprise a randomly generated seven digit number, each digit being between 0 and 9 and the number ranging from 0000000 to 9999999.	Camelot became aware that its interactive system had been incorrectly configured to issue a Dream Number made up of 7 digits between the numbers 0- 8, omitting the number 9. A system fix was immediately put in place. Licence breaches were recorded on 24 October 2007.	Camelot adopted measures to enhance controls over the development and testing of interactive games. We accept that players were not disadvantaged.
Condition 2(8) of the Section 5 Licence	Camelot is required to ensure that every process which is the subject of an approved procedure shall at all times be conducted in conformity with it, except with the Commission's consent in relation to any process or part of a process, which consent it may give subject to any conditions which appear to it to be appropriate in the circumstances.	On 4 January 2007, in accordance with an approved procedure, a test wager was made for the Daily Play game in order to prove the systems were working. However, the test wager was not cancelled before draw break, as required by the procedure, and as a consequence the wager remained in the draw. A Licence breach was recorded on 25 October 2007.	The approved procedure has been revised to reduce the risk of recurrence. The Commission is satisfied that there was no effect on prizes paid to players or contributions to good causes.
Condition 2(8) of the Section 5 Licence and Condition 3(1) of Schedule 3 of the Section 6 Licence for Interactive Instant Win Games (IIWG).	Under the Section 5 Licence, Camelot is required to comply with approved procedures. The IIWG Licence requires Camelot to comply with the Rules for IIWGs.	On 19 December 2006, Camelot archived data relating to "try" IIWGs. These are versions of the IIWGs that are free to play, but for which no prize can be won. Following a number of player calls, Camelot identified that in archiving "try" game data, all data relating to unplayed or incomplete live games in those game-series had also been archived. On 18 January 2007, Camelot restored the live games to the players' accounts. On doing so, it identified that, once restored to the live system, any incomplete games did not play out after 60 days in accordance with the approved procedure and game rules and, as a result, players did not automatically receive the prizes they were entitled to. A Licence breach was recorded on 6 November 2007.	The Commission is satisfied that all prizes have been paid to players.

Appendix C – continued

Section 5 Licence			
Condition/Schedule	The Licence provision	Description/regulatory action	Outcome
Condition 9(31) of the Section 5 Licence	Camelot is required to ensure that any material designed to encourage or enable a player to enter into or play a Lottery game is accurate, does not mislead players and is compatible with the relevant game rules and procedures.	A software error in the Rocks to Riches IIWG caused an error in game animation, resulting in incorrect information regarding the prize available to be won being displayed to a player. The written on-screen message displayed at the end of that play (which included a statement of the amount won) was correct, and the affected player received the prize to which they were entitled under the rules of the game. A Licence breach was recorded on 9 November 2007.	Camelot corrected the fault that caused the animation error. The Commission is satisfied that the affected player received the prize to which they were entitled under the rules of the game.
Condition 9(31) of the Licence	Camelot is required to ensure that any material designed to encourage or enable a player to enter into or play a Lottery game is accurate, does not mislead players and is compatible with the relevant game rules and procedures.	Following receipt of a complaint from a player in June 2007, the Commission became aware of a software error in the Money Spinner IIWG. This caused an error in animation displayed to at least two players, which suggested that they had won a greater prize than was actually the case. Affected players received the prizes to which they were entitled under the rules of the game. A Licence breach was recorded on 23 January 2008.	The Commission is satisfied that affected players received the prizes to which they were entitled under the rules of the game. Camelot withdrew the Money Spinner IIWG from sale and has introduced improvements to avoid incidents of this nature arising in future games.

Appendix D – Camelot performance standards

Description of standard	Standard	Achieved
Retailer management		
Retailer selection requests answered within 10 days	95%	100%
Resolution of issues raised in retailer correspondence within 10 days	95%	99.29%
Player service		
Response to correspondence by National Lottery Line (NLL) within 5 working days	95%	98.44%
Resolution of general complaints by players within 10 working days	95%	99.78%
Calls answered by NLL Voice Response System (VRS) Wednesday between 20.00 and 23.00	90%	100%
Calls answered by NLL VRS Saturday between 20.00 and 23.00	85%	100%
Calls answered by NLL VRS at all other times	97%	99.78%
Access to NLL Representative Saturday between 20.00 and 23.00 (calls answered within 5 seconds)	80%	89.56%
Access to NLL Representative Friday between 20.00 and 23.00 (calls answered within 5 seconds)	80%	99.31%
Access to NLL Representative at all other times (calls answered within 5 seconds)	90%	99.31%
Failure to select an option on VRS	< 8%	4.88%
Abandoned calls to NLL call centre	< 5%	0.68%
Prize payment (P1 report)		
Normal Claims		
Prize claims made in person (including interactive) within 1 hour	92.5%	99.28%
Prize claims made by post within 5 working days	95%	99.32%
Claims requiring investigation		
Resolution of claims in respect of damaged tickets within 20 working days	95%	100%
Resolution of claims in respect of previously validated tickets within 20 working days	90%	100%
Resolution of claims in respect of missing multi-draw exchange tickets within 20 working days	90%	100%
Resolution of claims in respect of lost, stolen or destroyed tickets within 20 working days	75%	99.82%
Scratchcards		
Resolution of claims in respect of damaged tickets within 20 working days	95%	99.35%
Resolution of claims in respect of stolen tickets/packs within 20 working days	92.5%	98.37%
Resolution of claims in respect of previously validated tickets within 20 working days	95%	100%
Resolution of any other claims for both draw based and scratchcard games within 20 working days	75%	99.2%
Subscriptions		
Written correspondence answered within 5 working days	95%	97.34%
Resolution of player complaints within 10 working days	95%	97.99%
Voice contact with Subscriptions Department (calls answered within 20 seconds following the recorded message)	80%	80.95%
Abandoned calls to the Subscriptions Department	< 5%	2.63%
Interactive Customer Contact		
Voice contact with Customer Call Centre (calls answered within 20 seconds of the end of the recorded message)	80%	76.29%
Abandoned calls to the Customer Call Centre	< 5%	5.07%
Customer contact via email answered within 8 hours of receipt	80%	76.09%
Mail server performance (emails bounced by the email server due to system unavailability)	< 1%	0%
Response to letters within 5 working days	95%	95.11%
Resolution of enquiries on first attempt	80%	99.17%
Complaints resolved within 10 working days	95%	98.77%

