National Lottery Commission

Guardian of a great national asset

National Lottery Commission
Annual Report and Accounts
2010/2011

National Lottery Commission Annual Report and Accounts 2010/2011

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Contents

Vision

A National Lottery that delivers increased funds for good causes and enjoyment for the nation.

Mission statement

We secure public trust and enthusiasm for the National Lottery through the exercising of our statutory duties:

- To ensure that the National Lottery is run, and every lottery that forms part of it is promoted, with all due propriety;
- to ensure that the interests of every participant in a lottery that forms part of the National Lottery are protected; and
- subject to the first two duties, to do our best to secure that the proceeds of the National Lottery are as great as possible.

Chair's foreword

This year millions of people enjoyed playing the National Lottery knowing that it is a safe activity which also gives them the chance to dream of a life-changing win. They also know that their purchase has helped the 350,000 Lottery funded projects around the country, ranging from the very small – the local after-school club, to the very large – the London Olympics. This year the National Lottery raised over £1.6 billion for good causes and the benefits of this huge sum touch everyone in some way.

This is why I describe the Lottery as a great national asset. It is the role of the National Lottery Commission as independent regulator to protect this asset for the nation. We make sure that the Lottery is safe to play and push to ensure that it raises as much as possible for good causes both now and in the future.

Over the past year the Commission has dealt with a number of major challenges in exercising our regulatory functions and delivering our statutory responsibilities to maintain the propriety of the Lottery, protect players, and ensure that the operator maximises the returns to good causes. We have considered carefully the implications of Camelot's new ownership by the Ontario Teachers' Pension Plan, including giving approval to changes to the corporate structure, and checking that the business strategy remains consistent with the award of the Third Licence in 2009. We have built a good relationship with the new Board to continue effective governance arrangements and we appreciate their co-operation. We considered and consulted on a proposal from Camelot to undertake a range of Commercial Services and following economic and legal advice came to the final decision that this proposal could not go ahead.

We have made further progress in our Regulating with Excellence programme, including greater transparency in our operations and decisions.

In particular, greater sophistication in the tools with which we review Camelot's performance enables the Commission to focus ever more sharply on past and current performance and future plans and prospects for returns to good causes.

The Commission has provided substantial input into the consideration of the government's proposal for a merger with the Gambling Commission, to ensure that any new arrangements continue to protect the Lottery as a national asset. I am pleased that the government has recognised the important and expert work that the National Lottery Commission does. The Commissioners and I greatly appreciate the opportunity to contribute in this way to ensure a smooth transition to a single regulator, if that is the chosen outcome. We look forward to working with the Chair Designate and the Board of the Gambling Commission over the next year as we relocate and begin to work more closely together.

This report clearly illustrates the varied, expert work undertaken by the dedicated team here and I'd like to take this opportunity to thank the Chief Executive and all his staff for that commitment.

Finally, I would like to express my appreciation to Commissioners for their thoughtful and conscientious advice and input to Board business over the year.

We are working to ensure that this great national asset continues to receive the protection it needs. This will help guarantee that the new merged body will continue our work to support the Lottery, its players and the money it raises for good causes.

Anne Wright

Dr Anne Wright CBE
Chair of the National Lottery Commission

Chief Executive's report

This has been one of the best years ever for the National Lottery, with the second largest amount ever being raised for good causes – over £1.6 billion.

At the Commission we are proud of our vital contribution to this success. This is the second full year of the third licence. The new licence, which we awarded to Camelot, gives a greater proportion of ticket sales to good causes than ever before. It closely aligns Camelot's commercial incentives to maximise returns for the good causes.

This has been a great year but we are alive to the fact that we work in an ever-changing environment. It is essential to the ongoing success of the Lottery that our regulation reflects that environment. We look to allow Camelot to innovate and take advantage of new opportunities, but always first maintain a safe and trustworthy Lottery.

We call our change and improvement programme 'Regulating with Excellence' or REx for short. This year we report on a number of examples of how this programme has impacted on our work leading to better protection for Lottery players and more money for good causes. We are pleased that both the government and operator Camelot have acknowledged the progress we have made in this area, and the principles of REx are embedded in our ongoing business plans.

This year the Ontario Teachers' Pension Plan (OTPP) became the new owners of Camelot. The transfer of shares to OTPP from the previous shareholders involved considerable work for the Commission; carrying out due diligence to ensure that the new ownership did not pose any risk to the long term future of the Lottery. Having approved the purchase, we have focussed on establishing a

The government has recognised that the key role which the Commission has delivered over past years needs to be maintained.

Good causes

£1.6 billion

strong working relationship with Camelot and its new owners, as well as dealing with further restructuring proposals to support the new owner's plans for Camelot.

In these difficult times we continue to look at ways of cutting our own costs. Whilst overall net expenditure increased by around £200k since last year due in large part to the significant work required on assessing Camelot's proposals for Commercial Services, the increase has been offset by savings in other areas. Our running costs have actually decreased by 10%. We are alert to the need to deal with issues in a timely manner and make best use of resources. To help with this we have instituted a joint project management process with Camelot to make sure that priority issues are dealt with as quickly as we reasonably can.

We have implemented all the requirements of the government's transparency programme and have gone beyond the requirement on publication of expenditure by publishing all spend over £500 on our website.

We face a significant challenge in relocating to Birmingham and then, as is proposed, merging with the Gambling Commission. The government has recognised that the key role which the Commission has delivered over past years needs to be maintained. To help achieve this, we are putting into place a programme to transfer our functions to any merged body and to maintain our key expert knowledge base. In the meantime, we are working to deliver challenging workloads to sustain the progress the Lottery is making and meet the needs of the Licensee. I am very grateful to all our staff for their efforts in support of our ongoing work in such difficult and uncertain circumstances.

This has been one of the best years ever for the National Lottery, with the second largest amount ever being raised for good causes – over £1.6 billion.

Finally, as part of our REx project the Commission set up a ground-breaking online research community project to directly engage with the public. This has helped us to get a better understanding of what people think of the Lottery, their views on the issues we face and what they expect from a Lottery regulator. We have included quotes throughout this report, showing what people really think about the Lottery and our work – after all everything we do is on their behalf.

Mark Harris
Chief Executive

Key facts from year 2010/2011

The National Lottery is a multi-billion pound business which is run by Camelot, a commercial licensee, for the benefit of the nation. The National Lottery Commission oversees this operation to ensure it is run in the best interests of players and good causes.

During 2010/2011 the National Lottery Commission:

- Validated the payment of £1.6 billion to the Department for Culture, Media and Sport to share amongst the UK's good causes, one of the highest ever amounts.
- Confirmed that £102 million of this was raised this year for the London 2012 Olympic and Paralympic Games, taking the total to over £600 million.
- Secured an extra £90 million for good causes as a direct result of the improved terms reached in the third licence competition.
- Analysed £5.8 billion worth of sales transactions though our independent verification systems to ensure that the correct amount was paid to winners and good causes.
- Reduced the number of reports we ask Camelot to send us by 40%. Camelot has estimated that this will save them around 600 hours of work a year.
- Met all our performance standards for responding to public complaints and enquiries including responding to 96% of enquiries that need investigating within 20 days.
- Reallocated 500 staff hours, after developing a new tool to better assess risks and priorities.
- Checked that players received over £2.9 billion in prize money, up from £2.7 billion in 2009/2010.
- Agreed 81 changes to the licence to run the Lottery to make sure that it remains fit for purpose.

APRIL 2010

TESTING DRAW RANDOMNESS

Detailed statistical research carried out on behalf of the Commission by Salford University's Centre for the Study of Gambling showed that EuroMillions draw results are mathematically random.

MAY 2010

EXTRA £90 MILLION FOR GOOD CAUSES

The Commission's end-year financial results found that the improved terms in the new licence generated an extra £90 million for good causes in its first year alone.

Our role, acting as guardian of a major national asset, is always to protect the Lottery, its players and the money it raises for good causes – £1.6 billion this year. We set out three clear objectives for 2010/2011. These were:

1. To deliver the best possible outcome for the National Lottery by securing the optimum performance from the licensee.
2. To protect the nation's interest in the benefits that the lottery provides.
3. To use our skills and resources to deliver our objectives in a cost effective and professional manner.

Merger with the Gambling Commission

Following discussions with ourselves and the Gambling Commission, the government announced in October 2010 their intention to merge the two Commissions. The merger is subject to consultation and the passing of the Public Bodies Bill, which is currently being considered by Parliament. To achieve cost efficiencies, we will relocate to the Gambling Commission's office in Birmingham when the lease on our London office comes to an end in January 2012.

The proposed merger has led the Commission to reassess where we need to focus our energies to ensure that our long term corporate objectives are achieved. We are taking a proactive approach to working with the Gambling Commission to ensure that any merger goes as smoothly as possible and that the vital work that the National Lottery Commission does is protected.

Our primary concern during any merger will be to ensure that the long term interests of the National Lottery, its players, and the £28 million they raise for good causes each week are safeguarded.

Our regulatory approach: Regulating with Excellence

The National Lottery Commission has a unique role in that we are part traditional regulator, part long-term custodian of a licence under which £1.6 billion was raised for good causes last year.

> " Obviously, the thing I like most about the lottery is the prospect of winning some money. I also like the fact that so much money from the lottery proceeds goes to good causes and the pleasure of anticipation – waiting for the numbers to be read out to see if your luck's in this week. "
> **Female, 65+, Player**

Looking back at this impressive performance with a couple of years' experience of the new licence, the benefits of the licence competition we ran are clear. It has fundamentally helped to drive this improvement through:

- A better deal for good causes – the third licence has so far raised £180 million more than it would have done under the second licence agreement.
- Better alignment of incentives between operator profits and returns to good causes – making it worth the operator pushing for that extra pound.
- A restructured and reinvigorated operator utilising new technology and looking for opportunities to innovate.

JUNE 2010

CLARITY ABOUT ENFORCEMENT DECISIONS

We published our new enforcement policy; giving greater clarity to both Camelot and the general public about the action we will take to make sure players and the integrity of the Lottery are protected.

JULY 2010

NEW SHAREHOLDERS FIT AND PROPER

The Commission agreed to the sale of shares in Camelot to Ontario Teachers' Pension Plan, following checks to ensure that they are fit and proper to run the National Lottery.

REx

We are committed to constantly improving the way we regulate the Lottery. We call this programme of improvement 'Regulating with Excellence' or REx for short. This year we have made great strides which have included:

- Saving the Commission and Camelot the equivalent of around 9 weeks of work each per year by cutting unnecessary monitoring of Scratchcards;
- changing the culture of the Commission so that it is better focused on achieving the required outcomes rather than concentrating on processes; and
- reducing unnecessary regulatory burden by trimming the number of reports we ask Camelot to send us by 40%. Camelot has estimated that this will save them around 600 man hours of work a year.

