



ANNUAL REPORT 2005-2006



The United Kingdom Sports Council
Grant-in-Aid and Lottery Distribution Fund
Report and Accounts for the Year Ended
31 March 2006

Presented pursuant to the National Lottery etc.
Act 1993 (as amended by the National Lottery Act 1998),
sections 14(3) and 35(5), and section 88 of the Scotland Act 1998.
Ordered by the House of Commons to be printed: 10 July 2006

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FOREWORD

UK Sport has a statutory responsibility to publish separate annual accounts for its Grant-in-Aid and National Lottery funding. However accounting requirements, including use of different methodology for each set of accounts, can make it difficult to derive a clear financial picture of the overall organisation from these documents.

In an initiative to improve the quality of public sector reporting, the National Audit Office engaged PricewaterhouseCoopers to recommend a framework for best practice business reporting, for use by UK Sport. This has been adopted to produce an Annual Report that is a concise summary of our activities and provides context to the accompanying sets of accounts, especially relating to the development and performance of the business, factors likely to affect future performance and key performance indicators.

UK Sport's intention is to explain its business performance to its core stakeholders in a more meaningful way than conventional statutory accounting can achieve. This format is also intended to avoid any duplication with the UK Sport Annual Review which is designed to present the organisation's achievements for each calendar year in a lively and visual way for a wider range of stakeholders and the general public.

Chris Holmes

By **Chris Holmes**
Chair of Audit Committee
UK Sport

Principal Offices

UK Sport, 40 Bernard Street, London, WC1N 1ST
www.uk sport.gov.uk

External Auditors

The Comptroller and Auditor General, 157-197 Buckingham Palace Road, London, SW1 W9SP

Internal Auditors

Deloitte & Touche LLP, Hill House, 1 Little New Street, London, EC4A 4TR

Littlejohn Fraser, 1 Park Place, London, E14 4HJ (National Governing Body audits)

Solicitors

Moorhead James, Kildare House, 3 Dorset Rise, London, EC4Y 8EN

Bankers

Barclays Bank, Business Banking, P.O. Box 15161R, 50 Pall Mall, London, SW1A 1QA

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UK Sport – at a glance

Legislative Background

UK Sport (the United Kingdom Sports Council) was established by Royal Charter on 19 September 1996 and became fully operational on 1 January 1997.

Funding

UK Sport is responsible for managing and distributing public investment and is a statutory distributor of funds raised by the National Lottery.

In 2005/06, UK Sport received £29.3m of Exchequer funds which were used to support sports bodies, manage the UK's anti-doping programme, support British representatives on international sports federations, and develop mutually beneficial relationships globally through partnerships with other countries as well as covering staffing and running costs. National Lottery receipts for the same period were £21.5m, representing 9.2% of the Lottery Sports Fund, which funded its World Class Performance and World Class Events programmes.

Although not fully reflected in this year's accounts, from 1 April 2006, the organisation took on additional responsibilities from Sport England, which will result in an extra funding stream worth £32.5m each year, mainly from Lottery funding. Furthermore, an additional contribution of £200m has been promised by the Government over the next six years, with a further £100m to be raised through private sponsorship, covering the period up until the Olympic and Paralympic Games in London in 2012. The strategic impact that these additional funding streams will have is analysed in further detail later in this report.

Mission

"Working in partnership to lead sport in the UK to world-class success." This will be delivered via the primary goal of 'World Class Performance' and the supporting goals of 'Worldwide Impact' and 'World Class Standards'. Further detail on these can be found in the Strategy section.

Values

Commitment to Excellence

- Appetite for continuous improvement.
- Meet the highest standards in the way the organisation works with others to produce a world class system that delivers the best possible results.

Integrity and Openness

- Work in a way that ensures all internal and external stakeholders can fully understand who and what UK Sport does, have confidence in the fact that it is done well and can trust that it is done for the right reasons.
- Be fully accountable for actions and able to demonstrate quality of work.

Working Together

- Work by encouraging a collaborative approach that values diverse contributions to the achievement of common goals.
- Achieve primary objectives through effective working relationships internally and externally.

Operating Environment

London 2012 and UK Sport's 'No Compromise' Investment Strategy

The award of the 2012 Olympic and Paralympic Games has significantly changed the operating environment in which UK Sport works, bringing the opportunity not just to ensure success at the Games themselves, but to provide a sporting legacy that will ensure the long-term health and success of sport in this country.

A 'No Compromise' Investment Strategy has been developed, which focuses on supporting the winning of medals at the world's biggest multi-sport competitions and targets resources at those athletes capable of delivering medal-winning performances. With that aim, no element of the training and preparation of medal hopes can be compromised if they are to succeed – a fact borne out in Athens where four of Team GB's gold medals were won by a combined margin of less than half a second. UK Sport will reinforce the best, support those developing and provoke change in the under-performing.

Announcement of Additional Funding

During the 2006 budget in March, the Chancellor announced an additional £200m of exchequer funding for high performance sport through to 2012, to be added to the average £60m per year already invested through existing channels in Olympic and Paralympic success. He also indicated that another £100m will be sought through private investment.

The decision enables work to begin towards the 'ultimate goal' for London 2012 of achieving 4th in the Olympic Medal table and 1st in the Paralympic, while also funding those sports not currently represented at the Games to maximise their chances of competing credibly on home soil.

UK Sport will therefore pursue 'Option 2' of its Funding Submission to Government and fund all Olympic and Paralympic sports, with the exception of football and tennis, which already have adequate funding resources in place. Initial awards have already been made through to Beijing 2008, after which a review will be undertaken with Government and partners.

The Transfer of Functions from Sport England

From 1 April 2006, UK Sport will be responsible for the World Class Potential programme in England, together with responsibility for the management and direction of the Talented Athlete Scholarship Scheme, TASS 2012 Scholarships and the English Institute of Sport, while Sport England will lead on community and participation sport. Expert high performance consultancy will also be provided via Service Level Agreements with Sport England to non-Olympic sports in England. Scottish, Welsh and Northern Ireland athletes will continue to be funded by their home countries until they reach World Class Performance standard; however the streamlining of the system presented by the transfer of responsibility makes it possible for those athletes to join UK-wide pathway programmes at an earlier stage.

As such, the terms under which funding and support will be provided have been redefined. A **World Class Performance Pathway** will operate at three key levels, World Class Podium, World Class Development and World Class Talent, discussed in further detail in the Managing Delivery section.

Factors influencing future funding

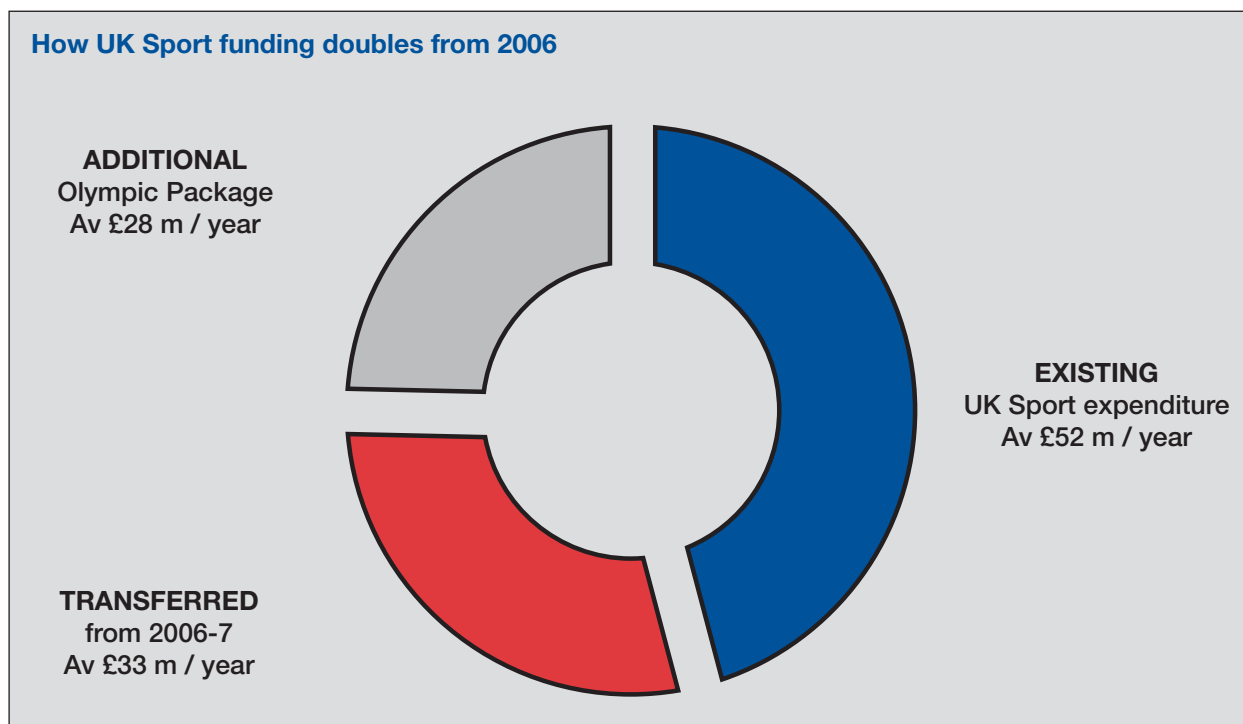
Following the transfer of responsibility for EIS and Performance Pathway from Sport England, UK Sport's share of National Lottery income has increased from 1.5% to 3.8%. In 2006/07 this is budgeted to be worth £48.5m. However, this income stream is forecast by DCMS to continue to decline as far as 2009, partly attributable to the introduction of competition including the Olympic scratchcard. Conversely 2005/06 Lottery income was £2m above the previous DCMS forecast, suggesting that there may also be some upside in the current forecast.

Exchequer income until 2008/09 is set at £29.3m per year by the current funding agreement with DCMS. Funding levels beyond this will be determined by the 2007 Comprehensive Spending Review for which preliminary work is already underway. Funding for TASS is substantially Exchequer-derived and is only agreed as far as 2007/08, so therefore represents an exposure beyond that point.





How UK Sport funding doubles from 2006



More significantly the additional £300m 2012 Olympic package agreed by Treasury is fixed for the first two years until 2008 (at £18.8m and £29.7m respectively) but beyond then assumes that £100m of this funding will be obtained through sponsorship from the private sector. Responsibility and strategy for obtaining this sponsorship without impinging on the efforts of 2012 Olympic partner organisations to raise their own funds has still to be defined.

In summary there are risks to each of the income streams (Lottery, Exchequer and private) which underpin UK Sport's Business Plan goals and 2012 aspirational targets. These are best managed by UK Sport continuing to demonstrate value-for-money and ongoing delivery of its performance objectives so that it justifies sufficient investment to achieve its long term targets.

World Anti-Doping Agency (WADA)

As the government-appointed National Anti-Doping Organisation (NADO) for the UK, UK Sport is responsible for ensuring that the nation's anti-doping rules and regulations meet the standards set out by WADA through the World Anti-Doping Code.

WADA was set up in 1999 to co-ordinate efforts against doping in sport at a global level. A private foundation under Swiss law with equal membership from sport and governments, WADA developed the Code in 2003 which, for the first time, established a uniform set of anti-doping rules achieving harmonisation in anti-doping policy across all sports and all countries.

Much of the focus since then has been on ensuring compliance with the Code in the UK. This saw the publication of the UK's National Anti-Doping Policy in May 2005 and WADA declaring UK Sport code compliant. Subsequently UK Sport has led the process of working in partnership with national governing bodies to ensure a smooth transition to the new rules by all British bodies.