Appendix E – NLC performance standards

Correspondence		Standard	Achieved
Substantive response or acknowledgement to correspondence within 10 working days		95%	99.8%
Substantive response or acknowledgement to simple complaints within 10 working days		95%	99%
Substantive response or acknowledgement to emails within 10 working days		95%	99.9%
Response to complaints which require investigation within 20 working days		95%	89.6%

Equal opportunities analysis 2006/2007					
Position	Applicants selected for interview			Successful candidate	
	Total	Ethnic minority	Female	Gender	Ethnic origin
Compliance Manager	6	3	1	M	White
Compliance Auditor	7	2	3	F	White
Human Resources Assistant	6	4	4	F	White
Head of Finance and Resources	5	3	3	F	White
Licensing Administrator	6	2	5	F	Other
Vetting Officer	4	0	0	M	Irish
Communications Officer - External (June & Sept 2007)	13	5	9	F	White
Compliance Auditor	6	1	4	No appointment made	No appointment made
Head of Enforcement	5	0	1	M	W
Communications Officer - Internal	8	5	6	F	W
Total	63	25	36		

Other	Standard	Achieved
Cumulative Sickness Absence: (Civil Service average 9.3 days per year)	7	7.59
Return to work interviews completed within 5 working days	95%	95%

Payment Performance – 1 April 2007 to 31 March 2008 (Includes All Payments)				
Total no of Invoices	Paid within 30 Days	as %	Paid within 40 days	as %
963	932	97%	946	98%
	97% paid within 30 days of invoice date			
	98% paid within 40 days of invoice date			

Appendix F – Investing in our people



Management commentary

Background

The National Lottery Commission is established as an executive Non-Departmental Public Body and is governed by the National Lottery etc Act 1993 as amended, inter alia, by the National Lottery Act 1998 and the National Lottery Act 2006.

Functions, duties and powers

The National Lottery etc Act 1993, as amended, gives the Commission the following:

(a) Functions

- By licence to authorise a person to run the National Lottery (section 5)
- By licence to authorise a person to promote lotteries as part of the National Lottery (section 6)

(b) Summary of Duties

- That the National Lottery is run, and every lottery that forms part of it is promoted, with all due propriety, and
- That the interests of every participant in a lottery that forms part of the National Lottery are protected
- Subject to the above two duties, the Commission will do its best to secure that the net proceeds of the National Lottery are as great as possible.

(c) Powers

- To vary any condition granted under section 5 or 6 with the licensee's consent where required
- To seek an injunction against the section 5 or 6 licensee if it has, or is likely to, contravene a condition of its licence
- To revoke a licence granted under section 5 or 6 if the Commission is satisfied that the licensee no longer is, or never was, a fit and proper body to run the National Lottery or promote lotteries as part of the National Lottery
- To impose a financial penalty on the licensee if the Commission is satisfied that the licensee has contravened a condition of its licence under section 5 or 6.

Commission Membership

There are nine Commissioners, all of whom are appointed by the Secretary of State for Culture, Media and Sport, who also determines their remuneration. Commissioners have corporate responsibility for ensuring that the National Lottery Commission fulfils the aim and objectives set out in legislation and complies with any statutory or administrative requirements for the use of public funds.

In accordance with amendments in the National Lottery Act 2006, the current Chair of the Commission was appointed by the Secretary of State to serve as Chair for a four year term.

The 2006 Act also permitted the Secretary of State to appoint additional Commissioners, over and above a minimum membership of five Commissioners.

Chief Executive

The Chief Executive was appointed on an open-ended contract. Should the contract be terminated, this would be done in line with the procedures set out in the Civil Service Management Code.

Register of Interests

The Commission maintains a Register of Interests to record any declaration of financial and other interests of Commissioners, and their close family members, and senior staff of the Commission, which may conflict with their management responsibilities. The Register of Interests is open for inspection at the Commission's offices on request. No directorships or other significant interests were held by Commissioners or Directors, which may have conflicted with their management responsibilities.

Management Commentary

Results for the year

The accounts have been prepared in accordance with the Accounts Direction given by the Secretary of State for Culture, Media and Sport with the consent of HM Treasury in accordance with the National Lottery etc Act 1993 (as amended). Net operating costs for the year amounted to £8,271,000 (£11,427,000 in 2006/2007).

The decrease in operating costs between the years was as the result of £3 million additional costs relating to New Licence Competition being provided for in 2006/2007. This provision was utilised accordingly during the year.

The balance sheet at 31 March 2008 shows Net Liabilities of £385,000, (31 March 2007, Net Liabilities of £2,457,000). This reflects the inclusion of anticipated liabilities falling due in future years in respect of the use of the 2012 Olympic Games and 2012 Paralympic Games intellectual property rights for the operation and promotion of Olympic Lotteries. Accounting standards require these liabilities to be provided for at the Balance Sheet date. These liabilities will be met in full by future grants-in-aid from the Commission's sponsoring department, (Department for Culture, Media and Sport). However, under the accounting convention applying to Parliamentary control over income and expenditure, such funding may not be recognised in advance.