> "The integrity of the lottery is very important and I think that the NLC has to do all it can to intervene to stop underage play both before and after the issue of tickets."
> **Female, 55/64, Player**

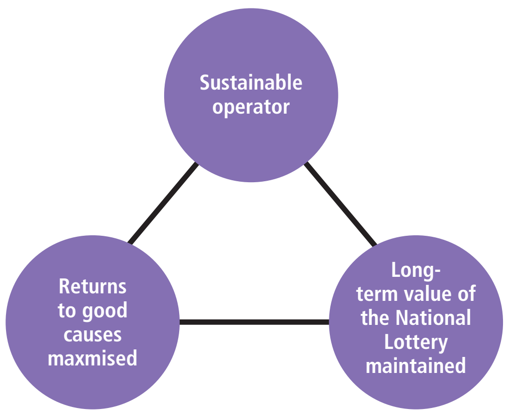
As part of the REx programme significant steps have been taken this year to improve the way we prioritise our work in line with better regulation principles. We have substantially improved our risk prioritisation tool to focus our effort. We have estimated that by using this new tool to prioritise our work we will stop doing five hundred hours of work that is not directly related to achieving our regulatory outcomes.

Assessing Camelot's commercial performance

We have also applied our fresh regulatory approach to the monitoring of the maximisation of returns, completely reassessing this task. We have implemented a more strategic approach. This has involved developing a new framework and information base, which supports our assessment of Camelot's performance in board to board meetings and six monthly performance reviews.

We recognise that our role is not to second guess Camelot's commercial judgement but rather to understand its performance and forward planning in context. We need to reflect on the recent trend but also be satisfied that returns to good causes are sustainable both in the medium and longer term.

We have developed and set this performance monitoring in the following model:



What we are looking to understand in each case is:

- **Operator sustainability** – that the Operator is not, or unlikely to be in the future, in financial difficulty.
- **Maximisation of returns to good causes** – that the Operator has, and is likely in the future, to make the maximum amount of money for good causes possible, given the environment.

AUGUST 2010

MERGER CONFIRMED

Minister for Tourism John Penrose confirmed that the Commission will merge with the Gambling Commission, subject to a business case.

SEPTEMBER 2010

PLAIN ENGLISH INFORMATION FOR PLAYERS

We worked with Camelot to develop player instructions for the new Lotto Plus 5 game, to be as simple and easy to understand as possible. This was part of an ongoing programme to improve the information that is given to players.

This involves analysis of performance through a number of different lenses – looking forward as well as at the past. It includes understanding how opportunities are being optimised, challenging future plans, reflecting on the overall marketplace, as well as the degree of progress achieved, taking into account population or earnings growth and past expressed expectations.

- **Long-term National Lottery value** – ensuring that, from a player perspective, the bond with the National Lottery remains strong and from a potential investor perspective the Lottery remains in a healthy, attractive state.

It's all about checking that past performance has been as strong as possible and taking proactive steps to ensure that the future remains equally positive.

Information at retailers

Another change we are looking to bring about resulting from the REx programme is in the rules we apply to what information Camelot has to provide at retailers. As part of our duty to protect the interests of players, the Commission believes it is important that players are able to find out easily if they have won and claim subsequent prizes, and are able to make informed decisions about their National Lottery purchases.

Feedback in recent years has suggested that players may not actually be aware that this information is available at retailers and that often those players who do access it find it overly lengthy and difficult to understand. To build our evidence base we utilised our Online Community to find out what information players themselves actually want and need.

Acting on this evidence, the Commission has started work with Camelot with a view to changing the licence requirements in the future to deliver better outcomes for players.

Continuing with the REx programme

We are very pleased that both the government and Camelot have recognised the strong progress that we have made and we are committed to making this an ongoing process. For example we are also currently looking at ways to simplify arrangements for delivery and testing of new gaming systems and associated software and we regularly discuss with the operator areas where we can improve how we regulate.

Our major regulatory decisions

Shareholder sale

As part of our duty to protect the Lottery for the nation we have a duty to ensure that whoever owns the company that runs the National Lottery is 'fit and proper' and that they do nothing that would damage the long term future of the Lottery.

> "Yes, I do believe the NLC has a duty to promote responsible play. Unfortunately, it's a very difficult thing to do…"
> **Male, 45-54, Player**

In July 2010, the Commission agreed the terms of a detailed set of proposals that allowed the sale of shares in Camelot to the new owner, Ontario Teachers' Pension Plan (OTPP). We ensured that the terms of the share sale contained safeguards to the public interest in the National Lottery, that the new shareholder was fit and proper and that any changes to Camelot would not affect its ability to run the National Lottery successfully.

OCTOBER 2010

BETTER MEASUREMENT OF PERFORMANCE

Our Insight team delivered its second Performance Achievement Report, with the aim of taking account of other factors than just financial ones in assessing Camelot's performance.

NOVEMBER 2010

CHANGE TO OVERSEAS PLAY RULES

Camelot clarified the rules on playing National Lottery games online from outside the UK.

The new owners will be looking at new ways to develop the National Lottery and expand their business and we will continue to ensure that the long term future of the Lottery is protected.

> "It is not just about winning the money it is what paying the £1 goes towards, charities & lottery funded community projects. The London Olympics!"
> **Female, 16-24, Player**

Commercial services

Another major project the Commission carried out in this area was the assessment of Camelot's application to offer commercial services such as mobile phone top-ups, electronic bill payments and other similar services through a number of National Lottery terminals. The Commission has a duty to assess any proposals from the operator which stand outside the normal Lottery framework and if successfully implemented have the potential to raise some additional funds annually for good causes.

Our investigation discovered that there was a significant risk that allowing Camelot to enter the market would put the Commission in breach of EU competition law. This is a very complex and developing area of law and the consultation we carried out uncovered a wide range of opinions about the proposals.

On the basis of the information available both from consultation with interested parties and our own legal advice – the Commission could not conclude that the risk identified could be effectively mitigated. We were therefore unable to give our consent to the application.

Corporate restructure

On April 1 2011 Camelot restructured to move certain functions, such as administration, finance (excluding UK National Lottery Treasury functions), tax, procurement, corporate affairs, facilities, corporate sustainability, legal, propriety and HR out of Camelot UK Lotteries Limited. These functions were transferred to two newly created companies in the Group, which are then able to provide services on a contractual basis to all of the companies in the Camelot group.

Before any restructuring went ahead the Commission examined Camelot's plans in detail to make sure that the new arrangements are consistent with the terms of the third licence and safeguard the operation of the National Lottery in the UK.

The Commission agreed measures with Camelot to ensure that there would be no detrimental effect on the operation of the National Lottery or the good causes. For example, the contracts for provision of services between Camelot companies must contain clauses which will protect the interests of the Lottery.

The re-organisation means that there is clear allocation of responsibilities within Camelot, and the staff of Camelot UK Lotteries Ltd have a sole focus on the operation of the National Lottery. In the longer term there may also be some benefits for the good causes as a result of improved efficiency.

Overseas play

Following an investigation that found that the majority of countries have laws which make it illegal to play the UK National Lottery, the Commission agreed with Camelot that the rules needed to change so that players could only play the Lottery when in the UK or Isle of Man.

DECEMBER 2010

BLUEPRINT FOR BETTER REGULATION

We published '*A better way to regulate the National Lottery*' report, setting out the progress we have made to better target and streamline our regulation.

JANUARY 2011

RELOCATION TO BIRMINGHAM

The terms of reference for relocation to the Gambling Commission offices in Birmingham were agreed.

Given the complexity and in some cases ambiguity of local laws in other jurisdictions, it was not always possible for players to know whether the purchase of a UK National Lottery ticket was permitted in that country. It is one of main duties of the National Lottery Commission to make sure that National Lottery players are properly protected and we would not want players to lose out on winning a prize because they played in a country where it is against the law. In addition, as local laws in any specific country are a matter for the authorities in those countries and are subject to change, it is not practical for Camelot (or the Commission) to publish and maintain a list of which jurisdictions where it is legal to play UK National Lottery.

> " I am a little surprised at just how much is being considered and carried out by the National Lottery. It is more than I would have anticipated and shows concern and responsibility by them. "
> **Female, 25/34, Player**

In order to remove any uncertainty for players, Camelot agreed to make it against the rules to play National Lottery games online when in any country outside of the UK or Isle of Man. These changes came into force on 14 December 2010.

Maintaining a Lottery you can trust

Trust is key to the success of the National Lottery. When a player goes into a shop or logs into their online account they need to trust that they will have a fair chance of winning and that their purchase is going to benefit good causes. This is especially important when you consider that while the Lottery is managed by a private company it is not itself a private enterprise but a public asset set up to benefit the nation.

Evidence we have seen shows that a key driver of sales is the strong level of trust and positivity the general public feel towards the Lottery.

To ensure that players can trust the Lottery is being run fairly, the Commission has a team of expert staff who oversee each part of the Lottery.

These include our:

- Licensing and consumer protection team who make sure each new game Camelot launches is fair and does not encourage excessive play, and who investigate any player complaints.
- Compliance team – a specialist, technical team who scrutinise areas of potential risk to check that the operator is meeting its licence obligations and delivering the best outcomes possible.
- Enforcement team who investigate any major incident and take appropriate actions helping to guarantee the long term propriety of the Lottery.

Integrity of Draw Process and Game Mechanics

We continuously assess the draw process to make sure that it is scrupulously fair. Two key examples from this year were:

- Our technical experts ensured that Camelot had carried out appropriate testing on the computer system for the super UK Millionaire Raffle draw to make sure that it was both secure and functioning correctly.
- Before go-live of a new online 'complex lottery' our compliance team provided assurance that Camelot had acted to ensure that the system would work correctly.

FEBRUARY 2011

LOTTO PLUS 5 LAUNCH

The first Lotto plus 5 draw took place, following a rigorous licensing process to check that it is fair and safe to go on sale.

MARCH 2011

COMMERCIAL SERVICES DECISION

The Commission decided not to consent to Camelot's application to offer bill payments and mobile top-ups through National Lottery terminals. The decision followed a thorough consultation process in a complicated area of EU law.

Funds Monitoring

The Commission has a bespoke computer system which independently records each draw to verify the prize outcome and logs all wager and prize payment transactions made. Specialists within Compliance analysed reports covering £5.8 billion worth of sales transactions to verify that Camelot has deposited a sufficient amount into the player's trust fund, paid the right amount to players and to the good causes fund.

Improving our efficiency and planning for the future

The Commission has a duty not only to maximise the amount that the Lottery raises for good causes, but also, because we are funded by Lottery money, we need to be as efficient as we can with our own costs.

The accounts for this year show total comprehensive net expenditure of £5.1million. Removing the impact of depreciation charges, costs associated with the implementation of the third licence, legal costs incurred reviewing Camelot's proposal to offer Commercial Services and a dilapidation provision for the expiry of the Commission's office lease in January 2012, our costs are £418k lower than last year at £4 million.

During the year the Commission carried out a major piece of work on Camelot's proposals to offer Commercial Services. This was an innovative proposal and was an example of the innovation we encouraged in the competition for the third licence. We had to consider the proposal very carefully to ensure returns to good causes were safeguarded. Consideration of Commercial Services resulted in additional expenditure for which we had not originally budgeted. Such proposals can impact significantly on expenditure as we are not in control of the number or timing of proposals put to us. If substantial, as in the case of Commercial Services, we may need additional provision to deal with them. However, it is vital that proposals like this are dealt with and managed carefully.