The result is the strongest set of rules ever imposed to tackle the threat of doping, fair and consistent application of these rules regardless of a competitor's sport or home nation, and a genuine sense of being at the heart of a global movement against doping in sport. This is particularly the case in the field of athlete education where UK Sport's "100% ME" programme is seen as a world leader and a model for others to follow.

An International Perspective

Following the success of the London 2012 bid team, it is more vital than ever to continue attracting events of strategic importance. UK Sport has revised its Major Events strategy and determined a new level of ambition to hold major events across the UK in the run-up to 2012 and will see its funding stream double to £3.3m from 2006/07.

The vision put forward by Lord Coe in the London 2012 Bid stated that a London Games would reach out to the youth of the world and use British knowledge and expertise to help developing countries. UK Sport is prepared to take a leading role in this task which fits with UK Sport's 'World Wide Impact' goal discussed later in this report.

Strategy & Structure

Strategic Priorities

UK Sport's Strategic priorities for 2006/07 are to:

Maximise the opportunity presented by London 2012 to accelerate the quality and impact of everything we do by:

- **Building a team of agile, open-minded, high-calibre people, hungry to learn, evolve and excel.**
- **Operating effective and innovative business systems and processes to support and simplify activities.**
- **Promoting the UK Sport brand to win and maintain the respect, trust and engagement of everyone with whom there is interaction.**

These Strategic Priorities are the high level objectives that team and individual objectives will reflect and relate to for the coming year.

UK Sport will achieve these strategic priorities by delivering the goals below:

The goal

World Class Performance

- **Delivered by world-class personnel.**
- **The challenge in the Beijing Olympiad is to develop home-grown expertise to support our athletes.**

Supported by:

Worldwide Impact

- **Bring best practice in other sporting nations to the UK through the international programme.**
- **Provide clear strategic support to enable sports to bid for and stage major events in this country.**

World Class Standards

- **Promote the highest standards of sporting conduct whilst continuing to lead a world-class anti-doping programme for the UK and being responsible for improving the education and promotion of ethically fair and drug-free sport.**

Structure

GEO: John Steele

John Steele took up the post of Chief Executive at UK Sport on 1 July 2005 and leads the directors' team that oversees approximately 80 staff in five directorates.

Director of Performance:

Liz Nicholl MBE

International Director and Director of Drug-Free Sport:

John Scott

Director of Corporate Services:

Neil Shearer

Director of Policy and Communications:

Tim Hollingsworth

Board & Governance

UK Sport's Board meets every two months to provide strategic direction to the organisation, as well as considering and making decisions on those recommendations put forward by UK Sport's various panels. Sue Campbell was initially appointed as Reform Chair of UK Sport in September 2003 for an 18-month term and was confirmed as UK Sport's Chair for a further four-year term in March 2005.

Board members are appointed for a fixed term of three years and may be reappointed thereafter as determined by the Secretary of State for Culture, Media and Sport. Representatives (usually the Chair) of the Home Country Sports Councils automatically sit on UK Sport's Board.

Panels, each chaired by a Board member, include other individuals of relevant expertise and experience who advise and make recommendations as appropriate. The minutes of UK Sport's Board meetings are made available on the website.



NAME	POSITION	START DATE	TERM DURATION
Ms Sue Campbell CBE	Chair	19/9/03	5 yrs
Mr Alistair Dempster	Member	1/7/99	Term ended 30/6/05
Prof Eric Saunders OBE	Member (<i>Chair of the Sports Council for Northern Ireland</i>)	7/3/00	3 yrs - extended to 31/3/07
Mr Nick Bitel	Member	14/11/02	3 yrs - extended to 13/11/08
Ms Louise Martin CBE	Member	14/11/02	3 yrs - extended to 13/11/08
Laura McAllister	Member	14/11/02	Term ended 13/11/05
Ms Constance St Louis	Member	14/11/02	Term ended 13/11/05
Lord Carter	Member (<i>Chair Sport England</i>)	27/11/02	3 yrs - extended to 26/11/06
Mr Philip Carling	Member (<i>Chair Sports Council for Wales</i>)	1/2/04	3 yrs
Mr Rod Carr OBE	Member	19/9/05	3 yrs
Mr Chris Holmes	Member	19/9/05	3 yrs
Ms Julia Bracewell OBE	Member (<i>Chair sportscotland</i>)	1/7/05	4yrs

The Existing System of Funding and Support (to 31 March 2006)

There are currently two main tiers of support covering the UK's current and immediate next generation of performers, with a range of support beyond that at the talent identification level such as World Class Start and the Talented Athlete Scholarship Scheme (TASS) within England.

- The World Class **Performance** Programme operated by UK Sport. This supports the Olympic and Paralympic athletes likely to comprise Team GB in Beijing – it is essentially the 'finishing school' for Britain's top performers.
- World Class **Potential**. Below the performance programme, Sport England and the sports councils in Scotland, Wales and Northern Ireland operate 'potential' level programmes that support athletes making their way up the world rankings in their respective disciplines.

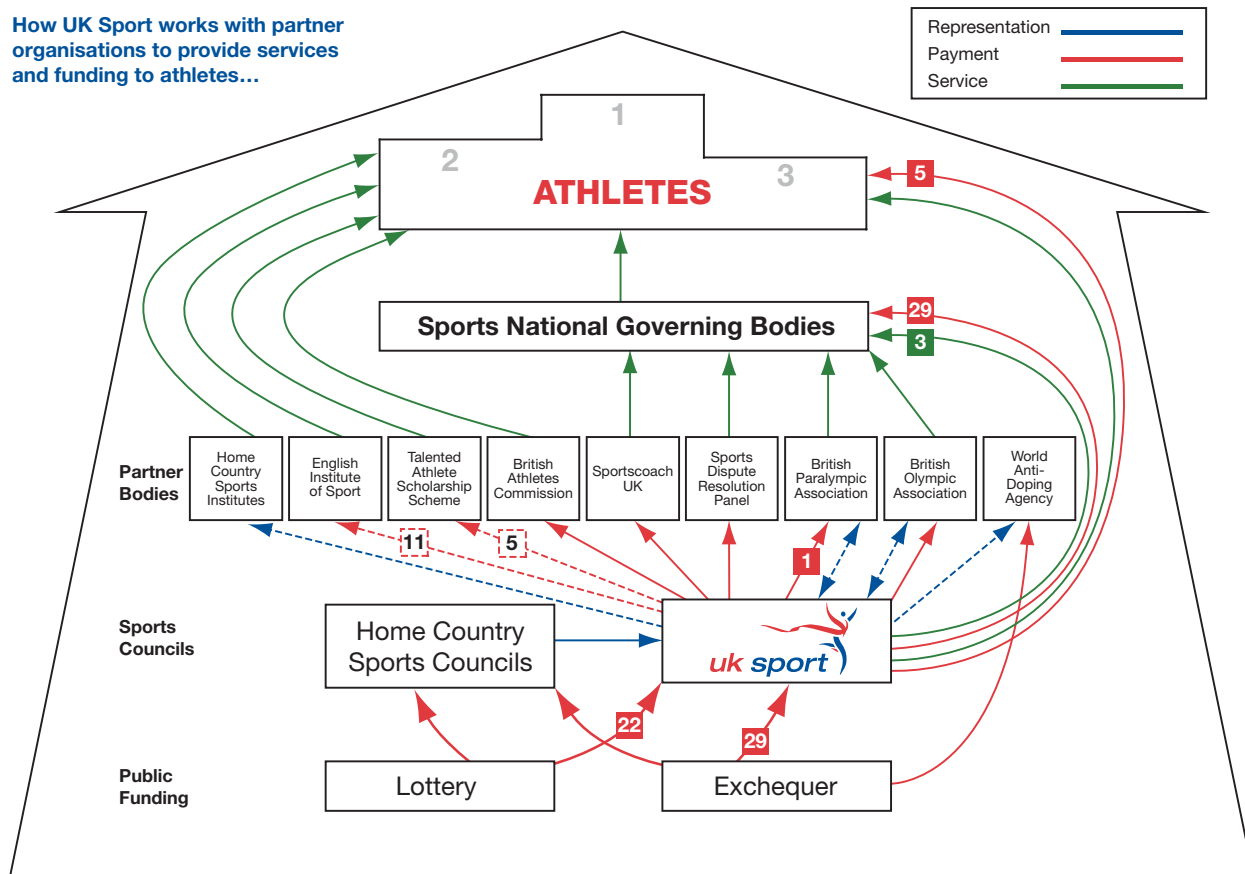
Currently allocation of funding is around £23m a year to the top 320 summer Olympic athletes across 18 sports and 135 Paralympic athletes via:

- The '**Programme Award**': Sports governing bodies receive a Programme Award in respect of a specified number of athletes based on an assessment of the sport's performance at the last Games and future potential. Athletes with podium potential require a comprehensive support package worth an average of £45,000 per year if they are to realise their potential.
- The '**Athlete Personal Award**' (APA): All athletes are entitled to apply for this award which is paid directly to the athlete and contributes to ordinary living (subsistence) costs and personal sporting costs. Maximum awards will ultimately be dependant upon the athlete's performance category. This award (worth on average £11,000) is also subject to means testing.

Strategy & Structure

Stakeholders and partners

How UK Sport works with partner organisations to provide services and funding to athletes...



This chart outlines UK Sport's major external stakeholders and fund flows from Exchequer and Lottery through to delivering grants and services to the UK's elite athletes. Like Sport England, UK Sport is funded by the National Lottery and DCMS, whereas the equivalent Exchequer funding for the other home country sports councils is from their devolved assemblies. Grants and services provided by UK Sport go directly to athletes (such as personal awards), to sports national governing bodies or via a number of partner organisations. Numbers on the funding arrows represent 2005/06 payment value in £m. Payments to the BOA (for athletes' medical insurance), Sportscoach UK and the British Athletes Commission are all within £1m per year. Additional funding streams (shown in dotted red lines) for which UK Sport is responsible for from 2006, are the English Institute of Sport and the Talented Athlete Scholarship Scheme (including TASS 2012 scholarships). UK representation and fees for membership of the World Anti-Doping Agency are undertaken directly by DCMS but UK Sport is represented in a number of WADA working groups. Whilst currently no formal representation exists between UK Sport and BOA the two organisations' objectives are inextricably linked and close partnership working exists.



The New System of Support (From 1 April 2006)

World Class Podium

This Programme will support sports with realistic medal capabilities at the next Olympic/Paralympic Games. Athlete places will be distributed to a sport based on a combination of the sport's:

- results at the last Games.
- competitive track record.
- projected medal capability in the future.
- demonstrated ability to constantly produce athletes through the pathway.

Support is provided through a performance programme with the governing body and an athlete personal award.

World Class Development (*)

This Programme sits immediately beneath the Podium Programme and will comprise of sports that have demonstrated that they have realistic medal winning capabilities for 2012. Olympic athletes at this level are typically six years away from the podium, whereas this timeframe may be considerably shortened for Paralympic athletes.

Other sports not yet funded at Podium Programme level but where there is performance evidence that they have the potential to medal in the next Olympic/Paralympic cycle are eligible for consideration for funding at World Class Development level. In the period to the home Games in 2012, additionally and exceptionally, World Class Development will also embrace those sports with realistic capabilities to be competitive in 2012 but where medal achievement is unlikely.

World Class Talent (*)

This Programme is designed to support the identification and confirmation of athletes who have the potential to progress through the World Class Pathway with the help of targeted investment. Funding provided through the programme will allow sports to identify the athletes with all the right attributes to ensure they can go on to compete effectively on the world stage. In addition, this programme will look to raise the level of sophistication by which sports approach the identification of new athletes and examine ways in which talent, where appropriate, can be transferred across sports. Olympic athletes will be a maximum of eight years away from the podium, but again could be much less for Paralympic athletes.