If the impact of the Olympic IP were not reflected in the accounts, the Balance Sheet at 31 March 2008 would show net assets of £748,000.

The net liabilities include £222,000 of pension liabilities relating to a former Director General of OFLOT, which represent a long term liability to the Commission, and which will not be required to be met in full in the short term.

Review of activities

The review of the Commission's activities during the period is included within the main annual report narrative, on pages 1 to 32.

The Commission recorded ten licence breaches during 2007/2008, none of which resulted in a financial penalty being incurred by Camelot. Full details about Camelot's licence breaches in 2007/2008 can be viewed on the Commission's website: (www.natlotcomm.gov.uk/Licencing/content_breaches.asp).

Management commentary

Pension Liabilities

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer defined benefit scheme. Bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ, by payment of contributions calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole. For new entrants from 1 October 2002 the pension options include a money purchase stakeholder scheme.

The Commission has a pension liability for a former Director General of OFLOT. The liability for this pension passed from DCMS to the NLC. Full disclosure can be found in the Remuneration Report and in Note 5.

Equal Opportunities

The Commission is committed to a policy of equal opportunities for all job applicants and employees. It does 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. The Commission ensures that staff are treated equally and fairly and that decisions on recruitment, selection, training, promotion and career management are based solely on objective and job related criteria. It does not tolerate any form of discrimination, harassment or victimisation. All staff are required to co-operate in making this policy work effectively.

Investors in People (IiP)

The Commission achieved IiP re-accreditation in May 2006.

Disability Policy

The Commission achieved the Positive About Disability Standard in January 2004.

Staff Communication

Staff are kept informed about the work of the Commission and developments that may impact on its aims and objectives by regular briefing sessions and discussions, supplemented by a regular staff newsletter.

Audit Committee

The Commission has an Audit Committee comprising three Commissioners meeting at least three times a year. During 2007/2008 the Committee comprised Timothy Hornsby (Chair), Brian Pomeroy and Sarah Thane. Brian Pomeroy left the Commission during the year and was replaced on the Committee by Deep Sagar. Timothy Hornsby's term of appointment ended on 25 March 2008 and he has been replaced by James Froomberg on the Committee. Deep Sagar has been appointed as Chair for the term of a year.

Payment Performance

The National Lottery Commission adheres to the Government's "Better Payment Practice Code", which is to settle all valid bills within 30 days of the invoice date, or any other specified terms. In the financial year to 31 March 2008 the Commission settled 97 per cent of invoices within 30 days (96 per cent in 2006/2007). No interest was paid during 2007/2008, (£0 in 2006/2007), under the Late Payment of Commercial Debts (Interest) Act 1998.

Disclosure of Information to Auditors

As far as the Accounting Officer is aware, there is no relevant audit information of which the auditors are unaware. Furthermore, the Accounting Officer has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Data Incidents

The Commission has suffered no protected personal data incidents during 2007/2008 or prior years, and has made no reports to the Information Commissioner's office.

Remuneration report

Remuneration Policy

The Commission's remuneration policy for Directors is part of the pay policy for the organisation as a whole.

Salary and other terms and conditions for each grade of the Commission's staff is set:

- to reflect the need to recruit, maintain and motivate suitably qualified people to exercise their different responsibilities;
- reward people equitably for their contribution to the fulfilment of the organisations objectives; and
- In accordance with the Government's inflation target.

The Chief Executive's remuneration is set in accordance with the principles set out above. The remuneration of the Chief Executive is subject to approval from the Department of Culture, Media and Sport.

Service Contracts

Appointments of the Commission's Directors are made on merit and on the basis of fair and open competition.

Unless otherwise stated below, the Directors covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. The exception is Colin Perry, who was appointed on 14 February 2005 on a three-year secondment from the Department for Culture, Media and Sport to work on the New Licence Project. The secondment has been extended until February 2009. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. The period of notice for termination is three months.

Remuneration paid to the Chief Executive, Directors and Commissioners during the year was as follows. This information is audited as part of the audit of the annual accounts.

Comparative figures for the previous year for the Chief Executive's, Directors' and Commissioners' salaries are shown in brackets:

Name and designation	Salary £	Pension Contributions £	Bonus £	Benefits in kind £
Mark Harris (Chief Executive & Commissioner)	106,717 (101,637)	27,070	16,008	0
Annette Lovell (Director & Deputy Chief Executive)	81,292 (78,758)	20,729	3,507	0
Marta Phillips (Director)	71,809 (70,166)	18,311	2,105	0
Catherine Forrester (Director)	69,718 (68,019)	17,778	2,105	0
Clare McCullough (Director)	69,718 (67,518)	17,778	2,105	0
Colin Perry (Director)	69,718 (68,019)	17,778	3,507	0
Anne Wright (Chair)	58,500 (57,690)	N/A	N/A	0
Timothy Hornsby (Commissioner) (Note ii)	8,800 (6,052)	N/A	N/A	0
Brian Pomeroy (Commissioner) (Note iii)	5,638 (9,764)	N/A	N/A	0
Robert Foster (Commissioner) (Note iv)	33,600 (33,600)	N/A	N/A	0
Sarah Thane (Commissioner) (Note v)	12,925 (12,787)	N/A	N/A	0
Deep Sagar (Commissioner) (Note vi)	6,738 (0)	N/A	N/A	0
Mary Chapman (Commissioner) (Note vii)	1,650 (0)	N/A	N/A	0
James Froomberg (Commissioner) (Note viii)	963 (0)	N/A	N/A	0