Handling the merger and co-location

We are working very closely with the Gambling Commission and the Department for Culture, Media and Sport (DCMS) to ensure that the planned merger process is as smooth as possible and that the vital work that the National Lottery Commission does is protected.

At the end of the Commission's lease on our existing offices in January 2012, we will be moving from London to co-locate with the Gambling Commission in its offices in Birmingham. We have a joint project team in place with the Gambling Commission to ensure that the move goes smoothly and that we can continue to operate effectively from our new premises. We also explored the potential for shared services with the Gambling Commission. We have identified areas where this can be achieved in a straightforward manner and the organisations are working together on implementation. This work also identified activities which, in order to safeguard the ongoing effective regulation of the National Lottery, should remain part of a separate National Lottery core unit in the co-located organisation pending determination of the governance arrangements for the proposed merged organisation.

Objectives for the year

As part of our commitment to working transparency we set out in our last annual report our priorities for the upcoming year. Opposite is a table that outlines the progress we have made.

Priorities for 2011/2012: – protecting players and safeguarding the National Lottery

Objective	Update
Complete the fit and proper assessment of the Ontario Teachers' Pension Plan and announce the decision about the transfer of ownership of Camelot Group plc.	The Commission completed the assessment in July 2010. We have since agreed to update the licence to run the Lottery to allow Camelot to change their corporate structure following the share sale.
Rule on Camelot's application for commercial services to be offered through Lottery terminals.	In March the Commission decided that we could not give consent to Camelot's application. We made our decision following a detailed consultation process, taking into account the views of interested parties and legal advice in a complicated and developing area of law.
Work closely with DCMS and HM Treasury to assess the impact of a potential change in Lottery taxation to a gross profits tax system.	The Commission supported DCMS and HM Treasury in their assessment work. HM Treasury decided that they were unable to make any changes at the current time.
Provide expert advice on the regulation of the National Lottery and the implications for the Lottery should the merger with the Gambling Commission proceed.	We are working closely with the Gambling Commission and DCMS to make sure that any merger can happen as smoothly and efficiently as possible and that the important work that the National Lottery Commission does is protected.
Consider game applications from the operator and assess all new proposals in the best interests of the Lottery.	The Commission has agreed 81 changes to the Lottery licence over the year, the launch of the Lotto Plus 5 game and changes to the class licence for scratchcards. We will continue to look at all proposals to ensure they are in the best interest of the Lottery.
Work closely with all relevant parties to maintain a safe and effective regulatory system for the National Lottery.	The Commission has worked closely with relevant parties to improve our regulation and the Lottery has remained safe and well trusted.

In our recent business plan we have set out the following objectives for 2011/2012

- To deliver the best possible outcome for the National Lottery by securing the optimum performance from the operator.
- To protect the Nation's interest in the benefits that the National Lottery provides.
- To contribute to the government's polices on public bodies by:
  - Managing the relocation of the Commission by January 2012;
  - Considering the potential for shared services with the Gambling Commission;
  - Actively participating in the development and implementation of proposals for the merger of the National Lottery Commission and Gambling Commission to ensure that the National Lottery is secure for the future.
- To use and review our skills and resources and deliver our objectives in a cost effective and efficient manner.

Commissioners' biographies

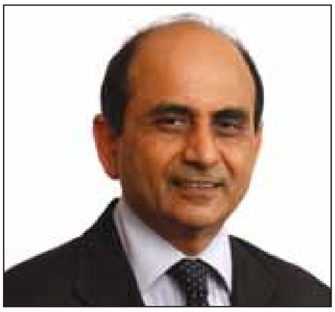
Dr Anne Wright CBE was appointed as Chair of the Commission in October 2005. She is a member of the Commission's Remuneration Committee and the Regulating with Excellence Reference Group. She was Chair of the School Teachers Pay Review Body until 31 March this year at the end of her term of office. Her former non-executive roles include the Board of English Partnerships and the Armed Forces Pay Review Body. Her former executive posts include Chief Executive of the Ufi/learndirect and Vice-Chancellor of the University of Sunderland. Among her voluntary roles is Chair of Trustees for Youth Music Theatre UK.

Mark Harris was appointed as the National Lottery Commission's Chief Executive in April 1999 and a Commissioner in 2007. Under his executive lead, the Commission has worked with the operator (Camelot) to introduce a wider games portfolio, develop innovative new playing channels, and ensure the National Lottery is leading the way in preventing underage and excessive play. Mark acted as Senior Responsible Owner and a member of the Project Board throughout the licence competition and transition. He previously worked in public sector audit, and on strategic development within the NHS and the Audit Commission. Mark holds a law degree and is a qualified public sector accountant and is a companion of the Chartered Institute of Management. He is a graduate of the Cabinet Office's Top Management Programme, a trustee of the Responsible Gambling Fund and is an alumni of the Ashridge Business School.

Mary Chapman was appointed in January 2008. She is the Chair of the Remuneration Committee and a member of the Commission's Regulating with Excellence Reference Group. She is a non-executive director of the Royal Mint, Chairman of the Institute of Customer Service, a council member of the Girls' Day School Trust, of Brunel University and the Archbishops' Council of the Church of England. She was formerly Chief Executive of the Chartered Management Institute and the founding Chief Executive of Investors in People UK. Her earlier career was in marketing management with L'OREAL UK Group companies.

Robert Foster was appointed as a National Lottery Commissioner in April 2005 and was Chairman of the Project Board which was responsible for overseeing the licence competition and 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 for Business, Innovation and Skills' 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 the Jersey Competition Regulatory Authority and Vice-Chair of King's College Hospital NHS Foundation Trust. He is also a member of the Advisory Council of Oxford Capital Partners.

James Froomberg was appointed as a National Lottery Commissioner in January 2008. He sits on the Commission's Audit and Remuneration committees. He is a leisure and property industry director with more than 20 years' experience in the private, public and consultancy sectors, and the Chair of Young Enterprise London. He was previously a member of the Government's Casino Advisory Panel,the Commercial Director of British Waterways, the Director of Corporate Development at Wembley plc and a 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 the Chair of the Commission's Audit Committee and was also a member of the Project Board. He is a management consultant who has extensive experience of governance and management across various sectors. From 2001 to 2004 he was Client Director at Ashridge Business School. This followed senior management roles internationally with multinationals including Unilever Bestfoods and Coca-Cola for more than 15 years. He was also a member of the Casino Advisory Panel. Among the appointments he holds currently are Chair of LEASE and of Turnstone Support Limited.

Sarah Thane CBE was appointed as a National Lottery Commissioner in September 2005. She chairs the Commission's Regulating with Excellence Reference Group and sits on the Audit Committee. Sarah was formerly Advisor, Content and Standards at Ofcom, and Director of Programmes and Advertising at the ITC. As a consultant, she advised, among others, the BBC Trust. Sarah is a magistrate in West Suffolk. A Fellow and former Chair of the Royal Television Society, and she was awarded an Honorary Doctoral Degree from the Birmingham City University in 2010.

Appendix A – Camelot sales performance 2010/2011

Sales (£ millions)	2010/2011	2009/2010
Lotto	2,667	2,661
Lotto Plus 5	19.5	n/a
Thunderball	355.9	285.7
Scratchcards (including Interactive Instant Win Games (IIWGs))	1,436.1	1,339.5
Hotpicks	205.7	210.2
Daily Play	46.1	49.2
EuroMillions	1,055.5	880.6
Dream Number	38.9	50.3
Total	**5,824.7**	**5,476.5**
Prizes capable of being won by players (including unclaimed prizes)	2,984.5	2,797.3
Payments to the National Lottery Distribution Fund and Olympic Lottery Distribution Fund (NLDF/OLDF)		
Primary contribution (Note 1)	1,558.1	1,468.5
Unclaimed Prizes	93.8	83.1
Interest from Trust accounts	0.2	2.2
Other miscellaneous payments	3.2	34.2
Total	**1,655.3**	**1,588**
Other payments		
Lottery duty	699.3	657.2
Retailers' commission	270	257.4

Note 1
Amount payable on sales figures less adjustments such as the National Lottery Promotions Unit (NLPU) and redundancy adjustments.

Appendix B – Section 5 Licence variations made between 1 April 2010 and 31 March 2011

Variations made to the third section 5 licence		
Condition	**Effect of the variation**	**Date effective**
Condition 12.1(c)	Change consequent on the share sale: reference to 'memorandum' deleted from the Third Licence.	30 June 2010
Schedule 1 and Schedule 13 Part 2	Change consequent on the share sale. • Definition of Licensee in Schedule 1 amended to refer to Camelot Group Limited. • References to Camelot Group plc in Schedule 13 Part 2 deleted and replaced with references to Camelot Group Limited.	5 July 2010
Condition 15.14A	Change consequent on the share sale. • Conditions 10.4, 10.8, Condition 15 and Conditions 20.8, 20.9, 20.10, 20.11 and 20.12 shall not apply to any Series Subcontract or Sub Series Subcontract (and the relevant Series Subcontractor and Sub Series Subcontractor) in connection with Ancillary Activities except to the extent that the Series Subcontractor or Sub Series Subcontractor is an Extended Group Company.	8 July 2010
Condition 15.19A	Change consequent on the share sale. • In relation to Licensee Subcontracts, Series Subcontracts or Sub Series Subcontracts relating to Ancillary Activities, Condition 15.19 shall apply only to the novation or assignment of the interest of the Licensee, Series Subcontractor or Sub Series Subcontractor under such Licensee Subcontract, Series Subcontract or Sub Series Subcontract respectively.	8 July 2010
Condition 20.7	Change consequent on the share sale. • References in this provision to 'Group Company' amended to refer to 'Extended Group Company'	8 July 2010
Schedule 1	Changes consequent on the share sale. • Definition of 'Combined Code' amended as follows: ***Combined Code*** means the Combined Code on Corporate Governance 2008 or, when it becomes applicable to the Licensee the UK Corporate Governance Code 2010 (as amended) and any subsequent revision to, or successor of, these codes. • Additional definition added to the Licence: ***Extended Group Company*** means any subsidiary or immediate, intermediate or ultimate holding company of the Licensee from time to time and any subsidiary of any such immediate, intermediate or ultimate holding company from time to time, "subsidiary" and "holding company" having the meanings set out in section 1159 of the Companies Act 2006. • Definition of 'Group Company' amended as follows: ***Group Company*** means the Licensee and any direct or indirect subsidiary of the Licensee from time to time. "Subsidiary" has the meaning set out in section 1159 of the Companies Act 2006. • Definition of 'Licensee Subcontract' varied as follows: ***Licensee Subcontract*** means: a) any agreement including any software licence entered into by the Licensee and a third party(ies) in connection with the National Lottery b) save where the Commission agrees otherwise, any agreement relating to an Ancillary Activity which the Licensee has agreed with an Extended Group Company.	8 July 2010
Conditions 7.16 and 7.17	Varied to correct the omission of the word 'rules' in Condition 7.16 and to require Camelot to seek Commission approval of its proposals to bring any changes to the key player documents to the attention of players and, where appropriate, to secure their acceptance of them.	13 July 2010
Schedule 1 and Schedule 13 Part 2	Definition of Licensee in Schedule 1 amended to refer to Camelot UK Lotteries Limited. References to Camelot Group Limited in Schedule 13 Part 2 deleted and replaced with references to Camelot UK Lotteries Limited.	5 August 2010
Condition 28.4	Change in the name and contact details for Camelot's company secretary.	25 August 2010
Conditions 13.7 and 13.8	Insertion of provisions, reflecting the move to a new system of vetting, requiring Camelot to appropriately manage individuals in the period between the submission of vetting forms and the completion of checks.	24 September 2010
Condition 7.7(a)(ii); Condition 16.4(b); and Schedule 8 Part 2 paragraphs 5.1, 5.2, 5.3, 5.3A and 6.1	Requirement for Camelot to provide certification in respect of VAT adjustments. Plus some amendments to clarify the licence provisions regarding the Basic Primary Contribution.	27 September 2010
Schedule 8 Part 2 paragraph 4.6	Amendment of the way in which the TPBIT is calculated for the purposes of the Secondary Contribution. The licence now refers to National Lottery ticket sales as shown in Camelot's audited financial statement.	Signed 7 October 2010, with retrospective effect from 1 February 2009
Conditions 15.1, 15.2, 15.3A and 15.3B	Changes consequent on Camelot's corporate restructuring. • Conditions 15.1 and 15.2 were amended to refer to 'material amendments' to Licensee Subcontracts in addition to new draft Licensee Subcontracts. Conditions 15.3A and 15.3B were inserted into the Licence. Condition 15.3A sets out certain contractual management and performance arrangements that apply in relation to agreements between Camelot and any Key Licensee Subcontractors that are also Extended Group Companies. Condition 15.3B states that the Commission and Camelot may agree a Protocol regarding the management of Key Licensee Subcontracts between Camelot and an Extended Group Company.	01 April 2011 (Agreed on 31 March 2011)