(*Current Paralympic 'Fast Track' funding straddles both Development and Talent programmes. This may change as additional resources become available for the 2012 campaign, with the likelihood that it will increasingly be embedded within the World Class Talent programme.)

Internal Control & Risk Management

UK Sport has developed a statement of internal control which identifies likely risks for the organisation and assesses the likelihood of these risks occurring. Full statements on internal control can be found later in this document.

The output of these efforts is recorded in the risk register, put together by Directors and Managers, which is described in more detail in the 'Key Risk Identification' Section below.



Strategy & Structure

Key Risk Identification

RISK	IMPACT	LIKELIHOOD	ASSOCIATED CONTROLS
London 2012 – Failure to meet expectations	High	Medium	Effective information and argument to obtain funding Effective spending through a robust investment model. Olympic & Paralympic sports strategies are sound
Insufficient funding to meet UK Sport goals and objectives	High	Medium	Maintain influence and good relations with Government and DCMS in particular Regular reporting of delivery of targets set out in Funding Agreement Ensure case is made for additional funding as appropriate Awards are allocated with clause “subject to available funding” Support promotion of Lottery to maximise Lottery income Scaleable investment strategy and risk based approach
Reliance on third party bodies to deliver targets	High	Medium	Review of performance against targets ongoing and reported to Board Independent monitoring once per Olympic cycle Modernisation focus on improved structures, governance, systems, people development NGBs’ access to risk management courses Performance team involved in NGB senior staff recruitment Investment strategy agreed Quarterly WCPP expenditure checks on NGBs Management audits of NGBs scheduled to reflect risk Self assurance process for NGBs being developed BOA Partnership in place BPA/NGB support system being developed
Failure to maximise impact of UK Performance Pathway	High	Medium	Understanding of performance pathway and clear strategy for UKS role Ensuring that elite athlete profiling influences talent ID Measures in place to ensure joined up and appropriate funding of the performance pathway NI/Wales and Scotland understand the opportunities for their athletes Increased coordination of sport plans through UK wide one stop planning



Key Risk Identification

RISK	IMPACT	LIKELIHOOD	ASSOCIATED CONTROLS
Failure to play in international developments	High	High	Regular dialogue with Government and strategic alliances (British Council, VSO, CHOGM) Working with NGBs to develop strategic plans International representative programme with objective criteria/reporting – invest in high flyers Intelligence gathering including MOUs & IRIS Network International development assistance strategy
Reputation risk of those events that proceed without UKS funding	Medium	Medium	Defined responsibilities – UK Sport expert advisor Monitoring Involvement with mega-events strategy Working with PDCs to influence NGBs Provision of technical support/services
Perceived conflict between various responsibilities	High	Medium	WADA Code ISO/BSI accreditation Scrutiny Panel Internal Policies and separation of responsibilities Strict staff training and manual and procedures Education policy Athlete personal award agreements and NGB funding agreements Transparency of reporting and openness with media
Legal challenge of national anti-doping programme	High	Medium	WADA Code UNESCO convention Policy development through consultation Legal advice on policy Review and sanction of policy by partner bodies Government view sought
Failure to maintain relationships	High	Medium	Identification of all relevant stakeholders and customers for communication Clarity of roles and responsibilities in each relationship, with formal contract in place where possible Maintain influence and good relationship with Government and Sponsor department (DCMS) in particular Deal effectively and speedily with all government Maintain good, proactive relations with all relevant NGBs Regular communication with Lottery Distributors and other Lottery partners with stakeholders

Managing Delivery

A brief description of the operations of the five directorates is outlined below:

Performance

The Performance Directorate is concerned with UK Sport's primary goal of supporting world class performance: ensuring that the two funding streams managed by the organisation - Lottery and Exchequer - are delivered to sports in the most effective way. Alongside the money that goes directly to the sports through their respective World Class Performance Programmes, the Performance Directorate is designed to lead and develop areas which have been identified as having an influential impact on an athlete's performance.

International

The International Directorate is concerned with the goal of ensuring delivery of worldwide impact through the staging of major sports events and meaningful international relations. Working in partnership with national governing bodies, UK Sport distributes a significant amount of Lottery funding each year through the World Class Events Programme to support events' bidding and staging costs, as well as providing specialist technical support. To maintain and advance the UK's influence in the international sporting arena, the Directorate currently provides financial support and assistance to British post-holders carrying positions of influence within international sports federations. A further key role is the global development of sport through the support of projects overseas, exchange visits and information sharing with other nations.

Drug-Free Sport

The Drug-Free Sport Directorate is concerned with the goal of supporting world class standards. As the country's national anti-doping organisation, UK Sport co-ordinates the nation's testing programme, which every year sees over 7,000 tests carried out across more than 40 sports. Additionally, services and resources are provided to British athletes and their support personnel to help them make the right decisions about what substances they can and cannot use.

Corporate Services

The Corporate Services Directorate provides essential support to the organisation in the areas of finance, human resources, information technology and strategic planning.

Policy and Communications

The organisation's ongoing communications programme is focused on creating knowledge and understanding of and commitment to purpose, goals and programmes. Key messages have been developed in each area of work and a variety of tools are used to deliver these, including publications, the website, the weekly email newsletter, branding and events. Furthermore, the policy unit underpins the work of UK Sport by ensuring all policies and procedures meet the standards required of a government agency and Lottery distributor and carries out regular pieces of research to inform and guide work.

Office and IT Facilities

UK Sport's 15,000 square feet (1369 m²) facility at 40 Bernard Street, opposite Russell Square Underground station, is leased at a competitive rate until 2015. To work this space as hard as possible, it is now shared with staff from two partner organisations, BPA and EIS. As a result the number of work-stations accommodated in this modern, largely open-plan working environment has been increased from 90 to 109. Thus both the cost and use of space are better than the average for DCMS agencies recently reported by the National Audit Office.

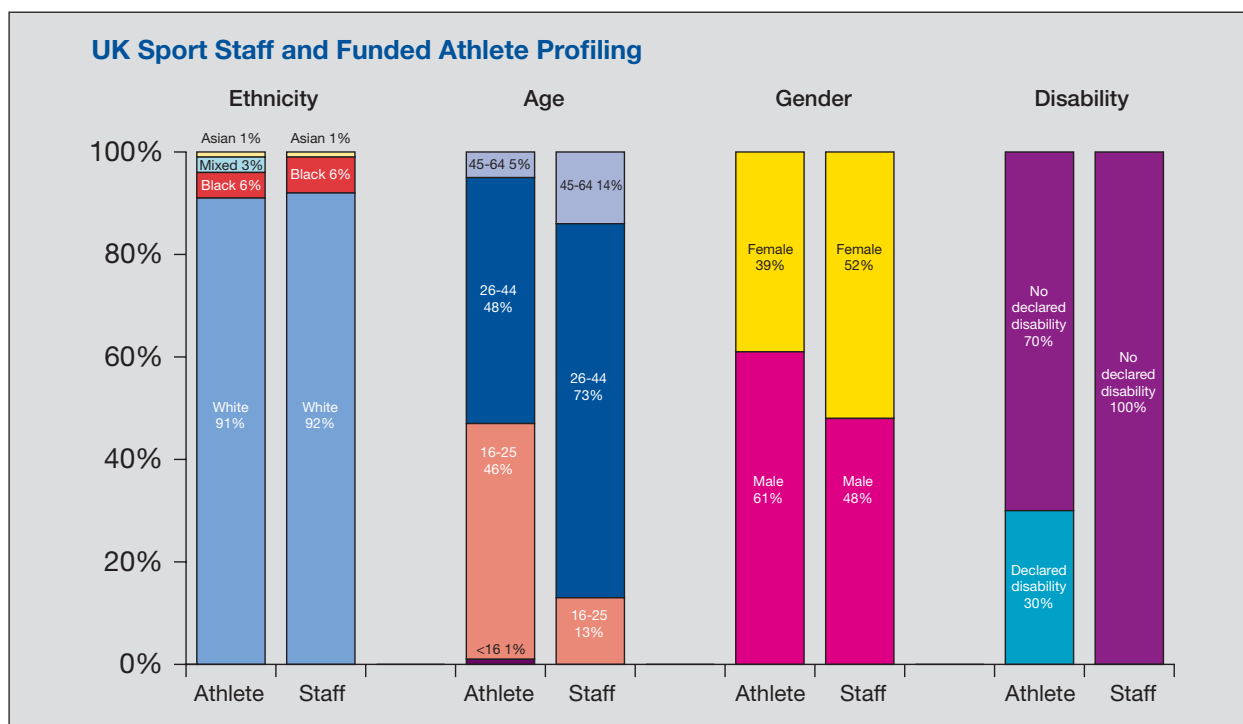
Customer Services Charter

UK Sport, with six other Lottery distributors, is committed to following eleven agreed customer service standards to ensure it provides the best possible service and standard of customer care. These standards are embedded in how UK Sport works through its' values and performance management systems which are reviewed annually to ensure that standards are being maintained.

Staff and Funded Athlete Profiling

UK Sport is committed to developing positive policies to promote equal employment opportunities and ensures that staff are not discriminated against on the grounds of disability, race, sexual orientation, religious belief or age. Employees are involved in decisions which affect their welfare.

Similarly, athletes are selected for performance programme funding by their sport's national governing body, based entirely on Olympic and Paralympic Games medal-winning potential. Monitoring is carried out to better understand athletes' needs to improve the services provided to them by UK Sport. All athletes funded directly or via sports national governing bodies were sent UK Sport's equality policy statement and encouraged to return an Equality Monitoring Form in March 2006. Although doing so was optional and return was just 37%, this information enables ethnicity, age profile, gender and declared disabilities of funded athletes to be monitored.



At 31 March 2006, the race, age, gender and disability profile of UK Sport's 82 staff and 434 funded athletes was as above. Ethnicity and age information for funded athletes is based on the 162 equal opportunities monitoring forms returned; this is also used to monitor the proportion of athletes with dependent children under the age of 16, which is currently 12%.

Prompt payment policy

UK Sport aims to comply with the Better Payment Practice Code. Payment terms are agreed with suppliers at the outset, and invoices are paid in accordance with those terms. Any disputed invoices are referred to suppliers and are dealt with expeditiously. The target is to pay within 30 days. During 2005/06, 82.1% (2004/05 77.3%) of invoices were paid on time.

Auditing

UK Sport is required to have its Exchequer accounts audited by a body approved by the Secretary of State, and appointed the Comptroller and Auditor General in January 1997. It is also required to have its National Lottery accounts audited by the Comptroller and Auditor General who is responsible for laying the accounts before both Houses of Parliament at Westminster and before the Scottish Parliament. Audit fees have been agreed at £25,000 and £24,600 respectively for each set of accounts (£20,000 and £19,000 in 2004/05).

Remuneration Report

Directors' Remuneration

Directors' recruitment, remuneration and employment terms and conditions are overseen by the Remuneration Panel, subject to DCMS approval. The panel includes two Board members, Laura McAllister and Phil Carling and is chaired by Sue Campbell. Remuneration policy is to follow recommendations of the Senior Salaries Review Body. The remuneration package comprises these elements:

Salaries – are consistent with public sector standards while being competitive in the market. Salary bands are determined by job evaluation based on job factor analysis, internal relativities and external market indicators.

Performance Related Pay – depends on the outcome of annual performance review of objectives and competencies, and on still being in post at 1st July. In 2005/06 the maximum performance related pay available was 20% of basic salary for the CEO and 15% for other Directors. These payments are not pensionable.