Notes

- i) Mark Harris was appointed as a Commissioner on 1 October 2007 but does not receive additional remuneration in this capacity.
- ii) Timothy Hornsby – term of appointment ended on 25 March 2008. An additional amount of £2,177 was paid in 2007/2008 in respect of fees owed for 2006/2007.
- iii) Brian Pomeroy left the Commission on 30 September 2007. An additional amount of £5,363 was paid in 2007/2008 in respect of fees owed for 2006/2007.
- iv) Robert Foster is also the Chairman of the New Licence Project Board.
- v) Sarah Thane was paid an additional amount of £3,951 in respect of fees owed for 2006/2007.
- vi) Deep Sagar was appointed as a Commissioner on 1 September 2007.
- vii) Mary Chapman was appointed as a Commissioner on 14 January 2008.
- viii) James Froomberg was appointed as a Commissioner on 14 January 2008.

Salary

'Salary' includes basic salary and any other allowance to the extent that it is subject to UK taxation. Bonuses have been disclosed separately. The Chief Executive's bonus can be up to 20% of his annual salary, subject to performance. The bonus is non pensionable and non consolidated, although up to 5% may be consolidated (as a pay increase). The bonus, and any consolidated pay increase, is set by a Remuneration Committee consisting of three Commissioners, who review his performance against the objectives he was set at the start of the year.

Directors' bonuses are based on the outcomes of their annual appraisals and are set either at 3% of their salary, if they have met all of their objectives in the year, or at 5% if those objectives have been exceeded. Directors' bonuses are moderated by the Remuneration Committee.

Remuneration report

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HMRC as a taxable emolument. No Commissioners or Directors incurred any benefits in kind in 2007/2008, (none also in 2006/07).

The accrued pension rights of the Chief Executive and Directors are shown below. This information is subject to audit as part of the audit of the annual accounts.

Name and designation	Accrued pension at age 60 at 31/03/08 (£000)	Accrued lump sum at age 60 at 31/03/08 (£000)	Real increase in pension at end date (£000)	Real increase in lump sum at age 60 (£000)	Cash equivalent transfer value at 1 April 2007 (nearest £000)	Cash equivalent transfer value at 31 March 2008 (nearest £000)	Real increase in CETV during the year (£000)
Mark Harris (Chief Executive)	30 – 35	95 – 100	0 – 2.5	5 – 7.5	454	559	27
Annette Lovell (Director)	5 – 10	15 – 20	0 – 2.5	2.5 – 5	84	115	16
Marta Phillips (Director)	15 – 20	25 – 30	0 – 2.5	0	294	362	19
Catherine Forrester (Director)	5 – 10	0	0 – 2.5	0	62	88	13
Clare McCullough (Director)	15 – 20	45 – 50	0 – 2.5	0 – 2.5	216	266	13
Colin Perry (Director)	20 – 25	60 – 65	0 – 2.5	0 – 2.5	275	332	9

Pension benefits are provided through the Civil Service Pension arrangements and all Directors are members of the Principal Civil Service Pension scheme. From 1 October 2002, Directors and NLC staff may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum. Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution).

Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement). None of the Directors has a partnership pension account.

The 'Accrued Pension at Age 60 at 31/03/08' is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

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 Cabinet Office's Civil Superannuation 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.

Where Directors have opted to become members of the new Premium Scheme, their pension is enhanced. They can decide whether or not to take a lump sum on retirement.

Real increase in CETV

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



Mark Harris
Chief Executive
8 July 2008

Accounts

2007/

2008

Commission information

Commissioners

Dr Anne Wright CBE

Chair from 16 October 2005, and was re-appointed as Chair on 16 October 2006 for a term of four years

Timothy Hornsby

Term of appointment ended 25 March 2008

Brian Pomeroy CBE

Left the Commission on 30 September 2007

Robert Foster

Chairman of the Project Board

Sarah Thane CBE

Appointed on 17 September 2005 for a term of four years

Deep Sagar

Appointed on 1 September 2007 for a term of four years

Mark Harris

Appointed on 1 October 2007 for a term of four years

Mary Chapman

Appointed on 14 January 2008 for a term of four years

James Froomberg

Appointed on 14 January 2008 for a term of four years

Chief Executive

Mark Harris

Registered address

101 Wigmore Street
London W1U 1QU

External Auditors

The Comptroller and Auditor General
National Audit Office
157 – 197 Buckingham Palace Road
London SW1W 9SP

Internal Auditors

BDO Stoy Hayward
Emerald House
East Street
Epsom
Surrey KT17 1HS

Bankers

The Paymaster General
Sutherland House
Russell Way
Crawley
West Sussex RH10 1UH

HSBC Bank
431 Oxford Street
London W1C 2DA

Solicitors

Freshfields Bruckhaus Deringer
65 Fleet Street
London EC4Y 1HS

Lawrence Graham
4 More London
Riverside
London SE1 2AU

The Comptroller and Auditor General was appointed as the statutory auditor under the National Lottery etc Act 1993 (as amended).

Note 6 to the Accounts discloses the cost of audit services provided by the Comptroller and Auditor General. No services were provided outside those required as part of the statutory audit.

Statement of the Commission's and Chief Executive's responsibilities for the Financial Statements

Under Schedule 2A Section 11(2) of the National Lottery etc Act 1993 as amended, inter alia, by the National Lottery Acts 1998 and 2006, 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. 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 of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Commission is required to:

- observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable policies on a consistent basis: the Accounts Direction is shown following the notes to the accounts;
- 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 the going concern basis, unless it is inappropriate to assume that the Commission will continue in operation.