Appendix C – Breaches of the Section 5 licence recorded between 1 April 2010 and 31 March 2011

Section 5 Licence			
Licence Condition/Schedule	**Background**	**Description/regulatory action**	**Outcome**
Condition 7.42 of the Licence to operate the National Lottery requires Camelot to ensure that certain information published on its website is accurate and does not mislead players. This includes the publication of draw results.	Camelot publishes the results of draws on the National Lottery website where players can check if they have won a prize.	The Commission was informed by Camelot that one of the numbers selected in the Lotto draw which took place on 23 September 2009 was incorrectly published on the National Lottery website for approximately 3 hours on 24 September. The number 45 was displayed when it should have been the number 46. It is likely that for only a small number of players this would have had a detrimental effect; those who purchased their tickets at retail; checked their tickets on line and had won the match 3 (£10) prize with number 46 as one of their winning numbers. All players would have obtained the correct prize, if they subsequently made a claim. A licence breach was recorded on 14 May 2010.	The Commission is satisfied that the case resulted from problems with the automated entry of results to the website and subsequent human error when manually updating the results page. Camelot has put in place process improvements to reduce the risk of this happening again
Condition 7.42 of the Licence to operate the National Lottery requires Camelot to ensure that certain information published on its website is accurate and does not mislead players. This includes the publication of draw results.	Camelot provides retailers with point of sale advertising and promotional material for Lottery games, including EuroMillions.	Camelot distributed point of sale material to retailers to promote the EuroMillions Super Minimum Jackpot Guarantee (SMJG) event draw on 5 February 2010. The materials included a cardboard cube for display and were sent to retailers more than a week prior to the draw. The cube promoted an estimated jackpot of £85 million, but failed to include the date of the draw on every face of the cube. Whilst the date of the draw was clearly stated on other point of sale items, it is possible that players who saw only the cube might have incorrectly concluded that the jackpot of £85 million applied to the previous week's draw. A licence breach was recorded on 14 May 2010.	Camelot commented that they will ensure there is no recurrence.

Appendix D – Camelot performance standards 2010-2011

Description of standard	Target	Actual
Retailer Management (P10 report)		
Retailer selection requests answered within 10 days	95%	97.26%
Resolution of issues raised in retailer correspondence within 10 days	95%	97.57%
Player Service (P2 report)		
Response to correspondence by National Lottery Line (NLL) within 5 working days	95%	98.14%
Resolution of general complaints by players within 10 working days	95%	99.71%
Calls answered by NLL Voice Response System (VRS) Wednesday between 20.00 and 23.00	90%	99.96%
Calls answered by NLL VRS Saturday between 20.00 and 23.00	85%	99.99%
Calls answered by NLL VRS at all other times	97%	99.97%
Access to NLL Representative Saturday between 20.00 and 23.00 (calls answered within 5 seconds)	80%	98.16%
Access to NLL Representative Friday between 20.00 and 23.00 (calls answered within 5 seconds)	80%	99.87%
Access to NLL Representative at all other times (calls answered within 5 seconds)	90%	99.36%
Failure to select an option on VRS	< 8%	1.18%
Abandoned calls to NLL call centre	< 5%	0.67%
Prize payment (P1 report)		
Normal Claims		
Claims paid by cheque within 1 hour of winners visiting a Regional Centre	92.5%	94.50%
Prize claims made in person within 1 hour where the claim is settled through CHAPS	92.5%	99.87%
Prize claims made by post within 5 working days(including interactive)	95%	96.87%
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%	98.34%
Resolution of claims in respect of missing multi-draw exchange tickets within 20 working days	90%	99.31%
Resolution of claims in respect of lost, stolen or destroyed tickets within 20 working days	75%	99.83%
Scratchcards		
Resolution of claims in respect of damaged tickets within 20 working days	95%	100%
Resolution of claims in respect of stolen tickets/packs within 20 working days	92.5%	99.81%
Resolution of claims in respect of previously validated tickets within 20 working days	95%	91.22%
Resolution of any other claims for both draw based and scratchcard games within 20 working days	75%	99.91%
Subscriptions (P5 report)		
Written correspondence answered within 5 working days	95%	99.80%
Resolution of player complaints within 10 working days	95%	97.11%
Voice contact with Subscriptions Department (calls answered within 20 seconds following the recorded message)	80%	79.07%
Abandoned calls to the Subscriptions Department	< 5%	3.96%
Interactive Customer Contact (P15 report)		
Voice contact with Customer Call Centre (calls answered within 20 seconds of the end of the recorded message)	80%	74%
Abandoned calls to the Customer Call Centre	< 5%	5%
Customer contact via email to answered within 8 hours of receipt	80%	91%
Mail server performance (emails bounced by the email server due to system unavailability)	< 1%	0%
Response to letters within 5 working days	95%	98%
Resolution of enquiries on first attempt	80%	99%
Complaints resolved within 10 working days	95%	95%

Appendix E – NLC performance standards

Correspondence	Standard	Achieved
All correspondence acknowledged within 5 working days	98%	98.9%
Substantive response to simple complaints and enquiries within 10 working days	95%	99.9%
Response to correspondence requiring investigation within 20 working days	95%	96.9%

Equal opportunities analysis 2010-11					
Position	**Applicants selected for interview**			**Successful candidate**	
	Total	Ethnic minority	Female	Gender	Ethnic origin
N/A	N/A	N/A	N/A	N/A	N/A
Total	N/A	N/A	N/A	N/A	N/A

Other	Standard	Achieved
Cumulative sickness absence (Civil Service average 8.7 days per year)	7	6.8
Return to work interviews completed within five working days	95%	95%
Staff turnover rate	Not applicable	25%

Payment performance 1 April 2010 – 31 March 2011				
Total number of invoices	Number paid within 30 days	Percentage paid within 30 days	Number paid within 40 days	Percentage paid within 30 days
673	598	89%	657	98%

Management commentary

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. Re-appointed for a further term of four years with effect from 16 October 2010.

Mary Chapman
Appointed on 14 January 2008 for a term of four years.

Robert Foster
Appointed on 1 April 2005 for a term of five years and Chair of the Project Board. Re-appointed 1 April 2010 for a further term of four years.

James Froomberg
Appointed on 14 January 2008 for a term of four years.

Deep Sagar
Appointed on 1 September 2007 for a term of four years.

Sarah Thane CBE
Appointed on 17 September 2005 for a term of four years and re-appointed 17 September 2009 for a further term of four years.

Mark Harris
Chief Executive and appointed as Commissioner from 1 October 2007 for a term of four years.

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 LLP
Emerald House
East Street
Epsom
Surrey KT17 1HS

Bankers

The Government Banking Service
HM Revenue & Customs
1st Floor, West Wing
Somerset House
Strand
London WC2R 1LB

Solicitors

Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

Background

The National Lottery Commission (the 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); and
- 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;
- that the interests of every participant in a lottery that forms part of the National Lottery are protected; and
- 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; and
- 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 seven Commissioners including the Chief Executive. All Commissioners are appointed by the Secretary of State for Culture, Olympics, Media and Sport, who also determines their remuneration. Commissioners have corporate responsibility for ensuring that the Commission fulfils the aim and objectives set out in legislation and complies with any statutory or administrative requirements for the use of public funds.

Management commentary

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, including the appointment of two executives as Commissioners.

Chief Executive

The Chief Executive, who is also a Commissioner, is 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, their close family members and senior staff of the Commission that may conflict with their management responsibilities. The Register of Interests is open for inspection at the Commission's offices upon request and is available on the Commission's website. During 2010/2011 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, Olympics, Media and Sport with the consent of HM Treasury in accordance with the National Lottery etc. Act 1993 (as amended). Total comprehensive net expenditure for the year amounted to £5.1 million (£4.9 million in 2009/2010). The increase in net expenditure between the years is as a result of increased expenditure on legal costs due to the advice required in order to assess proposals put forward by the operator in respect of commercial services. This increase in cost was partly offset by savings on annual running costs.

The Statement of Financial position at 31 March 2011 shows net assets of £292k (31 March 2010, £123k net assets). This reflects the inclusion of a provision for dilapidation costs as a result of the expiry of the operating lease for office accommodation, a decrease in accruals and an increase in the cash balance compared to the same date last year. The Statement also reflects the value of the asset and anticipated liabilities falling due in future years in respect of the use of the London 2012 Olympic and Paralympic Games intellectual property rights (Olympic IP) for the operation and promotion of Olympic Lotteries. Accounting standards require these liabilities to be provided for at the Statement of Financial Position date. These liabilities will be met in full by future grant-in-aid from the Commission's sponsoring department, the Department for Culture, Media and

Sport (DCMS). 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 Statement of Financial Position at 31 March 2011 would show net assets of £249k.

The net liabilities include £221k of pension liabilities relating to a former Director General of the Office of the Lottery (OFLOT), which represents 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 8 to 15.

The Commission recorded two licence breaches during 2010/2011 (four in 2009/2010), none of which resulted in a financial penalty being incurred by Camelot. Full details about Camelot's licence breaches in 2010/2011 can be viewed on the Commission's website: *www.natlotcomm.gov.uk* and in Annex C on page 19.

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, and from 30 July 2007 an additional option was introduced called nuvos, which is a 'whole career' scheme.

The Commission has a pension liability for a former Director General of OFLOT. The liability for this pension passed from DCMS to the Commission. 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.