Managing Delivery

Pension arrangements – Directors are members of the Local Government Pension Scheme (LGPS), a tax-approved defined benefit occupational pension scheme set up under the Superannuation Act 1972. Benefits are based on final salary and duration of membership. Members accrued pension entitlement in the year at a rate of 1/80 of final Pensionable Salary, up to half of final pensionable salary. Death in service cover is 2 years pay plus spouse's pension of half of the member's pension and pensions for eligible children. At 31/3/06, all Directors, but not the Chair, were members of LGPS.

Directors' Contracts – Directors are on permanent employment contracts and are required to give 3 months notice. Should their posts become redundant they are entitled to a redundancy package which provides a top-up from statutory entitlement to actual pay.

Other Benefits include a "healthy lifestyle" allowance and considerate leave entitlement.

Emoluments of the Chair and Directors, including performance-related pay but excluding pension arrangements, for the year ending 31/3/06 were as follows:

AUDITED INFORMATION		2005/06	2004/05
		£,000	£,000
S Campbell	Chair	35-40	35-40
J Steele	CEO*	70-75	
L Nicholl	Director**	110-115	80-85
J Scott	Director	85-90	80-85
T Hollingsworth	Director	75-80	5-10
N Shearer	Director	70-75	65-70

* John Steele was appointed Chief Executive Officer on 1/7/05 at an annual salary including pension allowance of £104,000. The pension contribution paid was equivalent to 10.2% of salary.

** Liz Nicholl's 2005/06 emoluments include payments made in arrears for additional responsibilities as acting Chief Executive Officer in 2004/05.

Pension entitlement

AUDITED INFORMATION £,000	REAL PENSION INCREASE £,000	REAL LUMP SUM INCREASE £,000	VALUE OF ACCRUED PENSION £,000	VALUE OF ACCRUED LUMP SUM £,000	CETV AT 31/3/05 £,000	CETV AT 31/3/06 £,000	REAL INCREASE IN CETV £,000
J Steele			1	3		10	
L Nicholl	5	16	23	69	290	392	102
J Scott	4	13	29	88	473	505	32
T Hollingsworth	1	3	3	9	18	31	13
N Shearer	1	4	6	19	60	79	19

Accrued pensions represent amounts payable if a Director leaves at the stated date. Cash-Equivalent Transfer Values (CETV) are not payable to Directors but represent potential liability of the pension scheme. These are based on assumptions certified by a qualified actuary in accordance with guidance note GN11, published by the Institute of Actuaries and Faculty of Actuaries.



Members' remuneration for attending meetings was £204 / day (2004/05: £200) and half that amount for half-day meetings, up to 36 payments each year. Members who have received remuneration are as follows:

AUDITED INFORMATION (£)	2005/06	2004/05
Nick Bitel	1,428	1,600
Alastair Dempster	-	200
Phillip Carling	1,020	1,000
Tanni Grey-Thompson	-	200
Zahara Hyde Peters	-	200
Constance St Louis	1,730	6,585
Laura McAllister	612	1,100
Louise Martin	1,632	1,600
Adrian Metcalfe	-	400
Eric Saunders	816	1,400
Julia Bracewell	1,428	-
Rod Carr	714	-
Chris Holmes	2,550	-
	11,930	14,285



UK Sport's Performance

Key Performance Indicators

Below is a summary of the details of UK Sport's performance including the targets set out in its funding agreement with the DCMS.

World Class Performance

During 2005/2006 it was acknowledged that the performance targets in the existing 2003-2006 funding agreement needed revision better to reflect UK Sport's primary performance objectives around Olympic and Paralympic sport. New targets for the 2006-2008 period have therefore been agreed and are outlined later in the report. As such, the figures in Table 1 and 2 below relate to the 2005 calendar year (January – December) as after this date a new reporting format and funding agreement was agreed with DCMS.

1. World Champions in UK Sport-funded sports (January – December 2005)

CRITERIA	TARGET	ACTUAL
World Champions in Olympic and Non-Olympic sports	12	10
World Champions in Paralympic sports and Non-Paralympic sports	50	37

Notes

The number of World Champions will fluctuate from year to year depending on which events feature in the World Championship calendar for that year. The target set was a stand-still position based on the year containing the majority of World Championships taking place. In a post-Olympic year (and especially post-Paralympics) the number of World Championship opportunities tends to be lower.

2. Supporting winning athletes (January – December 2005)

CRITERIA	TARGET	ACTUAL
Priority NGBs to have moved to a one-stop plan system	10	10
Other modernisation programmes to have been implemented in NGBs between April 2003 and April 2005	40	Over 100

Performance Targets Update

The revised performance targets for the period 2006-2008 will focus on:

- › The number of medals won by Olympic Pathway athletes in the agreed targeted event for each sport (the most significant for each sport in that year).
- › The number of Olympic Pathway athletes finishing in the Top 8 at the agreed targeted event.
- › The number of medals won by Paralympic Pathway (including Fast Track Programme) athletes at the agreed targeted event for each sport (the most significant for each sport in that year).
- › The number of Paralympic Pathway athletes finishing in the Top 8 at the agreed targeted event.



Worldwide Impact

1. Staging world-class events in world-class style

CRITERIA	TARGET	ACTUAL
Success rate in the number of events secured in an internationally competitive situation	50%	75%
Develop a sport focused strategy for staging major international events across the UK via the number of performance focused major events strategies developed and agreed with NGBs	10	17

2. Greater influence in international decision making

CRITERIA	TARGET	ACTUAL
Establishment of a UK Sport International Development Assistance Programme - by number of International Development Assistance projects delivered in target countries	10	15
Establish UK as an authoritative and leading player in world sport by: Number of UK NGBs who, through their UK Sport accredited international influence strategies, have the necessary mechanism to identify, select and promote individual to key positions on International Federations	5	3
Number of international partnership sport agreements with strategically important national or international bodies	4	5

World Class Standards

1. Information services

Target

Provide access to drug-free sport information services for athletes in the international and national testing pool.

Achievements include

- Partnership agreement in place with Canadian Centre for Ethics in Sport to establish the global Drug Information Database.
- 100% ME the National Campaign for Drug-Free Sport successfully launched in May 2005.

CRITERIA	TARGET	ACTUAL
% of sports in the anti-doping testing programme with an acknowledged education programme; offering advice and support to athletes regarding anti-doping	45%	97% have anti-doping info on website 53% use 100%ME tutors to educate World Class Athletes
% of sports on anti-doping testing programme with at least one trained and accredited 100% ME tutor capable of delivering anti-doping workshops	50%	53%
% of sports on anti-doping testing programme with at least one Ambassador to promote Drug-Free Sport through 100% ME programme	50%	51%

UK Sport's Performance

2. Appropriate anti-doping system in place

Target

UK system meets agreed international certification standards and number of sports/governing bodies compliant with the national policy and WAD Code.

Achievements include

- UK Sport has signed WAD Code and is listed as a signatory on WADA website. UK National Anti-Doping Policy includes Code requirements and standards. Launch of new Policy and Model Rules for Governing Bodies in May 2005.
- Governing Bodies consulted on the NGB Anti-Doping Agreement. Agreement finalized and circulated to all sports for signature. Full cooperation and support of Home Country Sports Councils secured.
- 29.6% of the 81 NGBs on the testing programme have had their regulations signed off as compliant with the Code by UK Sport and 78% have signed the NGB agreement.
- Scrutiny Panel established and chair and members recruited. Three meetings held and reports published on UK Sport website.

3. Test distribution planning

Target

Effective test distribution planning to maximise the level of detection and deterrence.

Achievements include

- Overall Testing Programme in 2005/06 was split 50% in-competition and 50% out-of-competition testing (actual results 46% in-competition and 54% out of competition).
- Drug Testing Database (DTD) Computer System - Athlete Whereabouts and Therapeutic Use Exemption Computer System tendering completed.
- 7,968 tests undertaken during the year.

World Class Performance

Funding – The announcement of the additional funding award from the Budget and the transfer of responsibilities have been described in some detail earlier in this report. This was welcomed throughout the sporting community.

Reaction to the announcement of additional funding:

“Olympic and Paralympic Performance Directors have been anxiously waiting for an announcement of additional funding. We are delighted that the Government has acknowledged the importance of British success at a home Games by supporting the UK Sport funding submission by announcing this additional money. Olympic and Paralympic sports now have a clear overall target, allowing us to build our most successful team ever. Additionally and importantly sports not currently on the World Class Pathway will also benefit from development opportunities in order to be competitive in London 2012. We now really need to get moving as quickly as possible if we are to achieve these goals.”

John Derbyshire, Royal Yachting Association Performance Director

“Today’s news is a great leap forward for British Olympic and Paralympic sport. UK Sport, along with its partner organisations, can now really focus on ensuring that Britain is able to enter its largest and most competitive team ever in London 2012. As an athlete, I fully understand the investment that is required in order to reach the highest level and this additional funding will provide exciting opportunities for sports across the board. Indeed this is a chance for London, and the whole of the UK in general, to benefit on a number of levels – sporting and otherwise. The Games will be a source of great inspiration to many.”

Katherine Grainger, Olympic rowing medallist

“News that the Government has come up with funding for the 2012 Olympics is fantastic. It had to happen for success in 2012 and this is the beginning. We can be uncompromising in terms of training camps and preparations with the latest technology.”

Georgina Harland, Olympic modern pentathlon medallist



Reaction to the transfer of responsibilities:

"I have been concerned for some time about the complicated and fragmented system of support for Olympic sport and have always said it is a distraction to performance. The changes announced today, placing responsibility for performance with UK Sport, are fantastic news. They demonstrate how committed everyone is to success at London 2012. I can now get on with the job of helping athletes to deliver medals confident that an effective support system is in place."

Dave Brailsford, Performance Director, Cycling

"2012 is the best thing ever to happen to Olympic sport in the UK, and this decision will have a very positive impact on our performance strategy for the next seven years. I have long been concerned about the lack of joined-up thinking in the UK High Performance system, arguing for a single agency to have overall responsibility and that it should be UK Sport. This decision will remove many of the barriers I face in delivering world class support services to our most talented athletes: there are nothing but pluses as far as 2012 is concerned."

John Anderson, Performance Director, Canoeing

"The elite sport pathway has often been a difficult and complicated one for athletes to navigate. This streamlined approach will not only make the system easier to understand, it will significantly improve the quality of service to the athletes and mean equal standards across all sports; it will be universally welcomed."

Pete Gardner, Chief Executive of the British Athletes Commission

Elite Coach & Fast Track Practitioner Programme – Nine coaches were inducted into the 2005 intake of the Elite Coach scheme and included former Olympic medallists Chris Boardman and Kate Howey. The Fast Track Practitioner programme – placing high calibre graduates into high performance sport and providing them with opportunities to develop - increased from 13 in 2004/05 to 25 in 2005/06.

Research and innovation – Several ground breaking projects including working with the Scottish Institute of Sport and The University of Edinburgh to develop a curling 'sweep ergometer', and with British Diving and Frazer-Nash to develop a pool-based diving harness, a first for any European country.

Worldwide Impact

Major Events – Eighteen grants awarded through the Lottery-funded World Class Events Programme, which supports the bidding for and staging of major sporting events in the UK. The success rate of securing events now stands at 75%. Significant awards included up to £482,000 for the 2010 World Wheelchair Basketball Championships, up to £275,000 for the 2008 World Track Cycling Championships and up to £250,000 for the 2006 Paralympic World Cup. During the financial year, nine highly successful events were staged with support from WCEP, including the Bearingpoint Rowing World Cup, and the inaugural Paralympic World Cup which brought athletes from all over the world together to compete in four sports (wheelchair basketball, athletics, cycling and swimming).