The Accounting Officer for the Department for Culture, Media and Sport has designated the Chief Executive of the National Lottery Commission as the Accounting Officer of the Commission. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum, issued by the Treasury and published in *Managing Public Money*.



Mark Harris
Chief Executive
8 July 2008

Statement on Internal Control 2007/08

Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Commission's policies, aims and objectives whilst safeguarding the public funds and Commission's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money* and ensuring compliance with the requirements of the National Lottery Commission's Management Statement and Financial Memorandum.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than 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 for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk and the risk and control framework

The following processes have been established and followed to review and improve the effectiveness of the system of internal control:

- leadership is given to the risk management process by the work of the Audit Committee – the Committee is responsible for reviewing, at each of its meetings, the risks identified and recorded in the strategic risk register, the strategy for, and any additional action planned to further mitigate risk where the net risk remains higher than the appropriate risk appetite for that particular activity/objective. In addition, the Committee is informed of any new risks and changes to the assessment of existing risks at the operational level, where either the gross or net risk are classified as high.
- During the year The Audit Committee;
 - Reviewed the Commission's risk appetite, and concluded that it remained proportionate and appropriate to the statutory functions and the Corporate Plan objectives;
 - Received presentations on risk management from all Directorates and reviewed the strategy and action plan for mitigation of risk contained in the Directorate Risk Action Plans;
 - Reviewed the Audit Committee's effectiveness against best practice; and
 - Reviewed the Commission's anti-fraud policies and processes in the light of best practice.

Statement on Internal Control 2007/08

- the Chairman of the Audit Committee reports periodically, but at least three times per year, to all Commissioners on the work of the Audit Committee;
- on an operational level, managers are trained and equipped in a way appropriate to their duties and authority to identify risks which may impact on the aims and objectives of the Commission. Having identified risks by this process of self assessment, managers are required to evaluate the effects of these risks and to suggest a means for mitigating those effects. Guidance is provided by the management team who take collective decisions on the reporting of their findings by means of the organisation's Risk Register;
- operational level risk registers were prepared by managers within each Directorate during the year. Our Management Group, (consisting of the Chief Executive, Directors and Heads of Division), met and discussed the content of the registers at least three times in the year. As part of the review process, the Management Group ensured that risks identified across the organisation were treated consistently and Group members were apprised of any new risks that managers had added to the operational level registers;
- the strategic level risk register and the Commission's risk appetite were also reviewed by the Management Group, to ensure that they continued to reflect the risks to the effective performance of the Commission's statutory functions and the successful delivery of the Corporate Plan objectives, and continued to reflect the Commission's tolerance to risk in its various business activities.

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 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 Commissioners and the Audit Committee and a plan to address weakness and ensure continuous improvement of the system is in place.

The processes applied by the Commission to review the effectiveness of internal control are as follows:

- the Commission arranges for a programme of work to be undertaken by Internal Audit. The work of the internal auditors is in accordance with standards defined in the Government Internal Audit Manual;
- the work of the internal auditors is informed by an analysis of the risk to which the Commission is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Commission's Audit Committee and approved by me;
- all Commissioners receive copies of reports undertaken by Internal Audit. The reports include the auditors' opinion on the adequacy and effectiveness of the Commission's systems of internal control together with recommendations for improvement; and
- the Audit Committee monitors the implementation by management of recommendations made by the internal auditors to improve the system of internal control.



Mark Harris
Chief Executive
8 July 2008

National Lottery Commission

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 of the National Lottery Commission for the year ended 31 March 2008 under the National Lottery etc Act 1993 (as amended). These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement, Statement of 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 been audited.

Respective responsibilities of the Commission, Chief Executive and auditor

The 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 National Lottery etc Act 1993 (as amended) and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Commission and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements 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 National Lottery etc Act 1993 (as amended) and directions made thereunder. I report to you if, in my opinion, the Management Commentary, included in the Annual 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 National Lottery 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 National Lottery 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 to form an opinion on the effectiveness of the 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. This other information comprises all sections of the Annual Report except for the Management Commentary. 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 Commission and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the National Lottery 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

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Lottery etc Act 1993 (as amended) and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury, of the state of the National Lottery Commission's affairs as at 31 March 2008 and of its net operating costs, recognised gains and losses and cashflows 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 National Lottery etc Act 1993 (as amended) and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury; and
- the Management Commentary included within the Annual 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.

T J Burr
Comptroller and Auditor General
10 July 2008

National Audit Office
151 Buckingham Palace Road
Victoria, London SW1W 9SS

Operating Cost Statement for the year ended 31 March 2008

	Note	2007/08 £'000	2006/07 £'000
Expenditure			
Staff costs	4	(2,650)	(2,536)
Administrative expenses	6	(3,265)	(7,862)
Other operating costs	7	(2,346)	(1,019)
Sundry receipts		–	–
Notional cost of capital	8	92	94
Operating costs after notional costs		(8,169)	(11,323)
Other finance costs	5	(10)	(10)
Operating costs after other finance costs		(8,179)	(11,333)
Reversal of notional cost of capital		(92)	(94)
Net operating cost for financial year	15	(8,271)	(11,427)

All activities were continuing in the year
The notes on pages 46 to 56 form part of these accounts.

Statement of Recognised Gains and Losses for the year ended 31 March 2008

	Note	2007/08 £'000	2006/07 £'000
Actuarial Loss and increase in pension liabilities	5	–	(33)
Total recognised gains and losses relating to the year		–	(33)

The notes on pages 46 to 56 form part of these accounts.