Management commentary

The Commission publishes its Single Equality Scheme which shows how the Commission is proactively integrating equal opportunities across all parts of its business activities. This is available on the Commission's website.

Investors in People (IiP)

The Commission has achieved IiP accreditation and was re-accredited in May 2009.

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 and Remuneration Committee

The Commission has an Audit Committee and a Remuneration Committee, each made up of three Commissioners. The Audit Committee meets at least three times a year and the Remuneration Committee meets at least once a year. Further details of the work of the Audit Committee are set out in the Statement on Internal Control and details of the work of the Remuneration Committee are set out in the Remuneration Report. The table below details the members of each Committee during 2010/2011.

	Audit Committee	Remuneration Committee
Chair	Deep Sagar	Mary Chapman
Members	James Froomberg Sarah Thane CBE	James Froomberg Dr Anne Wright CBE

Payment performance

The 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, inclusive of credit card and cheque payments as applicable. In the financial year to 31 March 2011 the Commission settled 89 percent of invoices within 30 days (92 percent in 2009/2010). No interest was paid during 2010/2011 (£Nil in 2009/2010) under the Late Payment of Commercial Debts (Interest) Act 1998.

Sickness absence

During the year the average number of days lost due to sickness absence was 6.8 compared to the Civil Service average of 8.7 days. (In 2009/2010, the average was 5.74 days compared with the Civil Service average of 8.7 days).

Personal data incidents

In accordance with Cabinet Office guidance regarding the Security Policy Framework (SPF), the Commission has in place various measures to ensure information security applies to all staff and third parties as applicable. In line with the SPF, the Commission regularly reviews its security systems and will introduce further measures as required.

The Commission has suffered no protected personal data incidents during 2010/2011 and has made no reports to the Information Commissioner's Office.

Disclosure of information to auditors

The Comptroller and Auditor General is the external auditor for the Commission's accounts. The external auditor's remuneration in 2010/2011 was set at £21.5k (£21.5k remuneration and additional fee of £3.5k for the audit of IFRS preparations, 2009/2010). The external auditors did not undertake any non-audit work during the year.

To the extent of my knowledge, as Accounting Officer for the Commission:

- there is no relevant audit information of which the Commission's auditors are unaware; and
- I have taken all possible steps to make myself aware of any information of relevance to the Commission's auditors and to make them aware of it.

Social, community and environmental issues

The Commission has adopted sustainable development measures, such as reduced paper consumption, plumbed-in water, promoting reduced energy use and recycling of paper, plastics, toners, glass and aluminium cans.

Mark Harris
Chief Executive
29 June 2011

Remuneration report

Remuneration policy

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

- to reflect the need to recruit, maintain and motivate suitably qualified people to exercise their different responsibilities;
- to reward people equitably for their contribution to the fulfillment of the organisation's objectives; and
- in line with government policy and guidance on public sector pay.

The Chief Executive's remuneration is determined by the Remuneration Committee.

In June 2010 the government announced a two year pay freeze for the civil service and wider public sector. The Commission has implemented this pay freeze.

Remuneration Committee

The Commission has a Remuneration Committee that is made up of three Commissioners and that meets at least once a year. The Committee has full terms of reference that are reviewed annually.

The Committee's main functions are:

1. To approve the Commission's pay policy and recommend to the full Commission for adoption.
2. To determine the Chief Executive's Remuneration.
3. To determine the annual pay award for staff.
4. To agree job descriptions and remuneration of director level posts.
5. To moderate Directors' bonuses and advise accordingly.
6. To receive a report relating to the dismissal of staff.
7. To consider overall establishment and significant changes to the organisational structure and to make recommendations to the full Commission accordingly.
8. To discuss issues relating to Commissioners' terms and conditions and agree recommendations for DCMS to consider.

In 2010/2011 the Committee met four times and its members were:

- Mary Chapman (Chair);
- Dr Anne Wright CBE; and
- James Froomberg.

The Committee discussed and considered a wide range of issues at its meetings including;

- Government guidance issued on public sector pay;
- Government guidance on Senior pay;
- the implications of guidance for the Commission's pay arrangements; and
- the implications of the co-location with the Gambling Commission for the Commission's staff.

Chief Executive's remuneration

The Chief Executive's appointment and contract is approved by DCMS. The contract is open-ended with a notice period of six months. The contract provides for a bonus of up to 20 percent of salary, subject to performance. Up to 5 percent of the bonus can be consolidated as a pay increase. Otherwise, the bonus is non-pensionable and non-consolidated. The bonus and any consolidated pay increase are set by the Remuneration Committee.

Any performance bonus agreed for the Chief Executive is based on an assessment of how he has delivered against targets agreed at the start of the year. The assessment is undertaken by the Chair of the Commission. For 2010-2011 a set of stretching targets were agreed for the Chief Executive. Based on the appraisal of performance, all targets were fully met and in some cases exceeded. In light of current guidance on public sector pay and having considered the Chief Executive's performance, the Remuneration Committee agreed that performance warranted a bonus of 18% of salary. In line with the current pay freeze, none of the bonus was consolidated.

Directors' remuneration

Appointments of the Commissions' Directors are made on merit and on the basis of fair and open competition. Unless otherwise stated, the Directors covered in this report hold appointments that are open-ended. Early termination of contracts, other than for misconduct, would result in individuals receiving compensation as set out in the Civil Service Compensation Scheme. The period of notice for termination is three months.

Directors' bonuses are based on performance throughout the year and an assessment of the extent to which objectives that are set at the start of the year have been met or exceeded. The assessment is made following a performance appraisal undertaken by the Chief Executive where performance and evidence of achievement of objectives is discussed. Directors' bonuses are moderated by the Remuneration Committee.

Bonus amounts for Directors are set at 3 percent of the market rate for their grade for meeting objectives and 5 percent of the market rate if objectives are exceeded. For the Deputy Chief Executive bonus amounts were set at 5 percent of salary for meeting objectives and 10 percent of salary if objectives were exceeded. During the year the Deputy Chief Executive resigned and has not been replaced so these specific arrangements do not currently apply.

Commissioners' remuneration

All Commissioners are remunerated on a daily rate apart from the Chair of the Commission who is paid an annual salary. The Secretary of State for Culture, Olympics, Media and Sport sets the basis for Commissioners' remuneration in line with government guidance. The Chief Executive is paid solely as an employee.

Remuneration for 2010/2011

The tables below set out the total remuneration for the year for all Commissioners and senior staff of the Commission. The figures in the tables are audited as part

Remuneration report

of the audit of the annual accounts. Salary includes basic salary and any other allowances to the extent they are subject to UK taxation. Bonuses are shown separately. Comparative figures for the previous year are shown in brackets.

Commissioners' remuneration 2010/2011

Commissioner's remuneration is presented on cash basis with the total cost for 2010/11 being £110k. The total remuneration on an accruals basis for the same period would be £101k.

Name and designation	Salary/ Fee	Pension contributions	Bonus payments	Benefits in kind	Total remuneration
	£	£	£	£	£
Dr Anne Wright CBE (Chair) (Note i)	61,929 (60,384)	n/a	n/a	112 (59)	62,041 (60,443)
Mary Chapman (Commissioner) (Note ii)	10,098 (7,068)	n/a	n/a	112 (59)	10,210 (7,127)
Robert Foster (Commissioner) (Note iii)	9,953 (22,311)	n/a	n/a	112 (59)	10,065 (22,370)
James Froomberg (Commissioner) (Note iv)	9,810 (6,237)	n/a	n/a	112 (59)	9,922 (6,296)
Deep Sagar (Commissioner) (Note v)	7,213 (5,930)	n/a	n/a	813 (245)	8,026 (6,175)
Sarah Thane CBE (Commissioner)	7,790 (7,790)	n/a	n/a	2,021 (458)	9,811 (8,248)

Notes

i) Anne Wright CBE works 9.5 days per month and was paid £1,674 in 2010/11 in respect of fees owed for 2009/2010

ii) Mary Chapman was paid £4,616 in 2010/11 in respect of fees owed for 2009/2010

iii) Robert Foster was paid £708 in 2010/11 in respect of fees owed for 2009/2010 and was also the Chair of the New Licence Project Board until 30 September 2009

iv) James Froomberg was paid £2,308 in 2010/11 in respect of fees owed for 2009/2010

v) Deep Sagar was paid £433in 2010/11 in respect of fees owed for 2009/2010

Chief Executive and Directors' remuneration 2010/2011

Name and designation	Salary	Pension contributions	Bonus payments	Benefits in kind	Total remuneration
	£	£	£	£	£
Mark Harris (Chief Executive and Commissioner) (Note vi)	113,974 (113,899)	27,696 (27,677)	20,515 (8,000)	122 (65)	134,611 (121,964)
Annette Lovell (Deputy Chief Executive) (Note vii)	19,027 (83,934)	4,624 (20,396)	702 (4,213)	n/a (65)	19,729 (88,212)
Joy Watkins (Director)	70,241 (67,806)	15,313 (14,782)	2,189 (0)	122 (65)	72,552 (67,871)
Marta Phillips OBE (Director) (Note viii)	6,215 (74,890)	457 (18,198)	0 (2,190)	0 (103)	6,215 (77,183)
Simon D'Arcy (Director) (Note ix)	85,685 (685)	n/a n/a	n/a n/a	122 n/a	85,807 (685)
Ben Haden (Director) (Note x)	56,107 n/a	12,231 n/a	1,824 n/a	122 n/a	58,053 n/a

Notes

vi) Mark Harris was appointed as a Commissioner on 1 October 2007 but does not receive additional remuneration in this capacity. There was no salary increase between 2009/10 and 2010/11 for the Chief Executive. However, any salary increase takes effect from 17 April (his appointment date) rather than 1 April each year and this accounts for the £75 increase between the years

vii) Annette Lovell – resigned from the Commission on 13 June 2010

viii) Marta Phillips – resigned from the Commission on 9 April 2010. A bonus is not payable for that period

ix) Simon D'Arcy – employed on 29 March 2010 on a fixed term contract, therefore, not eligible to join the pension scheme and no bonus is payable

x) Ben Haden – appointed acting Director of Corporate Affairs on 17 May 2010. The FTE salary would be £64,221

Benefits in kind

The monetary value of benefits in kind covers any benefits provided and treated by Her Majesty's Revenue and Customs (HMRC) as a taxable emolument. A PAYE settlement agreement has been made with HMRC to meet the taxable emoluments of Commission staff and Commissioners. Benefits in kind provided include lunches and Commissioner travel expenses.

Pensions

The table below shows the accrued pension rights of the Chief Executive and Directors. The information in the table is audited as part of the audit of the annual accounts.