International Relations – 2005 saw the revival of UK Sport's charitable trust, the International Development through Sport UK (IDSUK), which aims to deliver sports programmes in the world's developing areas. Over the course of the year, IDSUK and UK Sport's International Development programmes have worked on several projects including: 'Kicking AIDS Out! Network' – a pan-African programme that aims to use sport to deliver key messages about the disease and its prevention, and 'Go Sisters' – a Zambian programme which gives girls and young women the chance to participate in sport. An 'International Post-holders Conference' was held in London, an event aimed at ensuring Britain's voice is heard in the decision-making mechanisms of the global sporting infrastructure. UK Sport Chair Sue Campbell was elected as Chair of the Commonwealth Advisory Body on Sport (CABOS), which aims to facilitate and encourage the sharing of best practice in sport across the Commonwealth.

Financial Performance

Adding apples and pears

Because Exchequer and Lottery stakeholders require different accounting formats to be used in the two sets of statutory annual accounts, these cannot simply be added together to obtain a financial overview of UK Sport. Lottery accounts are stated in terms of expenditure commitment whereby all firm spending commitments (to partner organisations, athletes or events) made during the year are recognised as expenditure in that period. Conversely, Exchequer accounts, which cover more routine activities, are more appropriately based on the normal business concept of accrual accounting. Thus grants payments are included as expenditure on the basis of payment timing as defined by the grant agreement, which is normally in line with cash flow.

So, to explain the overall financial shape on a consistent "apples to apples" accruals basis it is first necessary to reverse hard commitments recognised in the Lottery accounts and to restate grants awarded on an accruals basis. The impact is shown in Note 20 of the Lottery accounts. This allows the simplified income and expenditure, balance sheet and cash flow to be consolidated and compared with the previous year as follows:

UK Sport's Performance

UK Sport £m (ACCRUAL BASIS)		2005-6			2004-5	
		GIA	Lottery	Transfer	TOTAL	TOTAL
INCOME & EXPENDITURE	Lottery		21.53		21.53	20.98
	Grant-in-aid	28.76			28.76	23.09
	Other	2.16	0.11	-0.82	1.45	7.63
	Total Income	30.91	21.64	-0.82	51.73	51.70
	Staff	3.02	0.53		3.55	4.02
	Non-staff	11.51	1.12	-0.82	11.82	10.54
	Grants	16.52	17.51		34.02	34.03
	Total Expenditure	31.05	19.16	-0.82	49.39	48.58
	Interest / tax	0.03	-0.02		0.02	0.10
	Surplus / Deficit	-0.10	2.47		2.36	3.22
BALANCE SHEET (EXCERPT)	Fixed assets	0.60	0.05		0.64	0.51
	Lottery balance		10.07		10.07	7.69
	Debtors	0.80	0.03		0.83	1.53
	Cash	0.10	0.21		0.31	0.35
	Current assets	0.90	10.31		11.21	9.57
	Accruals	0.19	0.20		0.39	0.71
	Other creditors	1.25	0.10		1.34	1.35
	Net Current Liabilities	0.06	10.05		10.11	7.51
	Pension liability	0.28	0.16		0.44	2.30
	Dilapidation provision	0.21			0.21	0.18
Total assets less liabilities	-0.43	9.89		9.46	5.55	
Net Cash Flow	-0.01	-0.04		-0.05	-0.43	

Key points about the financial shape of UK Sport in 2005/06 are:

Overall funding is flat compared to 2004/05. Within this, lottery funding, which represents 40% of UK Sport income, rose due to increased ticket sales, partly from "rollover" impact. Other income in 2004/05 is distorted by £6m provided by home country sports councils to enable world-class performance programme commitments to be met. True third party income is mainly from drug testing, which was down at £0.64m.

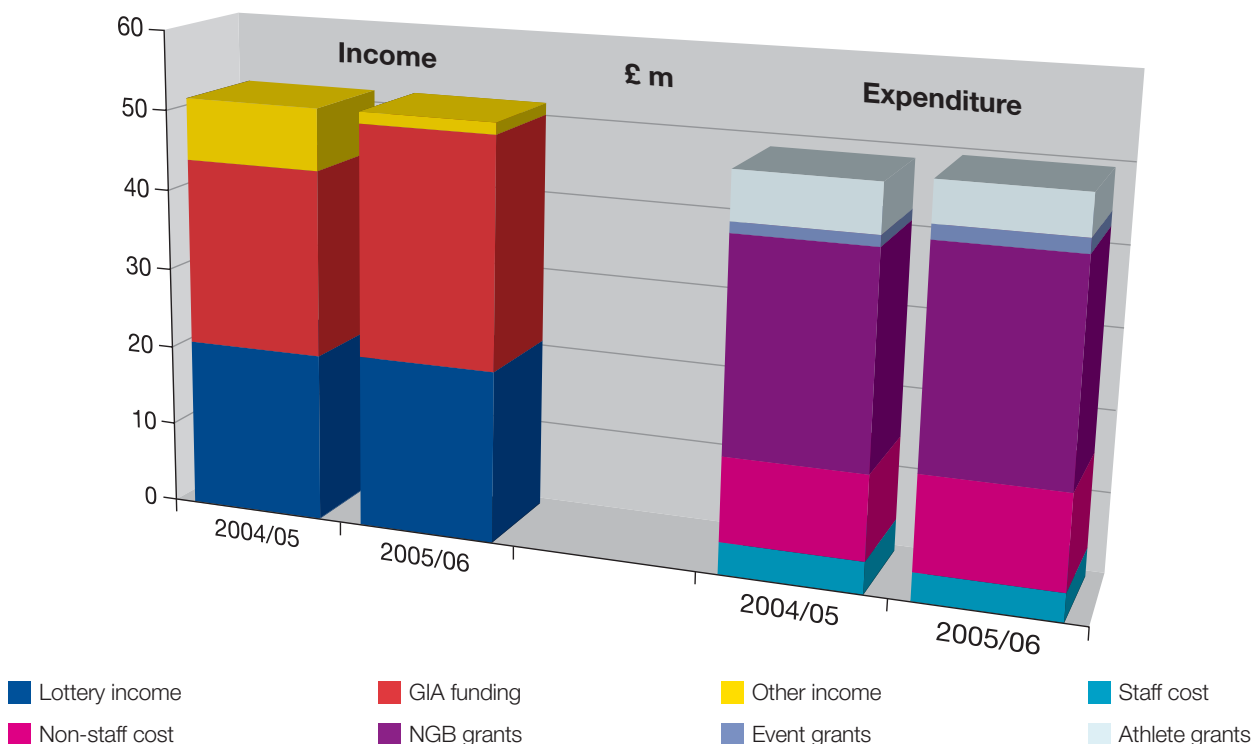
As a result of UK Sport's new responsibilities and additional 2012 funding, income from Lottery and Grant-in-aid will each rise to about £50m in 2006/07, but exchequer funding is expected to pull ahead again in subsequent years as the 2012 programme really kicks in.

Staff pay in 2005/06 was similar to the previous year but received a one-off benefit of a favourable pension actuarial review. The £1.3m increase in non-staff costs is driven by the 23% increase to 7,968 drug tests carried out in 2005/06, including pre-Commonwealth and Winter Olympic Games testing. Grant payments made in 2005/06 were in line with the previous year. The amount required for corporate purposes is shown below.

Partly through higher than expected Lottery income during the year, the Lottery balance rose to £10m. This is necessary to ensure that UK Sport can meet expenditure phasing in its Lottery commitments – and still represents the lowest Lottery balance of any Lottery distributor expressed as a percentage of turnover.

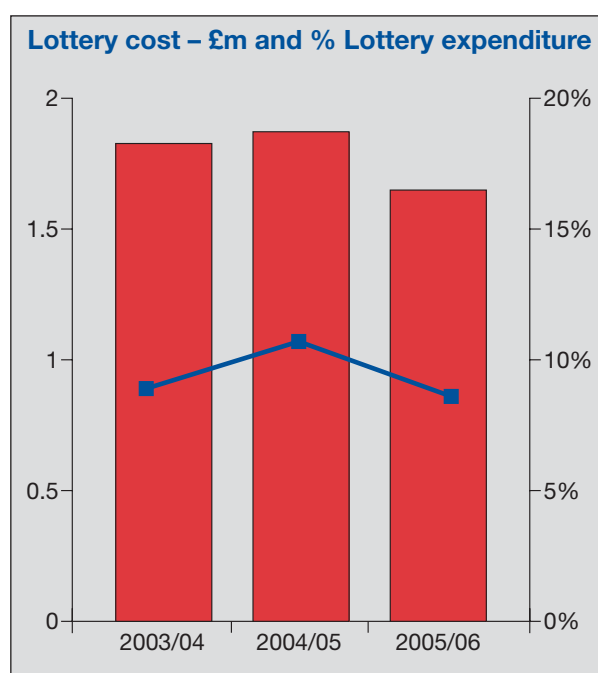
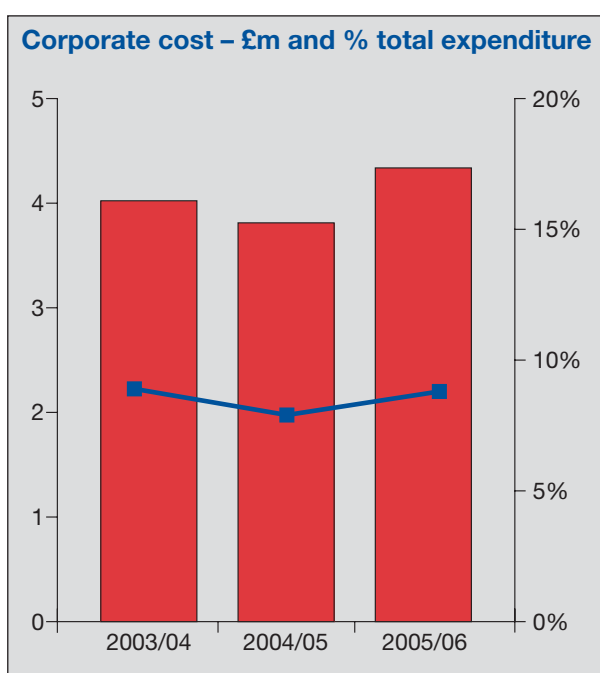


Sources of Income and Expenditure – compared to previous year



Business efficiency – Two simple measures used to track trends in organisational efficiency are those of corporate cost as a percentage of total expenditure, and lottery administration cost as a percentage of total lottery expenditure. Corporate costs here comprise CEO, communications and corporate services which are necessary to maintain the organisational infrastructure. These rose in 2005/06 specifically due to one-off office refurbishment to accommodate BPA and senior EIS staff within the UK Sport office, and appointment of some necessary job positions, including CEO and departmental heads. The latter underpins UK Sport’s capability to deliver its increased responsibilities and will enable corporate cost to continue to be diluted as a proportion of expenditure in future years.