Balance Sheet as at 31 March 2008

	Note	2007/08 £'000	2006/07 £'000
Fixed Assets			
Intangible Assets	9	2,851	38
Tangible Assets	10	150	174
		3,001	212
Current Assets			
Debtors and Prepayments	11	299	299
Cash at bank and in hand	12	929	1,499
		1,158	1,798
Creditors			
Amounts falling due within one year	13 (i)	(1,489)	(1,225)
Net Current Assets/Liabilities		(331)	573
Total Assets less current liabilities before pension liability		2,670	785
Amounts falling due in more than one year	13 (ii)	(2,833)	0
Provisions	14	0	(3,018)
Pension Liability	5	(222)	(224)
Net Assets/(Liabilities) including pension liability		(385)	(2,457)
Represented by:			
	15		
General Reserve		(163)	(2,233)
Pension Reserve		(222)	(224)
		(385)	(2,457)



Mark Harris
Chief Executive
8 July 2008

The notes on pages 46 to 56 form part of these accounts.

Cash Flow Statement for the year ended 31 March 2008

	Note	2007/08 £'000	2006/07 £'000
Net cash inflow/(outflow) from operating activities	16(i)	(10,855)	(8,839)
Capital expenditure:			
Proceeds from Sale of Fixed Assets		1	0
Payments to acquire intangible fixed assets		0	(22)
Payments to acquire tangible fixed assets		(45)	(102)
Financing	16(ii)	10,341	9,200
Other Payments			
Payment of Pension Benefits		(12)	(11)
Increase/(decrease) in cash	16(iii)	(570)	226

The notes on pages 46 to 56 form part of these accounts.

Notes to the financial statements for the year ended 31 March 2008

1. Accounting policies

Basis of accounting

The financial statements are drawn up in accordance with a direction given by the Secretary of State for Culture, Media and Sport, with the approval of the Treasury, in accordance with Schedule 2A section 11(2) of the National Lottery etc. Act 1993 (as amended). The financial statements are prepared in accordance with generally accepted accounting practices in the United Kingdom (UK GAAP) and the Companies Act requirements, the disclosure and accounting requirements contained in HM Treasury's *Fees and Charges Guide*, and the accounting and disclosure requirements given in *Managing Public Money* and in the *Financial Reporting Manual (FRM)*, insofar as these are appropriate to the National Lottery Commission and are in force for the financial year for which the statements are prepared. The financial statements are prepared under the modified historical cost convention by the inclusion of fixed assets at their value to the business by reference to current costs.

Grants receivable

Grant-in-Aid received used to finance activities and expenditure which supports the statutory and other objectives of the Commission is treated as financing, and is credited to the General Reserve, because it is regarded as a contribution from a controlling party.

Fixed assets

Expenditure on tangible and intangible fixed assets is capitalised for each item which costs more than £2,000. All items of computer equipment forming part of our computer network are capitalised. Fixed assets are revalued annually by reference to indices published by the Office for National Statistics.

An inventory of all assets is maintained.

Depreciation and amortisation

Depreciation is provided on all capitalised tangible fixed assets at rates calculated to write off cost or valuation of each asset evenly over its expected useful life as follows:

Computer equipment	3-4 years
Fitting out costs	6-7 years
Furniture	3-5 years
Telephone equipment	5 years

Amortisation is provided on all capitalised intangible fixed assets at rates calculated to write off cost or valuation of each asset evenly over its expected useful life as follows:

Software licences	3-4 years
2012 Olympic Games Intellectual Property	until 2013

Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term.

Pension policy

A liability relating to the retirement benefit of a former Director General of OFLOT was inherited by the NLC on its creation. This benefit is provided for under a scheme which is fully analogous to the Principal Civil Service Pension Scheme (PCSPS). The retirement benefits of all other eligible staff of the Commission are provided for under the PCSPS, which are described in Note 5.

2. 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 the commission faces in undertaking its role.

Liquidity risks

In 2007/2008, £11.5 million (100%) of the National Lottery Commission's income derived from Grant-in-Aid from the Department for Culture, Media and Sport (2006/2007 £9.2 million, 100%). The Commission is satisfied that there are sufficient liquid resources in the form of cash of £928,000 and the draw down of funds available in the financial year 2008/09 to cover all current contracted commitments of £1,478,000 as well as the Commission's activities planned for 2008/09 (see page 27 of the Management Commentary). The Commission is also satisfied that it is not exposed to significant liquidity risks.

Interest rate risks

Cash balances, which are drawn down from the Department for Culture, Media and Sport to pay administration and other operating costs, are held in an account with the Office of HM Paymaster General, an Executive Agency sponsored by the Treasury. The account is non-interest bearing. The year-end cash balance held by the Commission in the Office of HM Paymaster General Account was £911,819. The Commission considers that there is no exposure to interest rate risks.

Foreign currency risk

The Commission is not exposed to any foreign exchange risks.

Notes to the financial statements for the year ended 31 March 2008

3. Other operating income

	2007/08 £'000	2006/07 £'000
Sundry receipts	–	–
	–	–

4. Staff costs

	2007/08				2006/07
	Total £'000	Permanent Staff £'000	Others £'000	Commissioners £'000	Total £'000
Salaries	2,061	1,897	33	131	1,981
Employer's NIC	196	182	0	14	176
Pension costs	360	360	0	0	351
Temporary Staff costs	33	0	33	0	28
	2,650	2,439	66	145	2,536

The average number of full-time equivalent employees during the year, analysed by function, was:

	2007/08			2006/07
	Total	Permanent Staff	Others	Total
Chief Executive/Directors	6	5	1	6
Chief Executive's Office	1	1	–	1
Resources	7.8	7.8	–	8.5
Compliance	8.9	8.9	–	10
Licensing	9.6	9.6	–	8
Performance and Communications	7.8	7.4	0.4	8
New Licence	2.5	2.1	0.4	3
	43.6	41.8	1.8	44.5

Remuneration paid to the Chief Executive, Directors and Commissioners during the year is contained in the Remuneration Report on pages 30-33. Staff costs relating to the New Licence project have been analysed separately in Note 6.