Name and designation	Accrued pension at age 60 at 31/03/11 (£'000)	Accrued lump sum at age 60 at 31/03/11 (£'000)	Real increase in pension at end date (£'000)	Real increase in lump sum at age 60 (£'000)	CETV* at 01/4/10 (nearest £'000)	CETV* at 31/03/11 (nearest £'000)	Real increase in CETV during the year (£'000)
Mark Harris (Chief Executive)	35-40	115-120	0-2.5	0-2.5	571	624	3
Annette Lovell (Deputy Chief Executive)	5-10	25-30	0-2.5	0-2.5	135	139	3
Joy Watkins (Director)	5-10	25-30	0-2.5	2.5-5	91	111	11
Marta Phillips OBE (Director)	20-25	25-30	0-2.5	0-2.5	443	449	(25)
Ben Haden (Director)	5-10	0-2.5	0-2.5	0-2.5	58	77	13

* CETV = cash equivalent transfer value

The actuarial factors used to calculate CETVs were changed in 2010/11. The CETVs at 31/3/10 and 31/3/11 have both been calculated using the new factors, for consistency. The CETV at 31/3/10 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium or classic plus); or a 'whole career' scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with changes in the Consumer Prices Index (CPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Remuneration report

Employee contributions are set at the rate of 1.5 percent of pensionable earnings for classic and 3.5 percent for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 percent of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with CPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

Employers also contribute a further 0.8 percent of pensionable salary to cover the cost of centrally–provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

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

Real increase in CETV

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

Mark Harris
Chief Executive
29 June 2011

Accounts 2010/2011

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

Under Schedule 2A Section 11(1) and (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, Olympics, Media and Sport. The accounts are prepared on an accruals basis and must give a true and fair view of the Commission's state of affairs and of its income and expenditure, changes in taxpayers' equity 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;
- 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 DCMS has designated the Chief Executive of the 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
29 June 2011

* The Accounts Direction is held on site at the National Lottery Commission's office.

Statement on Internal Control

Scope of responsibility

As Accounting Officer, I am responsible for upholding sound internal controls that support the Commission's policies and objectives. The internal controls safeguard the public funds and assets for which I am personally responsible under Managing Public Money.

I operate within the terms of the Management Statement and Financial Memorandum agreed with the Department for Culture Media and Sport (DCMS), the Commission's sponsor Department.

The purpose of the system of internal control

Internal controls aim to manage risk to a reasonable level rather than to remove all risk of failure to achieve policies and objectives. Internal controls 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 principal features of the system of internal control and key high-level controls in place throughout the year are:

- an organisational structure that supports clear lines of communication, monitoring, reporting and accountability;
- business strategies that are approved by the Commissioners;
- detailed business plans produced at Directorate level; and
- a risk escalation process allowing risks identified within business plans to be brought to the attention of directors, the Audit Committee and the Commissioners if required.

We evaluate the effectiveness of our system of internal control through:

- scrutiny of internal audit reports, internal controls and risks by our Audit Committee;
- a regular programme of internal audit; and
- external audit by the National Audit Office.

The system of internal control has been in place in the Commission for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Commission is a public body, accountable to Parliament, operating in a governance framework set and monitored by HM Treasury and DCMS.

The Commission subscribes to the seven principles of conduct underpinning public life as set out by Lord Nolan (selflessness, integrity, objectivity, accountability, openness, honesty and leadership).

As Accounting Officer, I acknowledge my overall responsibility for ensuring the Commission is committed to high standards of Corporate Governance, including the effective management of risks throughout the Commission.

The Senior Management team takes an active role in identifying and reviewing risks to ensure we can deliver our objectives. Leadership is given to the risk management process by the work of the Audit Committee which reviews the corporate risk register at each of its meetings. The Audit Committee meets at least three times per year.

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.

The risk and control framework

The Commission's risk management framework has continued to develop over the year and we are continuing work to ensure it is fully embedded in all of our procedures. During the forthcoming year we will be continuing work started in 2010/11 to refresh our operational risk management arrangements to further ensure that risks are identified and effectively managed at all levels within the business.

The Commission's risk processes consider information risks and the controls in place to protect the Commission's information assets. These processes recognise that personal and other sensitive information, including employee information, requires extra safeguards. Security and confidentiality are key requirements in holding this data. The Commission holds only small quantities of personal information and I consider the level of information risk to be low.

The key risks managed by the Commission during 2010/11 relate to delivery of our objectives and cover a range of areas including; reputation, returns to good causes and co-location and merger. Specific operator proposals and developments were considered as they arose and relevant risks and management strategies identified where needed.

Statement on Internal Control

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

1. Audit Committee

The Audit Committee comprises no fewer than three Commissioners. It meets at least three times a year and in the year under review it met four times.

As Accounting Officer I normally attend the meetings of the Audit Committee. Others in attendance include the Director of Resources, National Audit Officer Directors and the Head of Internal Audit.

In 2010/2011 the Audit Committee members were:

- Deep Sagar (Chair);
- James Froomberg; and
- Sarah Thane CBE.

The Audit Committee is responsible for reviewing, at each of its meetings, the risks identified and recorded in the corporate risk register, and any additional action planned to further mitigate risk where needed. In addition, the Committee is informed of any new risks and changes to the assessment of existing risks.

During the year the Audit Committee reviewed the Commission’s:

- risk register and concluded that the risks were appropriate and being managed effectively within the Commission;
- assurance framework to support its consideration of risks;
- Audit Committee’s effectiveness against best practice; and
- anti–fraud policies and processes in the light of best practice.

The Chair of the Audit Committee updates the Commissioners on the work of the Committee after each Audit Committee meeting and provides a full written report on the work of the Committee once a year.

2. Risk registers

Having identified risks by a process of self assessment, managers are required to evaluate the effects of these risks and to suggest a means for mitigating the effects. Guidance is provided by the management team, led by the Accounting Officer which takes collective decisions on the reporting of their findings by means of the organisation’s risk registers.

During the year work was undertaken to develop a specific risk register for the Commission’s relocation to Birmingham as this is a major piece of work. The Commission is also updating its operational level risk registers to ensure that all strategic and operational key risks are identified and appropriate mitigation strategies in place.

3. Risk and control framework

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

- the Commissioners and Audit Committee – oversee the arrangements in place for the risk management function which operates within the Commission;
- Directors – own and manage risk. They review the corporate risk register on a monthly basis to ensure context, actions, risk ownership and processes are co-ordinated and fit for purpose;
- the Commission's governance framework – the framework sets out how the Commissioners manage its affairs and which matters are delegated to the Chief Executive; and
- an internal audit programme – this focuses on the requirement to provide assurance that the risks faced by the Commission are properly managed and controlled and that appropriate controls are in place and operating in key operational areas. Where control weaknesses are identified, these are drawn to the attention of senior managers who are responsible for determining and implementing an appropriate response.

The risk management process will continue to identify and review risks as they arise.

We are operating in a very challenging environment dealing with a wide range of risks. The environment is very uncertain with the risk of staff leaving in the run up to the co-location with the Gambling Commission or choosing not to move when the co-location takes place. Alongside this, we are likely to be further challenged with increasingly innovative proposals from the operator that we will have to consider. However, as with all risks we face, we have plans and strategies in place that should minimise the likelihood of things going wrong and allow us to deliver our objectives and continue to regulate effectively.

Significant internal control issues

The Commission has not been required to address any significant control issues during the year. No fundamental control weaknesses have been identified by our internal auditors.

During the year the following small, localised incident occurred:

Items lost or stolen 2010/11	Number
Laptops*	1

It is a requirement to report protected personal data-related incidents to the Information Commissioner's Office. During the year the Commission has suffered no loss of data or information and no reports were needed to be made to the Information Commissioner's Office.

* The stolen laptop did not contain any personal data.

Statement on Internal Control

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 by 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 any weakness and ensure continuous improvement of the system is in place.

The Commissioners and I have a corporate responsibility for ensuring that the aims and objectives of the Commission are fulfilled and I have responsibility for promoting the efficient and effective use of staff and other resources. To this end, and in pursuit of wider corporate responsibilities, the Commissioners play a major role in the risk management and internal control processes.

The Commissioners are informed by the Audit Committee which has met three times during the year and reviewed assurances on the Commission's system of corporate governance, risk management and internal control.

Clear responsibility for managing risk lies with the Commissioners, Directors and staff of the Commission.

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

- the Commission arranges for a programme of work, approved by the Audit Committee, to be undertaken by Internal Audit. The Commission has appointed BDO as independent internal auditors. 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 Audit Committee members have access to reports on work 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. Where recommendations have been accepted by management they have been implemented or progressed in accordance with agreed timetables; and

- the Audit Committee monitors the implementation by management of recommendations made by the internal auditors to improve the system of internal control. Following completion of the planned work for 2010/11 the Head of Internal Audit issued an independent and objective opinion on the adequacy and effectiveness of the Commission system of internal control which stated that:

  "It is our opinion that, and on the assumption that Internal Audit recommendations are implemented, the National Lottery Commission has a sound framework of control in the areas reviewed which we are satisfied should provide assurance regarding the effective and efficient achievement of the National Lottery Commissions objectives".

During 2010/11, no significant internal control issues arose which require reporting in the Statement on Internal Control. I believe there are satisfactory processes in place to identify and manage the significant risks faced by the Commission. Nonetheless, I am conscious that during the forthcoming year the Commission will undergo considerable organisational change as a result of the relocation to Birmingham. Consequently, it is of paramount importance that, both in the run up to and post relocation, the design and operation of internal controls continue to operate and meet the needs of the Commission.

Mark Harris
Chief Executive
29 June 2011

National Lottery Commission

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

I certify that I have audited the financial statements of the National Lottery Commission for the year ended 31 March 2011 under the National Lottery etc. Act 1993. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity 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

As explained more fully in the Statement of the Commission's and Chief Executive's Responsibilities for the Financial Statements, the Commission and Chief Executive as Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the National Lottery etc. Act 1993. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Lottery Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the National Lottery Commission; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

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.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the National Lottery Commission's affairs as at 31 March 2011 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 and Secretary of State directions issued thereunder.

Emphasis of matter

Without qualifying my opinion, I draw attention to the disclosures made in note 1 to the financial statements concerning the application of the going concern principle in the light of the announcement to merge the National Lottery Commission with the Gambling Commission. This is subject to legislation and there is therefore uncertainty over the National Lottery Commission's ability to continue to operate in its current form.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Secretary of State directions issued under the National Lottery etc. Act 1993; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Amyas C E Morse
Comptroller and Auditor General
7 July 2011

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

Statement of Comprehensive Net Expenditure for the year ended 31 March 2011

	Note	2010/2011 £'000	*Restated 2009/2010 £'000
Expenditure			
Staff costs	4	(2,027)	(2,223)
Administrative expenses	6	(1,934)	(1,555)
Other expenditure	7	(1,091)	(1,019)
Sundry receipts	3	1	1
Total net expenditure before finance costs		**(5,051)**	**(4,796)**
Finance costs	5(c)	(11)	(12)
Total net expenditure after finance costs		**(5,062)**	**(4,808)**

Other comprehensive income/(expenditure)	Note	31 March 2011 £'000	31 March 2010 £'000
Experience loss arising on the pension scheme	5(d)	(1)	(5)
Changes in assumptions underlying the present value of the pension scheme liabilities		12	(43)
		11	**(48)**
Total comprehensive net expenditure for the year ended 31 March 2011		**(5,051)**	**(4,856)**

All activities were continuing in the year.
Notes on pages 48 to 61 form part of these accounts.

* The 2009/10 comparative figures have been restated to reflect a change to accounting policy where the cost of capital is no longer recognised (Note 1). This change affects the Statement of Comprehensive Net Expenditure only.