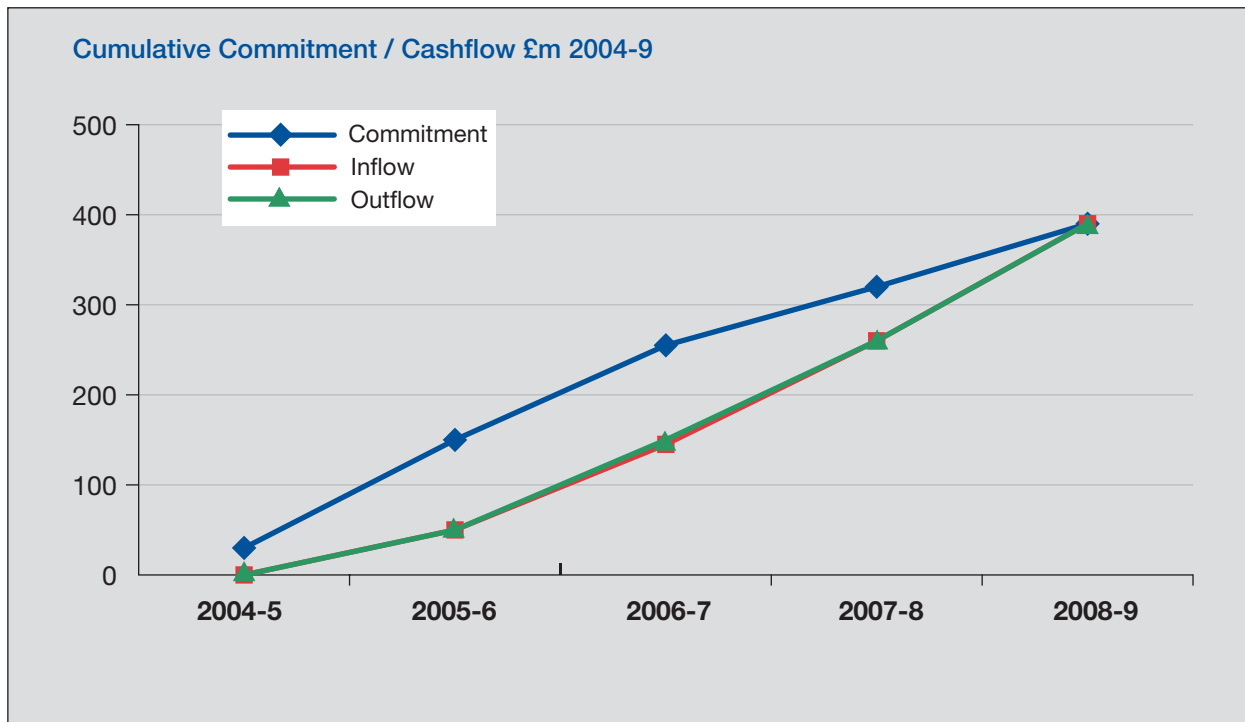
Lottery administration cost as percentage of spend is also single digit and will continue to decline through economy of scale following transfer of responsibilities from Sport England.



UK Sport's Performance

Olympiad planning

Because a high proportion of "world-class performance" grant expenditure is committed early in the four year cycle prior to a summer Olympic Games, but actual cash requirement ramps up in the build-up to the Games, significant surpluses and deficits arise in individual years' Lottery accounts which, as explained above, are based on expenditure commitment. So cumulative commitment and cash flow over the Olympiad are regularly monitored, with an allowance made for Winter Olympic and non-Olympic funding, to ensure that funding and expenditure stay balanced over this cycle.



As can be seen above, the imbalance for the Beijing cycle reaches its zenith at the end on 2005/06, the first full financial year after the Athens Games. Actual expenditure at this point lags behind commitment by about £100m but will catch up by 2008/09 when the games take place. Cash inflow and outflow remain closely matched as the Exchequer and Lottery balances are planned to remain within £0.5m and six months requirement respectively. Not shown on this diagram is that already in 2008/09, £110m will be committed in programmes centred on the 2012 London Games.

John Steele
Chief Executive and Accounting Officer
United Kingdom Sports Council

21 June 2006



Sue Campbell
Chair
United Kingdom Sports Council

21 June 2006







ANNUAL REPORT 2005-2006



The United Kingdom Sports Council
Grant-in-Aid
Accounts for the Year Ended
31 March 2006

Statement of the Council's and Chief Executive's Responsibilities

The Royal Charter requires UK Sport to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Culture, Media and Sport with consent of HM Treasury. The accounts are prepared on an accruals basis and must show a true and fair view of UK Sport's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts UK Sport is required to:

- **observe the accounts direction issued by the Secretary of State for Culture, Media and Sport, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;**
- **make judgements and estimates on a reasonable basis;**
- **state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;**
- **prepare the financial statements on the going concern basis, unless it is inappropriate to presume that UK Sport will continue in operation; and**
- **ensure that expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.**

The Accounting Officer for the DCMS has designated the Chief Executive of UK Sport as the Accounting Officer for UK Sport. 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 Officers' Memorandum, issued by HM Treasury and published in "Government Accounting" (HMSO).



Statement on Internal Control

Scope of responsibility

The Accounting Officer is responsible for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which the Accounting Officer is personally responsible, in accordance with the responsibilities assigned to him in Government Accounting.

There is no separation or difference between the mechanisms by which the Accounting Officer, together with the directors and senior managers, gain assurance, from those that the Board uses, to assure themselves that the systems of internal control are working effectively.

The Accounting Officer has separate responsibilities to Parliament, in particular responsibility for taking action should the Chair or the Board contemplate a course of action involving a transaction which will infringe the requirements of regularity or propriety or which does not represent efficient or effective administration. Under the terms of the UK Sport Financial Directions, neither the Chair nor the Board is permitted to give instructions which conflict with the duties of the Accounting Officer.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of UK Sport'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. This system of internal control has been in place in UK Sport for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

The system of internal control seeks to mitigate rather than eliminate all risk. It can therefore only provide reasonable and not an absolute assurance of effectiveness. It is also not possible to mitigate every risk. It is based on a process designed to identify, prioritise and evaluate the likelihood of risks being realised and the resulting impact should this occur, and maintain this using a risk register.

Capacity to handle risk

The senior management team provide leadership to the risk management process and carry out regular reviews. This is embedded at line management level through the Leadership Team who are responsible for reviewing risks and mitigating controls in their area of responsibility.

Audit Committee members attend Audit Committee training sessions organised by the NAO and HM Treasury. They also receive guidance from HM Treasury. This guidance is made available to Audit Committee members and Senior Managers via the organisation's extranet site.

The risk and control framework

The organisation has an Internal Control Policy that defines risk management processes. The risk register contains an assessment of gross risk and strategies to manage and mitigate each risk. Directors and senior management assess the adequacy and effectiveness of the controls to manage risk thereby determining the net exposure on a regular basis. The risk register is reviewed regularly by the Audit Committee and the Board.

Currently the most significant risk in terms of high net exposure is "Our Reliance of the organisation on third party bodies to deliver targets".

Key controls in place to mitigate this risk include:

- **Annual review of performance against KPIs reported to the Board and a quarterly Sports Summary identifying risks within each performance pathway programme and actions being taken.**
- **Four-yearly One Stop Plan reviews; Annual reviews; moving to performance operations via peer group assessment and involving partner organisations. Significant outcomes reported to the Board. An independent evaluation undertaken once per Olympic/Paralympic cycle.**
- **The Performance team reviews National Governing Bodies board papers and can attend NGB board meetings and be involved in senior staff recruitment, appraisal and performance planning/management groups.**
- **Sport specific conditions of grant and management audits/compliance checks of National Governing Bodies scheduled to reflect risk including a self assurance process.**

Statement on Internal Control

Review of effectiveness

The Accounting Officer has responsibility for reviewing the effectiveness of the system of internal control. His review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. He has been advised on the implications of the result of his review of the effectiveness of the system of internal control by the Board and the Audit Committee. He believes that the systems of internal control are working effectively and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Further detail of the mechanisms in place to assist him in the management of the system of internal control, and additional controls that are important to the system of internal control are as follows:

The Board and the Audit Committee

The Board, through the Audit Committee, have responsibility for maintaining a sound system of internal control. The Chair of the Audit Committee reports the outcome of Audit Committee meetings to the Board orally and through minutes of meetings. The Board also review twice per annum the Internal Control report in line with the Policy on Internal Control, and where appropriate discuss key risks in more detail.

The Audit Committee of the Board is comprised of Board and Independent Members. Its primary functions are to:

- **Review with external and internal auditors, directors and management the audit strategy and the annual internal audit plan. Prioritisation of internal audit work is based upon the level of risk as detailed in the risk register;**
- **Consider reports from management and internal and external auditors on any material control weaknesses;**
- **Discuss with management the actions taken on problem areas identified by Board and Audit Committee Members and both external and internal audit reports; and**
- **Ensure the published financial statements are a true and fair reflection of UK Sport's financial position.**

Internal audit

Internal Audit works to the agreed annual audit plan. It provides assurance reports to support the internal control process.

There are two established internal audit functions in operation:

- **Deloitte and Touche LLP provide assurance on internal control at UK Sport; and**
- **Littlejohn Frazer carry out management audit and compliance checks of National Governing Bodies.**

The Board, through the Audit Committee, have reviewed letters of assurance from internal auditors.

The annual assurance statement from Deloitte and Touche LLP shows the level of assurance achieved in the internal audit programme undertaken for 2005/06. Internal audit work was performed in accordance with Government Internal Audit Standards issued by HM Treasury. Of the 8 internal audit reports none were given full assurance, six were given substantial assurance and two were given limited assurance. The Audit Committee reviewed all reports with emphasis on high risk areas and those receiving less than substantial assurance. In all cases, satisfactory management responses were provided for all recommendations.

A total of 10 NGB or other UK Sport-funded organisations, major event and IRGAP reviews were undertaken by AHL during the year. This is slightly less than the number planned because work is still in progress on one NGB audit and the need for and timing of some of the remainder was reviewed due to the change of focus of the programme from a historical rolling programme to a more risk-based approach. The audit of one funded organisation resulted in a down-grading of the assurance rating to no assurance. However, following a number of remedial actions by the organisation concerned, this was subsequently raised to limited and is being closely monitored, with a follow-up audit scheduled in 2006/07. All funded priority sports/other organisations have now been subject to an audit and compliance review at least once since 2002. Of these, 17 have a "reasonable" assurance rating and 9 have "limited" assurance and all were considered fit to receive and manage public funding. There were no instances of fraud, malpractice or significant losses reported. There was one small over-payment of grant on IRGAP (£1,195) but this was re-paid by the governing body. Employees are aware of their responsibilities in respect of propriety and regularity and ways of rectifying any known breaches.



Other Key Controls

In addition to processes described above key controls include:

- Compliance with the DCMS Management Statement / Finance Directions and Accounts Directions and regular review of the three-year funding agreement agreed with the DCMS;
- A new performance management system to ensure that UK Sport recruits, develops and retains the appropriate calibre of staff to support the delivery of its business plan. Processes are in place to ensure that all relevant employment legislation is incorporated within its staff policies;
- A Performance Investment Strategy which guides UK Sport's performance investment for the period April 2005 – March 2009. The strategy provides an open, transparent, logical process for arriving at the level of investment to National Governing Bodies and athletes.
- Systems for the assessment and control of grant applications ensuring that all applications receive sufficient and consistent processing in line with policy and financial directions of the Secretary of State;
- A fraud policy and response plan that has been approved by the Audit Committee;
- A conflict of interest register that is regularly reviewed.
- Planning and budgeting systems
 - A three-year Funding Agreement with the DCMS, with performance against key targets reviewed regularly with the DCMS;
 - A planning process including a review of the Business Plan 2005/06 – 2008/09, followed by the development of an annual corporate plan; and
 - An annual budget approved by the Accounting Officer and the Board and the provision of regular financial management reports.
- An agreed national anti-doping policy setting out publicly accountable standards for UK Sport and its partner organisations has been in place since January 2002 to demonstrate compliance, assess risks and implement plans for continuous improvement of policies and practices to monitor the achievement of drug free sport. Key features are:
 - A UK National Anti-doping Policy, Model Rules for Governing Bodies and Procedures Guide will be launched in April 2005 to achieve compliance with the World Anti-doping Code.
 - The anti-doping process itself is a system of risk management to protect investment and participation in sport. Any mismanagement of this process would damage the reputation of UK Sport as well as the governing bodies that are UK Sport's partners.
 - ISO 9001:2000 for the management of the drug testing programme for human sport with 6 monthly BSI audits.
 - An independent Scrutiny Panel whose key role is to review any potential conflicts of interest between UK Sport's Performance and Drug-Free Sport functions reports publicly.
- Compliance with all current health and safety legislation. This includes ongoing risk assessments throughout the organisation.