5. Pension Disclosures

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the National Lottery 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 2008. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2007/2008, employers' contributions of £362,771 were payable to the PCSPS (2006/07 £348,525) at one of four rates in the range 17.1% and 25.5% of pensionable pay, based on salary bands (the rates in 2006/2007 were between 17.1% and 25.5%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007/2008, the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2007/2008 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 £257 (£2,342 in 2006/2007) 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, employer contributions of £171 (£228 in 2006/2007), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. There were no contributions due or prepaid to the *partnership* pension providers at the balance sheet date. There are no additional accrued pension liabilities payable by the *CSP arrangements* to individuals who retired early on health grounds during the year.

Detailed schedules relating to the pension entitlements of the Directors are contained in the Remuneration Report on pages 30-33.

FRS17 Disclosure

On its creation, the National Lottery Commission inherited a pension liability for a former Director General of OFLOT from 1993 to 1998. This pension is an unfunded defined benefit scheme which has benefits by-analogy to the PCSPS (for details see www.civilservice-pensions.gov.uk) and is paid directly from the Commission's own funds. In 2001, upon the recipient reaching retirement age, pension payments commenced. In 2007/2008, pension payments of £11,799 were made (2006/2007 £11,392). Under FRS17, the National Lottery Commission is required to show the present value of the liability on its Balance Sheet.

For the FRS 17 disclosure, a valuation has been provided by the Government Actuary's Department who have assessed the liabilities of the scheme as at 31 March 2008 and at 31 March 2007. Scheme liabilities and the expected rate of return are:

Main assumptions

	At 31 March 2008 % per annum	At 31 March 2007 % per annum	At 31 March 2006 % per annum	At 31 March 2005 % per annum	At 31 March 2004 % per annum
Rate of increase in salaries	4.3	4.3	4.0	4.0	3.9
Rate of increase in pension payment	2.8	2.8	2.5	2.5	2.4
Discount rate	5.3	4.6	5.4	6.1	6.0
Inflation assumption	2.8	2.8	2.5	2.5	2.4

	At 31 March 2008 £000	At 31 March 2007 £000	At 31 March 2006 £000	At 31 March 2005 £000	At 31 March 2004 £000
Present value of scheme liabilities attributable to the NLC	222	224	192	176	172
Total value of liabilities	222	224	192	176	172
Net pension liability attributable to the NLC	(222)	(224)	(192)	(176)	(172)

Notes to the financial statements for the year ended 31 March 2008

Amounts included as other finance costs

	31 March 2008	31 March 2007
	£'000	£'000
Interest cost on pension scheme liabilities	10	10
Net finance (charge)	10	10

Analysis of amount included in the Statement of Recognised Gains and Losses (SRGL)

	31 March 2008	31 March 2007
	£'000	£'000
Actuarial losses arising on pension scheme liabilities	0	(33)
Increase in liabilities due to change in investment return	–	–
Total actuarial loss recognised in SRGL	0	(33)

Analysis of the movement in the scheme surplus/(deficit) during the year

	31 March 2008	31 March 2007
	£'000	£'000
Surplus/(deficit) at 1 April	(224)	(192)
Increase in liabilities due to change in investment return	0	–
Finance Costs	(10)	(10)
Actuarial gains/(losses)	0	(33)
Benefits paid	12	11
Surplus/(deficit) at 31 March	(222)	(224)

History of Experience gains and losses

	31 March 2008	31 March 2007	31 March 2006	31 March 2005	31 March 2004
	£000	£000	£000	£000	£000
Actuarial losses on liabilities	0	33	2	5	13
Present value of liabilities	222	224	192	176	172
Percentage of the present value of liabilities	0%	15%	1%	3%	8%

6. Administrative expenses

	2007/08	2006/07
	£'000	£'000
Legal advice	1,555	1,602
Other consultancy costs	1,060	5,881
External auditor's remuneration	22	23
Other administrative costs	628	356
	3,265	7,862

The table below provides an analysis of the expenditure incurred on the New Licence project during the period:

	2007/08	2006/07
	£'000	£'000
Staff and Project Board costs	524	537
Travel & subsistence	25	12
Consultants	837	5,626
Legal advice	1,163	1,183
Accommodation	182	155
Office costs	31	68
	2,762	7,581

7. Other operating costs

	2007/08	2006/07
	£'000	£'000
Accommodation costs	859	769
Personnel costs	208	118
Depreciation and impairment of fixed assets	1,222	97
Travel and subsistence	57	35
	2,346	1,019

8. Notional costs

Notional costs of capital have been calculated at 3.5% of the average capital employed during the year in line with HM Treasury guidance. Balances held with the Office of HM Paymaster General are excluded from the cost of capital charge.