Statement of Financial Position as at 31 March 2011

	Note	2010/2011 £'000	2009/2010 £'000
Non current assets:			
Property, plant & equipment	9	87	111
Intangible assets	10	395	630
Total non current assets		482	741
Current assets:			
Trade & other receivables	11	208	214
Cash and cash equivalents	12	554	396
Total current assets		762	610
Total assets		**1,244**	**1,351**
Current liabilities:			
Trade and other payables	13(i)	(240)	(481)
Provision	14	(156)	0
Total current liabilities		**(396)**	**(481)**
Non current assets plus net current assets		**848**	**870**
Non-current liabilities:			
Pension liability	5(b)	(221)	(255)
Other payables	13(ii)	(335)	(492)
Total non-current liabilities		**(556)**	**(747)**
Assets less liabilities		**292**	**123**
Taxpayers equity			
Reserves		292	123
Total taxpayers equity		**292**	**123**

Mark Harris
Chief Executive
29 June 2011

The notes on pages 48 to 61 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2011

	Note	2010/2011 £'000	2009/2010 £'000
Cash flows from operating activities:			
Other receipts		1	151
Payments to suppliers		(2,981)	(2,374)
Payments to and on behalf of staff		(2,065)	(2,312)
Pension payments	5(e)	(13)	(16)
Net cash outflow from operating activities	15	**(5,058)**	**(4,551)**
Cash flows from financing activities:			
Funds drawn down from the DCMS (grant-in-aid)		5,220	4,061
Cash flows from Investing activities:			
Payments to acquire property, plant & equipment and intangible assets		(4)	(36)
Increase/(decrease) in cash and cash equivalents		**158**	**(526)**
Cash and cash equivalents at 31 March		554	396
Cash and cash equivalents at 1 April		(396)	(922)
Increase/(decrease) in cash and cash equivalents		**158**	**(526)**

The notes on pages 48 to 61 form part of these accounts.

Statement of Changes in Taxpayers' Equity for year ended 31 March 2011

	Note	2010/2011 Reserves £'000
Balance at 1 April 2010		123
Total net expenditure after finance costs		(5,062)
Grant-in-aid received towards resource expenditure		5,175
Grant-in-aid received towards purchase of property, plant & equipment		45
Actuarial gain arising on pension scheme		11
Transfers		0
Balance at 31 March 2011		**292**

	Note	2009/2010 Reserves £'000
Balance at 1 April 2009		917
Total net expenditure after finance costs		(4,808)
Grant-in-aid received towards resource expenditure		4,025
Grant-in-aid received towards purchase of property, plant & equipment		36
Actuarial loss arising on pension scheme		(47)
Transfers		0
Balance at 31 March 2010		**123**

The notes on pages 48 to 61 form part of these accounts.

Notes to the financial statements for the year ended 31 March 2011

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, Olympics, Media and Sport, with the approval of HM 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 the Government Financial Reporting Manual (FReM) 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*, insofar as these are appropriate to the Commission and are in force for the financial year for which the statements are prepared. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Commission for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Commission are described below. They have been applied consistently in dealing with items that are considered material to the accounts. The financial statements are prepared under the modified historical cost convention by the inclusion of property, plant & equipment and intangible assets at their fair value to the business.

Grants receivable

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

Grant-in-aid received for 2010/11 was £5,220,000 (£4,061,000 in 2009/10).

Tangible non current assets

Expenditure on property, plant and equipment are capitalised for each item which costs more than £2k. In addition, all items of computer equipment forming part of the Commission's computer network are also capitalised. With respect to the Commission's non-property assets, these are of low value and have relatively short lives. Therefore, as a proxy of fair value the Commission considers it appropriate that they are depreciated at historic cost value.

Intangible non current assets

Expenditure on intangible assets is capitalised for each item which costs more than £2k. Intangible non-current assets are held at fair value.

Olympic IP is the London 2012 Olympic and Paralympic Games intellectual property right for the operation and promotion of Olympic Lotteries. The National Lottery Commission controls usage of the intellectual property by the lottery operator under the framework agreement with the London Organising Committee for the Olympic Games. Fair value of the asset is derived from the Framework Agreement that prescribes maximum cost payable for unlimited use of the IP on Branded Lotteries, the formula for discerning the fees payable for the use of intellectual property rights, up to maximum cost, and the expected usage of the IP based on analysis of historic experience to date.

National Lottery intellectual property asset

The Commission owns the core intellectual property (IP) rights for the National Lottery, including the crossed fingers logo, and safeguards them on behalf of the nation. We grant the National Lottery operator the rights to use this IP at nil cost in order to run and promote the National Lottery.

Costs of developing the National Lottery IP are born by the operator and are not separately identified within the licensing arrangements. In the absence of cost information or an ascertainable market value, the National Lottery Commission does not have a reliable measure of the value of the National Lottery IP and consequently under IAS 38 the assets cannot be recognised in the Statement of Financial Position.

Depreciation and amortisation

Depreciation is provided on all capitalised property, plant and equipment at rates calculated to write off cost or valuation (less residual value) of each asset evenly over its expected useful life as follows:

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

The useful economic life and residual value of individual assets are assessed on an annual basis to ensure accuracy of valuation.

*The Commission's property lease expires in 2012, and accordingly the Commission has ensured that all fitting out costs are depreciated on a straight-line basis over the remaining term of the lease.

Amortisation is provided on all capitalised intangible assets at rates calculated to write off each asset evenly over its expected useful life as follows except for Olympic IP which is amortised in line with usage:

Software licences	3-4 years
London 2012 Olympic and Paralympic Games intellectual property	until 2013

Cost of capital

In previous years, a charge reflecting the cost of capital utilised by the Commission has been included in the Statement of Comprehensive Net Expenditure. In line with the 'Clear Line of Sight Project' by HM Treasury, NDPB reporting of the cost of capital charge is no longer required. This is a change in accounting policy requiring a prior period adjustment and so the Statement of Comprehensive Net Expenditure has been restated.

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 Commission on its creation. This benefit is provided for under a scheme which is fully analogous to the PCSPS. The retirement benefits of all other eligible staff of the Commission are provided for under the PCSPS, which are described in Note 5.

Notes to the financial statements for the year ended 31 March 2011

Licence fees

Under Section 7(5) of the National Lottery etc. Act 1993, the Commission was required to collect fees from the licensee for the grant of licences under Sections 5 and 6 of that Act. The amount of such fees was proscribed by order of the Secretary of State. Under Section 7(6) of the 1993 Act, fees collected were offset by corresponding payments made to the Consolidated Fund.

In January 2010 a revised fee regime was introduced under The National Lottery Act 2006 (Commencement No. 5) Order 2010. Fees of £48,400 have been collected against this and paid over to the Department for Culture, Media and Sport accordingly in the year. The fees collected are not reflected in the Statement of Comprehensive Net Expenditure as the National Lottery Commission acts as an agent in the transaction.

Disclosure requirement

In accordance with IAS 1 disclosure requirements, there are no identified impacts of future standards.

Going concern

The financial statements have been prepared on a going concern basis. In October 2010, the government announced that the National Lottery Commission will merge with the Gambling Commission. The timetable for this has yet to be decided and, at the time of writing, is subject to the passage of the Public Bodies Bill. At the point of merger, it is likely that the National Lottery Commission in its current legal form will be abolished. Whilst any abolition and merger arrangements remain to be confirmed, IAS 1 requires management to disclose that the potential abolition of the NLC creates a material uncertainty over the NLC's ability as an entity to continue to operate in its current form. Having considered this and from discussion with the Department for Culture, Media and Sport, management's expectation is that the National Lottery Commission will continue to operate in its current form at least the next 12 months. As a result, management considers it appropriate to continue to adopt the going concern basis in preparing the annual report and financial statements.

Accounting estimates

The valuation of the Olympic IP asset and corresponding liability are based on an estimate of the future usage of Olympic IP on National Lottery games, and consequently the value derived by and the cost to the National Lottery Commission. Future usage is estimated by assuming that average usage to date, as assessed at each Statement of Financial Position date, is the best indicator of future usage. However, whilst the NLC can restrict actual usage of the IP by the operator, there is an inherent uncertainty of the level of future usage as this is dependent on the level of sales of Olympic lotteries.

Accounting Standards that have been issued but have not yet been adopted

The following standards and interpretations have been adopted by the European Union but are not required to be followed until 2011/12 or 2012/13. Neither of them are expected to impact upon the Commission's financial statements:

- IFRS 7 (Revised) Financial instruments: Disclosure (2011/12)
- IFRS 9 Financial instruments (2012/13)

2. Financial instruments

As the cash requirements of the Commission are met through grant-in-aid provided by DCMS, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Commission's expected purchase and usage requirements and the Commission is therefore exposed to little credit, liquidity or market risk.

Credit risks

Cash balances, which are drawn down from the DCMS to pay administration and other operating costs, are held in an account with the Government Banking Service sponsored by HM Revenue and Customs. The Commission's maximum exposure to credit risk with respect to trade receivables is £0k. (2009/2010 £0k).

Liquidity risks

In 2010/2011, £5.22 million (100 percent) of the Commission's income derived from grant-in-aid from DCMS (2009/2010 £4.06 million, 100 percent). The Commission is satisfied that there are sufficient liquid resources, both in the form of cash of £554k and the drawdown of funds available in the financial year 2011/2012, to cover all current contracted commitments as well as the Commission's activities planned for 2011/2012. The Commission is also satisfied that it is not exposed to significant liquidity risks.

Market risk

The Commission is not exposed to any significant market risk, that is, foreign exchange, interest rate or other price risks.

3. Other operating income

	2010/2011 £'000	2009/2010 £'000
Sundry receipts	1	1
	1	**1**

4. Staff costs

	2010/2011				2009/2010
	Total £'000	Permanent staff £'000	Others £'000	Commissioners £'000	Total £'000
Salaries	1,621	1,520	0	101	1,756
Employer's NIC	147	137	0	10	154
Pension costs	259	259	0	0	313
Temporary staff costs	0	0	0	0	0
	2,027	**1,916**	**0**	**111**	**2,223**

Notes to the financial statements for the year ended 31 March 2011

The average number of full-time equivalent (FTE) employees during the year analysed by function is shown in the table below:

	2010/2011 Total FTE	2010/2011 Permanent staff FTE	2010/2011 Others FTE	2009/2010 Total FTE
Chief Executive/Directors	4.2	4.2	–	4.1
Chief Executive's Office	2.4	2.4	–	3.4
Resources	7.2	7.2	–	7.8
Compliance	7.8	7.8	–	8.8
Licensing	8.7	8.7	–	11.2
Communications	2.5	2.5	–	3.4
Insight	2.0	2.0	–	n/a
	34.8	**34.8**	**–**	**38.9**

Remuneration paid to the Chief Executive, Directors and Commissioners during the year is contained in the remuneration report on pages 28 to 33. Staff costs relating to the new licence project have been analysed separately in Note 8.

5. Pension disclosures

The PCSPS is an unfunded multi-employer defined benefit scheme and the Commission is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2007. Further details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (*www.civilservice-pensions.gov.uk*).