John Steele
Chief Executive and Accounting Officer
United Kingdom Sports Council

21 June 2006



Sue Campbell
Chair
United Kingdom Sports Council

21 June 2006



The Certificate of the Comptroller and Auditor General to the United Kingdom Sports Council

I have audited the financial statements of the United Kingdom Sports Council for the year ended 31 March 2006. These financial statements have been prepared in accordance with Article 14 of the Royal Charter of the United Kingdom Sports Council and directions made thereunder by the Secretary of State for Culture Media and Sport, with the consent of HM Treasury. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the United Kingdom Sports Council, Chief Executive and Auditor

The United Kingdom Sports Council and Chief Executive are responsible for preparing the Annual Report, the Remuneration Report and the financial statements and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Council's and Chief Executive's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with Article 14 of the Royal Charter of the United Kingdom Sports Council and directions made thereunder by the Secretary of State for Culture Media and Sport, with the consent of HM Treasury. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Council has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

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

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

Basis of audit opinion

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

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



Opinion

In my opinion:

- › the financial statements give a true and fair view, in accordance with Article 14 of the Royal Charter of the United Kingdom Sports Council and directions made thereunder by the Secretary of State for Culture Media and Sport, with the consent of HM Treasury, of the state of the United Kingdom Sports Council's affairs as at 31 March 2006 and of its deficit for the year then ended;
- › the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with Article 14 of the Royal Charter of the United Kingdom Sports Council and directions made thereunder by the Secretary of State for Culture Media and Sport, with the consent of HM Treasury; and
- › 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.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

26 June 2006



INCOME & EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

	<i>Note</i>	2005/06	2004/05
		£,000	£,000
INCOME			
Grant-in-Aid	2	28,756	23,089
Other Operating Income	3	1,761	7,826
Transfer from Deferred Grant Reserve	12	397	502
		30,914	31,417
EXPENDITURE			
Staff Costs	4.1	3,017	3,184
Grants and Other Operating Costs	5	28,010	28,591
Notional Interest on Capital Employed		21	65
		31,048	31,840
DEFICIT BEFORE TAXATION & INTEREST		(134)	(423)
Net Return on Pension Assets	19.4	(25)	(18)
Interest Receivable	7	43	81
Taxation	8	(7)	(14)
		(123)	(374)
Reversal of Notional Interest on Capital Employed		21	65
DEFICIT FOR PERIOD		(102)	(309)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>Note</i>	2005/06	2004/05
		£'000	£'000
Deficit For Period		(102)	(309)
Pension actuarial gain/(loss)	19.5	1,073	(401)
Total gain / (loss) recognised since last annual report		971	(710)



BALANCE SHEET AS AT 31 MARCH 2006

	Note	2005/06	2004/05
		£,000	£,000
FIXED ASSETS			
Tangible Assets	9	598	446
CURRENT ASSETS			
Debtors	10	799	1,516
Cash at bank and in hand		100	105
		899	1,621
CREDITORS			
Amounts falling due within one year	11	(1,438)	(1,707)
Net Current Assets/(Liabilities)		(539)	(86)
TOTAL ASSETS LESS CURRENT LIABILITIES			
		59	360
Provision for dilapidation and un-expired lease	13	(210)	(175)
Pension Liabilities	19.2	(282)	(1,735)
TOTAL ASSETS LESS ALL LIABILITIES		(433)	(1,550)
Represented by:			
Deferred Grant Reserve	12	598	446
Pension Reserve	19.2	(282)	(1,735)
Revenue Reserve	14	(749)	(261)
		(433)	(1,550)

John Steele
Chief Executive and Accounting Officer
United Kingdom Sports Council

21 June 2006



Sue Campbell
Chair
United Kingdom Sports Council

21 June 2006



CASH FLOW STATEMENT

	Note	2005/06	2004/05
		£,000	£,000
OPERATING ACTIVITIES			
Revenue Grant-in-Aid received	2	28,756	23,089
Other receipts		2,775	7,351
Payments		(31,565)	(30,781)
Net cash outflow from operating activities	15	(34)	(341)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		43	81
Net cash inflow from returns on investment		43	81
TAXATION			
Corporation Tax Paid		(14)	(7)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(549)	(411)
		(563)	(418)
Net cash outflow before financing		(554)	(678)
FINANCING			
Grant-in-Aid applied towards purchase of fixed assets		549	411
Decrease in cash		(5)	(267)

There are no discontinued activities. The following notes form part of these accounts.



Notes to the Accounts

1. Accounting Policies

1.1 Accounting Convention

The accounts direction requires that, when material, accounts are prepared on a modified historical cost (MHCA) basis in which the income and expenditure account reflects the consumption of resources at their current value and the balance sheet shows the value of fixed assets, current asset investments and (if material) stocks at their value to the business by reference to current costs. It has been determined that in the current year adoption of MHCA would not have a material impact on the accounts, and hence no entries have been made.

Without limiting the information given, the accounts meet the requirements of the Companies Act 1985, the Accounting Standards issued or adopted by the Accounting Standards Board and HM Treasury guidance on accounts of Non-Departmental Public Bodies in so far as those requirements are appropriate.

1.2 Basis of Preparation

These accounts have been prepared in accordance with the Accounts Direction issued by the Secretary of State for Culture, Media and Sport, with the approval of HM Treasury, in accordance with Article 14 of the Royal Charter on 26 March 2002. A copy of that direction may be obtained from UK Sport at 40 Bernard Street, London, WC1N 1ST.

Separate accounts have been prepared for Lottery distribution activities. In accordance with existing directions however, consolidated accounts have not been prepared.

1.3 Grants Received

Government Grant-in-Aid received of a revenue nature is credited to the income and expenditure account in the year in which it is received.

Grant-in-Aid relating to capital expenditure is credited to a deferred government grant reserve and is released to revenue over the expected useful lives of the assets it has been used to purchase.

1.4 Fees for Consultancy Services

Income includes revenue received in respect of services for doping tests stated exclusive of VAT.

1.5 Tangible Fixed Assets

There are no freehold land and buildings.

The assets of UK Sport are computers, computer software and other office equipment together with equipment used for sampling drug tests. The minimum capitalisation threshold is £2,500.

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

Testing Equipment	5 years
Computer equipment and software	3 years
Office refurbishment	7 years

1.6 Research and Development

Research and Development costs are written off as incurred and not carried forward as an asset.

1.7 Grants and Loans Awarded

Grants payable are charged to the Income and Expenditure Account on an accruals basis. UK Sport may give financial assistance by way of grants and loans to any person or organisation in furtherance of the objectives of the Council.

1.8 Pension Costs

The pension liabilities and assets are recorded in line with FRS17, with a valuation undertaken by an independent actuary. FRS17 measures the value of pension assets and liabilities at the Balance Sheet date, determines the benefits accrued in the year and the interest on scheme assets and liabilities. The value of benefits accrued is used to determine the pension charge in the Income and Expenditure Account and the interest on scheme assets and liabilities is shown in the Income and Expenditure Account. The change in the value of the assets and liabilities arising from asset valuations, changes in benefits, actuarial assumptions or change in the level of deficit attributable to members, is recognised in the Statement of Total Recognised Gains and Losses. The resulting pension liability or asset is shown on the Balance Sheet. Further information on the pension scheme is available in Note 19 to the accounts.



1.9 Leases and provisions

A 15-year lease was signed for the office premises at 40 Bernard Street with Bloomsbury Property Investment Limited at an annual rent of £441,300 with effect from 25 December 1999 to be reviewed every five years. The lease was reviewed on 31 January 2005 and fixed at £445,000 per annum. All lease payments are expended in the year to which they relate.

Provision is made in the accounts to spread the estimated cost of dilapidations evenly over the life of the lease.

1.10 Charges to and from UK Sport

UK Sport is required to apportion between its Grant-in-Aid and National Lottery distribution activities, the costs of services provided from its Grant-in-Aid budget that are directly and demonstrably attributable to the National Lottery distribution functions and vice versa. The costs so apportioned to the Lottery distribution activities are paid from the UK Sport Lottery Fund to the Grant-in-Aid account. The apportionment of the costs has been determined in the manner most appropriate to the particular service, for example staff numbers, staff time or floor space. In all cases the charges to the Lottery distribution activity have been calculated on a full cost recovery basis in accordance with HM Treasury's "Fees and Charges Guide".

1.11 Investment

There are no fixed asset or trade investments. Bank interest is included in the Income and Expenditure Account.

1.12 Value Added Tax

UK Sport is registered for VAT being involved in business and non-business activities for VAT purposes. UK Sport has agreed a methodology with HM Customs and Excise, which results in tax recovery rates of 23.50% for the business activity of drug-testing, and 12.22% for supporting activities. Income generated from Drug testing activities is subject to VAT at the standard rate, as appropriate.

1.13 Notional Costs

Notional interest on capital is calculated on the basis of 3.5% (2004/05 3.5%) of average net assets.



NOTES TO THE ACCOUNTS

2. Grant-in-aid

	2005/06	2004/05
	£,000	£,000
Received from DCMS	29,305	23,500
Applied towards deferred grant in respect of Purchase of Tangible Fixed Assets (Note 8)	(549)	(411)
Total Grant-in-Aid applied towards Revenue Expenditure	28,756	23,089

A total of £29.3m (2004/05 £27.3m) Grant-in-Aid was made available and drawn down during the year. Under End Year Flexibility Rules, an underspend of £5.1m was brought forward to this financial year and is carried forward to 2006/07.

3. Other Operating Income

	2005/06	2004/05
	£,000	£,000
Doping Control Receipts	636	686
Other	1,125	7,140
	1,761	7,826

4. Staffing and Management

4.1 Staff costs

	2005/06	2004/05
	£,000	£,000
Wages and Salaries (including bonuses)	2,424	2,343
Temporary and Agency Staff	108	98
Social Security Costs	226	204
Pension Costs: Current Service Cost	259	224
Past Service Costs	-	99
Impact on Settlement and Curtailment	-	216
Total Staff Costs	3,017	3,184

4.2 Average number of staff by directorate during the year

	2005/06	2004/05
Corporate Services	15	17
Policy and Communications	8	7
Performance	20	21
International	7	8
Drug-Free Sport	16	15
	66	68



NOTES TO THE ACCOUNTS

5. Grants and Other Operating Costs

	2005/06	2004/05
	£,000	£,000
NATIONAL SUPPORT		
Sports Bodies	13,311	14,119
Sports Services	3,206	4,264
Technical Team Development	3,753	3,835
Communications	254	329
International Representation	1,723	1,713
Drug Free Sport	2,839	1,952
Other Expenses	208	230
	25,294	26,442
FINANCE AND MANAGEMENT SERVICES		
HQ office costs	1,700	1,229
Other Expenses	1,016	920
	2,716	2,149
Total	28,010	28,591

6. Operating Result

	2005/06	2004/05
	£,000	£,000
This is stated after charging:		
Travel, subsistence and hospitality:		
Chair and members	22	22
Employees	280	261
Consultants' fees and legal fees	491	467
Lease – 40 Bernard Street	579	570
Depreciation	387	421
Loss on disposal of Fixed Assets	10	81
Auditor's remuneration for audit work	25	20

7. Investment Income

	2005/06	2004/05
	£,000	£,000
Overnight and short term investment of bank balances	43	81

Interest rates vary from day to day and averaged approximately 3.0% (2004/05 3.1%) during the year.