Notes to the financial statements for the year ended 31 March 2008

9. Intangible fixed assets

	Software licences £'000	2012 Olympic Games Intellectual Property £'000	Total £'000
Fixed assets			
Cost as at 1 April 2007	114	0	114
Additions	0	3,966	3,966
Disposals	0	0	0
At 31 March 2008	114	3,966	4,080
Amortisation			
At 1 April 2007	76	0	76
Charge in year	20	1,133	1,153
Disposal	0	0	0
At 31 March 2008	96	1,133	1,229
Net book value			
At 31 March 2008	18	2,833	2,851
At 31 March 2007	38	0	38

10. Tangible fixed assets

	Fitting out costs £'000	Furniture £'000	Computer equipment £'000	Telecoms £'000	Total £'000
Fixed assets					
Cost as at 1 April 2007	189	77	199	9	474
Additions	4	0	41	0	45
Disposals	0	0	(58)	0	(58)
At 31 March 2008	193	77	182	9	461
Depreciation					
At 1 April 2007	126	45	129	0	300
Charge in year	28	8	31	2	69
Disposal	0	0	(58)	0	(58)
At 31 March 2008	154	53	102	2	311
Net book value					
At 31 March 2008	39	24	80	7	150
At 31 March 2007	63	32	70	9	174

11. Debtors

	2007/08 £'000	2006/07 £'000
Trade debtors	8	17
Other debtors	14	10
Prepayments and accrued income	207	272
	229	299

All debts are payable within one year.

The Other debtors include a value of £14,225 of 9 staff with balances left on interest-free, annual season ticket loans (2006/2007 £10,000 for 10 staff). This includes the following Directors:

	Balance of loan brought forward 1 April 2007 £	New loan £	Balance of loan carried forward 31 March 2008 £
Catherine Forrester	428	4,300	0
Clare McCullough	113	2,964	270
Annette Lovell	–	2,840	1,657

12. Cash at Bank and in Hand

The Office of HM Paymaster General (OPG) provides a current account banking service. The following balances are held at 31 March 2008.

	2007/08 £'000	2006/07 £'000
Balances at OPG	912	1,481
Commercial banks and cash in hand	17	18
	929	1,499

13. Creditors

Note (i)	2007/08 £'000	2006/07 £'000
Amounts falling due within one year:		
Trade creditors	1,291	534
Other creditors	12	2
Accruals	186	689
	1,489	1,225

Note (ii)	2007/08 £'000	2006/07 £'000
Amounts falling due within one year:		
LOCOG (Olympic IP)	2,833	0
	2,833	0

For an explanation of the value of creditors in 2007/2008 see Management Commentary on page 27.

Notes to the financial statements for the year ended 31 March 2008

14. Provisions

Provisions	Total	New Licence contractual commitments	Other
	£'000	£'000	£'000
At 1 April 2007	3,018	3,008	10
Additional provision in the year	0	0	0
Utilisation of provision in the year	(3,018)	(3,008)	(10)
At 31 March 2008	0	0	0

The provisions made in last year's accounts were utilised accordingly during the year. These related to a contractual arrangement relating to the New Licence Competition and a rent review of the lease of the Commission's Wigmore Street offices.

15. Movement on reserves

	2007/08			Total £'000
	General Reserve £'000	Pension Reserve £'000	Government Grant Reserve £'000	
At 1 April 2007	(2,233)	(224)	0	(2,457)
Net operating cost	(8,271)	0	0	(8,271)
Grant-in-Aid received towards resource expenditure	10,296	0	0	10,296
Grant-in-Aid received towards purchase of fixed assets	45	0	0	45
Actuarial Loss	0	0	0	0
Transfers	0	2	0	2
At 31 March 2008	(163)	(222)	0	(385)

16. Notes to the cash flow statement

Note (i) Reconciliation of net operating cost to net outflow from operating activities

	2007/08 £'000	2006/07 £'000
Net Operating costs	(8,271)	(11,427)
Depreciation and impairment of fixed assets	1,222	97
Non cash finance costs	10	10
Decrease/(Increase) in debtors	70	(120)
(Decrease)/Increase in creditors	(868)	(417)
(Decrease)/increase in provision	(3,018)	3,018
Net cash inflow/(outflow) from operating activities	(10,855)	(8,839)

Note (ii) Analysis of financing

	2007/08 £'000	2006/07 £'000
Total Grant-in-Aid received from Department for Culture, Media and Sport (Request for Resources 1)	10,341	9,200
Applied towards purchase of fixed assets	(45)	(125)
Total Grant-in-Aid applied towards revenue expenditure	10,296	9,075

Note (iii) Analysis of changes in net funds

	At 31/3/08 £'000	Cash flow £'000	At 31/3/07 £'000
Cash at bank and in hand	929	(570)	1,499

17. Operating leases

At 31 March 2008 the National Lottery Commission was committed to making the following payments during the next year in respect of operating leases.

	2007/08		2006/07	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases due to expire:				
Within one year	–	–	156	–
Between two and five years	464	15	–	15
After five years	–	–	423	–
	464	15	579	15

Notes to the financial statements for the year ended 31 March 2008

18. Related party transactions

The National Lottery Commission is an executive Non-Departmental Public Body sponsored by the Department for Culture, Media and Sport.

The Department for Culture, Media and Sport is regarded as a related party and during the year, the National Lottery Commission has had material transactions with the Department.

These transactions consist of the following:

- (i) Grant-in-Aid received from the Department for Culture, Media and Sport during the year – see Note 16(ii), and
- (ii) The surrender to the Department for Culture, Media and Sport of licence fees in the sum of £60,000.

None of the Commissioners or key staff have had related party transactions with the Commission during the year.

There are no trading companies or trust funds associated with the National Lottery Commission

19. Key corporate financial targets

No key corporate financial targets were set by the Secretary of State for the year.

20. Intra-Government balances

As at 31 March 2008, the National Lottery Commission has a creditor balance of £12,145 with other government organisations.

21. Losses and special payments

Losses Statement

	£000
Total of 1 cases	18
Details of cases over £250,000:	Nil

22. Post Balance Sheet Event

These accounts were authorised for issue on 10 July 2008, which is the date the accounts were certified by the Comptroller and Auditor General.

National Lottery Commission

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