For 2010/2011, employers' contributions of £259k were payable to the PCSPS (2009/2010 £313k) at one of four rates in the range 16.7 percent – 24.3 percent of pensionable pay, based on salary bands (the rates in 2009/2010 were between 16.7 percent and 24.3 percent). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007/2008, the salary bands were revised and the rates remained the same. The contribution rates are set to meet the cost of the benefits accruing during 2010/2011 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 £0 (£0 in 2009/2010) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 percent to 12.5 percent of pensionable pay. Employers also match employee contributions up to 3 percent of pensionable pay. In addition, employer contributions of £0 (£0 in 2009/2010), 0.8 percent 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 Statement of Financial Position date. There is no additional accrued pension liabilities payable by the PCSPS 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 28 to 33.

IAS 19 disclosure

On its creation, the Commission inherited a pension liability for a former Director General of OFLOT from 1993 to 1998. This pension is an unfunded defined benefit scheme which has benefits by analogy to the PCSPS (for details see *www.civilservice-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 2010/2011, pension payments of £13k were made (2009/2010 £13k). Under IAS 19, the Commission is required to show the present value of the liability on its Statement of Financial Position.

For the IAS 19 disclosure, a valuation has been provided by the Government Actuary's Department, which has assessed the liabilities of the scheme as at 31 March 2011 and at 31 March 2010. Scheme liabilities and the expected rate of return are:

Main assumptions

A. Percentages

	At 31 March 2011 % per annum	**At 31 March 2010 % per annum**	**At 31 March 2009 % per annum**	**At 31 March 2008 % per annum**	**At 31 March 2007 % per annum**
Rate of increase in salaries	4.9	4.3	4.3	4.3	4.3
Rate of increase in pension payment	2.7	2.8	2.8	2.8	2.8
Discount rate	5.6	4.6	6.0	5.3	4.6
Inflation assumption	2.7	2.8	2.8	2.8	2.8

B. Present value of scheme liabilities

	At 31 March 2011 £'000	**At 31 March 2010 £'000**	**At 31 March 2009 £'000**	**At 31 March 2008 £'000**	**At 31 March 2007 £'000**
Present value of scheme liabilities attributable to the Commission	221	255	208	222	224
Total value of liabilities	221	255	208	222	224
Net pension liability attributable to the Commission	**(221)**	**(255)**	**(208)**	**(222)**	**(224)**

C. Amounts included as other finance costs

	At 31 March 2011 £'000	**At 31 March 2010 £'000**
Interest cost on pension scheme liabilities	11	12
Net finance (charge)	**11**	**12**

Notes to the financial statements for the year ended 31 March 2011

D. Analysis of amount included in the Statement of Changes in Taxpayers' Equity

	At 31 March 2011 £'000	At 31 March 2010 £'000
Experience loss arising on the scheme	(1)	(5)
Changes in assumptions underlying the present value of the scheme liabilities	12	(43)
Statement of Changes in Taxpayers Equity	**11**	**(48)**

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

	At 31 March 2011 £'000	At 31 March 2010 £'000
Surplus/(deficit) at 1 April	(255)	(208)
Increase in liabilities due to change in investment return	0	0
Finance costs	(11)	(12)
Actuarial gains/(losses)	11	(48)
Benefits paid	13	13
Past service cost	21	0
Surplus/(deficit) at 31 March	**(221)**	**(255)**

F. History of experience gains and losses

	At 31 March 2011 £'000	At 31 March 2010 £'000	At 31 March 2009 £'000	At 31 March 2008 £'000	At 31 March 2007 £'000
Actuarial gains/(losses) on liabilities	(1)	(5)	(5)	(2)	–
Present value of liabilities	221	255	208	222	224
Percentage of the present value of liabilities	**0.5%**	**2%**	**2%**	**0.9%**	**0%**

6. Administrative expenses

	2010/2011 £'000	2009/2010 £'000
Legal advice	1,333	631
Other consultancy costs	305	546
External auditor's remuneration	22	25
Other administrative costs	295	352
Past service costs	(21)	0
	1,934	**1,555**

7. Other expenditure

	2010/2011 £'000	2009/2010 £'000
Accommodation costs*	718	716
Dilapidation costs	156	0
Personnel costs	63	107
Depreciation and amortisation	146	178
Travel and subsistence	8	18
	1,091	**1,019**

*Includes operating lease costs of £464k.

8. New Licence costs

The table below provides an analysis of the expenditure incurred on the New Licence project during the period, and is costs extracted from Notes 6, 8 and 9.

	2010/2011 £'000	2009/2010 £'000
Staff and Project Board costs	0	34
Travel and subsistence	0	0
Consultants	45	165
Legal advice	0	0
	45	**199**

Notes to the financial statements for the year ended 31 March 2011

9. Property, plant and equipment

	2010/2011				
	Fitting out costs £'000	**Furniture £'000**	**Computer equipment £'000**	**Telecoms £'000**	**Total £'000**
Property, plant and equipment					
Cost as at 1 April 2010	33	86	206	9	334
Additions	4	0	24	0	28
Disposals	0	(1)	(19)	0	(20)
At 31 March 2011	**37**	**85**	**211**	**9**	**342**
Depreciation					
At 1 April 2010	12	65	140	6	223
Charge in year	11	9	29	2	51
Disposal	0	0	(19)	0	(19)
At 31 March 2011	**23**	**74**	**150**	**8**	**255**
Net book value					
At 31 March 2011	14	11	61	1	87
At 31 March 2010	21	21	66	3	111

	2009/2010				
	Fitting out costs £'000	**Furniture £'000**	**Computer equipment £'000**	**Telecoms £'000**	**Total £'000**
Property, plant and equipment					
Cost as at 1 April 2009	92	83	199	9	383
Additions	2	6	28	0	36
Disposals	(61)	(3)	(21)	0	(85)
At 31 March 2010	**33**	**86**	**206**	**9**	**334**
Depreciation					
At 1 April 2009	55	61	123	4	243
Charge in year	10	7	33	2	52
Disposal	(53)	(3)	(16)	0	(72)
At 31 March 2010	**12**	**65**	**140**	**6**	**223**
Net book value					
At 31 March 2010	21	21	66	3	111
At 31 March 2009	36	23	76	5	140

10. Intangible assets

	Software licences £'000	2010/2011 London 2012 Olympic and Paralympic Games IP £'000	Total £'000
Intangible assets			
Cost as at 1 April 2010	22	1,625	1,647
Additions	17	0	17
(Impairment)/Revaluation	0	(157)	(157)
Disposals	(17)	0	(17)
At 31 March 2011	**22**	**1,468**	**1,490**
Amortisation			
At 1 April 2010	21	996	1,017
Charge in year	1	94	95
Disposal	(17)	0	(17)
At 31 March 2011	**5**	**1,090**	**1,095**
Net book value			
At 31 March 2011	17	378	395
At 31 March 2010	1	629	630

	Software licences £'000	2009/2010 London 2012 Olympic and Paralympic Games IP £'000	Total £'000
Intangible assets			
Cost as at 1 April 2009	22	1,813	1,835
Revaluation	0	(188)	(188)
Additions	0	0	0
Disposals	0	0	0
At 31 March 2010	**22**	**1,625**	**1,647**
Amortisation			
At 1 April 2009	14	877	891
Charge in year	7	119	126
Disposal	0	0	0
At 31 March 2010	**21**	**996**	**1,017**
Net book value			
At 31 March 2010	1	629	630
At 31 March 2009	8	936	944

Notes to the financial statements for the year ended 31 March 2011

11. Trade and other receivables

	2010/2011 £'000	2009/2010 £'000
Trade receivables	0	0
Other receivables	45	48
Prepayments and accrued income	163	166
	208	**214**

All receivables are payable within one year.

Other receivables includes a value of £45k in respect of nineteen staff with balances left on interest-free, annual season ticket loans (2009/2010 £48k for eighteen staff). This includes the following Directors:

	Balance of loan brought forward 1 April 2010 £	New loan £	Balance of loan carried forward 31 March 2011 £
Joy Watkins	1,563	2,446	1,556
Simon D'Arcy	0	4,944	3,708

12. Cash and cash equivalents

The Government Banking Service (GBS) provides a current account banking service. The following balances are held at 31 March of the relevant years:

	2010/2011 £'000	2009/2010 £'000
Balances at GBS	554	345
Commercial banks and cash in hand	0	51
	554	**396**

13. Trade and other payables

Note (i) Amounts falling due within one year	2010/2011 £'000	2009/2010 £'000
Trade payables	60	83
Other payables	22	31
Tax liability	1	8
Other taxation and social security	49	50
Accruals	108	309
	240	**481**

Note (ii) Amounts falling due after one year	2010/2011 £'000	2009/2010 £'000
Other payables (LOCOG – London 2012 Olympic and Paralympic Games IP)	335	492
	335	**492**

For an explanation of the value of long-term payables in 2010/2011 see the management commentary on page 24.

14. Provision for liabilities and charges

The operating lease for the National Lottery Commission's office is due to expire in January 2012. The lease will not be renewed as the Commission is relocating to Birmingham. As per the terms of the lease the Commission is liable for costs in respect of dilapidation works. These costs will be incurred during 2011/12. The estimated costs for the works have been provided by an independent surveyor and may be subject to change following competitive tendering for the contract for the works.

	2010/2011 £'000	2009/2010 £'000
Balance at 1 April	0	0
Provided in the year	156	0
Balance at 31 March	**156**	**0**

Notes to the financial statements for the year ended 31 March 2011

15. Notes to statement of cash flows

Reconciliation of total net expenditure after finance costs to net outflow from operating activities	**2010/2009 £'000**	**2009/2010 £'000**
Total net expenditure after finance costs	(5,062)	(4,808)
Depreciation and amortisation of non current assets	146	178
Non-cash costs	(22)	12
Decrease/(increase) in receivables	6	(31)
(Decrease)/increase in payables	(241)	98
(Decrease)/increase in provision	156	0
Less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure	(41)	0
Net cash outflow from operating activities	**(5,058)**	**(4,551)**

16. Operating leases

At 31 March 2011 the Commission was committed to making the following payments in respect of operating leases.

	2010/2011 Land and Buildings £'000	**Other £'000**	**2009/2010 Land and Buildings £'000**	**Other £'000**
Operating leases due to expire:				
No later than one year	281	7	471	26
Later than one year and no later than five years	0	0	275	9
Later than five years	0	0	0	0
	281	**7**	**746**	**35**

The operating leases have been adjusted for change in the rate of VAT.

17. Related-party transactions

The Commission is an executive Non-Departmental Public Body sponsored by DCMS.

DCMS is regarded as a related party, and during the year the Commission has had material transactions with the Department.

These transactions consist of the following:

- Grant-in-aid received from DCMS during the year of £5,220,000;
- The surrender to DCMS the sum of £48,400 in respect of licence fees where the National Lottery Commission acts as an agent to collect and surrender the fees accordingly.

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

18. Key corporate financial targets

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

19. Intra-Government balances

As at 31 March 2011 the Commission has a payables balance of £50k due to HMRC in respect of taxation and social security.

20. Post-balance sheet event

These accounts were authorised for issue on the date of the audit certificate, which is the date the accounts were certified by the Comptroller and Auditor General.

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