NOTES TO THE ACCOUNTS

8. Taxation

	2005/06	2004/05
	£,000	£,000
Corporation Tax payable on interest received	7	14

UK Sport pays corporation tax at 19% on its investment income after deducting charges.

9. Tangible Fixed Assets

	Leasehold improvement £,000	IT equipment £,000	Office equipment £,000	Doping equipment £,000	Total £,000
At Cost					
At 1/4/05	515	1,388	33	82	2,018
Additions	-	549	-	-	549
Disposals	-	(583)	-	-	(583)
At 31/3/06	515	1,354	33	82	1,984
Depreciation					
At 1/4/05	289	1,172	29	82	1,572
Charge for year	73	312	2	-	387
Depreciation on disposal	-	(573)	-	-	(573)
At 31/3/06	362	911	31	82	1,386
Net book value					
At 1/4/05	226	216	-	-	446
At 31/3/06	153	443	2	-	598

10. Debtors

	2005/06	2004/05
	£,000	£,000
Trade Debtors	320	667
Other Debtors	44	-
Prepayments and Accrued Income	435	849
Total	799	1,516

All amounts fall due within one year.

11. Creditors

	2005/06	2004/05
	£,000	£,000
Trade Creditors	1,149	1,064
Corporation Tax	7	14
Other Taxation and Social Security	93	82
Accruals	189	547
Total	1,438	1,707

All amounts fall due within one year.



NOTES TO THE ACCOUNTS

12. Deferred Grant Reserve

	2005/06	2004/05
	£,000	£,000
Opening balance	446	537
Cost of Tangible Fixed Assets funded by Grant-in-Aid	549	411
Transferred to Income and Expenditure Account	(397)	(502)
Closing balance	598	446

13. Provision for dilapidation

	2005/06	2004/05
		£,000
Opening balance		175
Charge in year		35
Closing balance		210

A charge is made to ensure that funds are available at the end of the tenancy agreement to make good any dilapidations at 40 Bernard Street.

14. Revenue Reserves

	2005/06	2004/05
	£,000	£,000
INCOME AND EXPENDITURE ACCOUNT		
Opening Balance	(261)	(143)
Transfer from Pension Reserve *	(386)	191
Deficit for the period	(102)	(309)
Closing balance	(749)	(261)

* This relates to the difference between the actual contributions paid and the net present value of pension costs as valued by the actuaries in line with FRS17.

15. Reconciliation of Operating Deficit to Net Cash outflow from Operating Activities

	2005/06	2004/05
	£,000	£,000
OPERATING ACTIVITIES		
Deficit before taxation and interest	(134)	(423)
Depreciation of Tangible Fixed Assets	387	421
Loss on Disposal Fixed Assets	10	81
Transfer from Deferred Grant Reserve	(397)	(502)
Notional Interest on Capital Employed	21	65
(Increase)/Decrease in Debtors	717	(556)
Increase/(Decrease) in Creditors	(262)	376
Increase/(Decrease) in Provision	35	35
Pension Scheme: Non Cash Movement	(411)	162
Net cash outflow from operating activities	(34)	(341)

NOTES TO THE ACCOUNTS

16. Reconciliation of Net Cash flow to Movement in Net Funds

	2005/06	2004/05
	£,000	£,000
(Decrease) in Cash during year	(5)	(267)
Movement in Liquid Resources	(717)	556
Changes in Net Funds	(722)	289
Net Funds at start of Period	1,621	1,332
Net Funds at end of Period	899	1,621

17. Analysis of Changes in Cash and Cash Equivalents during the year

	2005/06	2004/05
	£,000	£,000
Opening cash balance	105	372
Cash (outflow)	(5)	(267)
Closing balance	100	105

18. Financial Instruments

FRS13 - Derivatives and other financial instruments, requires disclosure of the role which financial instruments have played during the period in creating or changing the risks the UK Sport faces in undertaking its role.

Liquidity Risks

In 2005/06 £28.76m or 93% (2004/05 £23.09m or 74%) of UK Sport's income derived from DCMS Grant-in-Aid. The remaining balance of £2.16m or 7% (2004/05 £8.30m or 16%) derived from other operating activities. UK Sport are satisfied that they have sufficient liquid resources, in cash and confirmed 2006/07 Grant-in-Aid, to cover all amounts due within one year, and are not exposed to significant liquidity risks.

Interest Rate Risks

Cash balances, which are drawn down as Grant-in-Aid to pay grant commitments and operating costs, are held in a Treasury Deposit Account, which on average carried an interest rate of 3.0% (2004/05 3.1%) in the year. UK Sport's closing bank balance was £100,000 (2004/05 £105,000).

Foreign Currency Risk

The Fund is not exposed to any foreign exchange risks.

19. Superannuation Scheme

The majority of staff of UK Sport (Grant-in-Aid and Lottery) are members of the London Pension Fund Authority (LPFA) Superannuation Scheme. UK Sport is one of several employers whose staff are scheme participants, and data given in this note refers to the whole scheme and to the identified UK Sport portion of it. There is a generic scheme for staff covered by the note 1.8 above.

The amounts disclosed in these accounts are the portion deemed apportioned to the Grant-in-Aid funded part of the scheme. All scheme members are or were employees of UK Sport. Thus the pension deficit recorded in the Lottery Accounts would become part of the Grant-in-Aid pension deficit if in the future there were no further Lottery Revenues and the fund wound up.

The Pension Scheme is of the defined benefit type and is funded by employees and employers at actuarially determined rates. The employer's contribution for the year amounted to £206,533 or 10.2% of pensionable pay (2004/05 £378,489 or 16.2%). An additional pension contribution of £462,570 was also made to reduce the pension liability.

The scheme is subject to triennial valuations by the consulting actuaries to the LPFA and the latest valuation was at 31/3/04. The actuarial method used is market related, based on average yields and market values in the 12 months leading up to the valuation date.

NOTES TO THE ACCOUNTS

Financial Reporting Standards 17 (FRS17) issued by the Accounting Standards Board requires that the following information, which has been prepared for us by Hymans Robertson (the Consulting Actuaries to the LPFA) for this purpose, be disclosed in these accounts with respect to the scheme:

19.1 Whole Pension fund assets

	2005/06 % Asset Distribution	Fund Value at 31/3/06	2004/05 % Asset Distribution	Fund Value at 31/3/05
	% / year	£,000	% / year	£,000
Equities	63%	1,296,100	77%	1,215,776
Target return funds/ Bond	19%	391,600	10%	166,489
Alternative assets/Property	12%	242,400	7%	109,781
Cash	6%	126,300	3%	93,681
Total	100%	2,056,400	100%	1,585,727

19.2 Net Pension assets for UK Sport ¹

	31/3/06	31/3/05	31/3/04
	£,000	£,000	£,000
Estimated Assets	5,110	3,479	2,704
Present value of scheme liabilities ²	(5,392)	(5,214)	(3,941)
Net Pension Assets/(Liabilities)	(282)	(1,735)	(1,237)

% / Year Return Assumptions	31/3/06	31/3/05	31/3/04
Price increases	3.1%	2.9%	2.9%
Salary increases	4.6%	4.4%	4.4%
Pension increases	3.1%	2.9%	2.9%
Discount rate	6.0%	5.4%	6.5%

¹ In order to assess the actuarial value of the London Pensions Fund Authority Pension Fund's liabilities as at 31/3/06, Hymans Robertson have rolled forward the actuarial value of the liabilities reported as at 31/3/04, allowing for changes in financial assumptions as prescribed under FRS 17. In addition, they have also considered the effect of contributions paid into, and estimated benefits paid from, the Fund by UK Sport and its employees.

² Hymans Robertson estimate that this liability comprises of approximately £4,846,000, £1,782,000 and £475,000 (2004/05 - £3,454,276, £1,422,796 and £364,268) in respect of employee members, deferred pensioners and pensioners respectively as at 31/3/06. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable for certain types of employer. However, UK Sport are satisfied that the approach used leads to reasonable estimates for the aggregate liability figure.

It is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 80% of pensioners are married at death and that their spouse will receive will receive a pension equal to 50% of the member's pension as at the date of the member's death.

Note that these figures exclude the capitalised cost of any early retirements or augmentations, which may occur during 2006/07.

NOTES TO THE ACCOUNTS

19.3 Amount Charged to Operating Profit

	2005/06 £'000	2005/06 %	2004/05 % Payroll	2004/05 £'000
% Payroll				
Service Cost	259	12.8%	224	13.7%
Past Service Costs	-		99	6.1%
Curtailment and Settlements	-		216	13.2%
Total Operating Charge (A)	259	12.8%	539	33.0%

19.4 Projected Amount Credited to Other Finance Income

	2005/06 £'000	2005/06 % Payroll	2004/05 £'000	2004/05 % Payroll
Expected Return on Employer Assets	261	14.1%	186	11.4%
Interest on Pension Scheme Liabilities	(286)	(15.5%)	(204)	(12.5%)
Net Return (B)	(25)	(1.4%)	(18)	(1.1%)
Net Revenue Account Cost (A-B)	284	15.4%	557	39.8%

19.5 Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses

	2005/06 £,000	2004/05 £,000
Actual return less expected return on pension scheme assets	601	84
Experience gains and losses arising on the scheme liabilities	(14)	547
Changes in financial assumptions underlying present value of scheme liabilities	486	(1,032)
Actuarial gain/(loss) recognised in STRGL	1,073	(401)

19.6 Movement in Surplus/Deficit During the Year

	2005/06 £,000	2004/05 £,000
Opening surplus/(deficit)	(1,735)	(1,237)
Current Service Cost	(259)	(224)
Employer contributions	664	460
Past service costs	-	(99)
Impact of settlements and curtailments	-	(216)
Net return on assets	(25)	(18)
Actuarial gains/(losses)	1,073	(401)
Closing surplus/(deficit)	(282)	(1,735)



NOTES TO THE ACCOUNTS

19.7 History of Experience Gains and Losses

	2005/06	2004/05
	£,000	£,000
Difference between the expected and actual return on assets	601	84
Value of assets	5,110	3,479
Difference as % asset value	11.8%	2.41%
Experience gains/(losses) on liabilities	(14)	547
Present value of liabilities	5,392	5,214
Gain / (loss) as % present value of liabilities	(0.3%)	(10.50%)
Actuarial gains/losses recognised in STRGL	1,073	(401)
Gain / (loss) as % present value of liabilities	19.9%	(7.68%)

The Actuarial Valuation for FRS 17 purposes has been allocated between the Lottery and Exchequer (GIA) accounts in accordance with accounting policy note 10.

20. Annual Commitments - Leases and Operating Licences

	2005/06	2004/05
	£,000	£,000
LEASES AND SERVICE CHARGES		
40 Bernard Street – expiring after at least 5 years	674	668

21. Grant Commitments

On the undertaking that funds are to be provided by DCMS, UK Sport at 31/3/06, had entered into commitments to pay grants to governing bodies in respect of their approved programmes in the following years (these commitments at 31/3/06 have not yet been recognised in the income and expenditure account nor balance sheet):

	2005/06	2004/05
	£,000	£,000
2005/06	-	5,984
2006/07	13,667	6,132
2007/08	13,029	5,432
2008/09	8,384	4,196
	35,080	21,744

Of this total grant commitment, £34.5m (2004/05 £20.5m) relates to Olympic and World Class Operations. At year end we were awaiting acceptance of another £10.4m (2004/05 £18.3m) worth of grant offers which are not included in the figures above.

22. Contingent Liabilities

As at 31 March 2006 UK Sport had no contingent liabilities.

NOTES TO THE ACCOUNTS

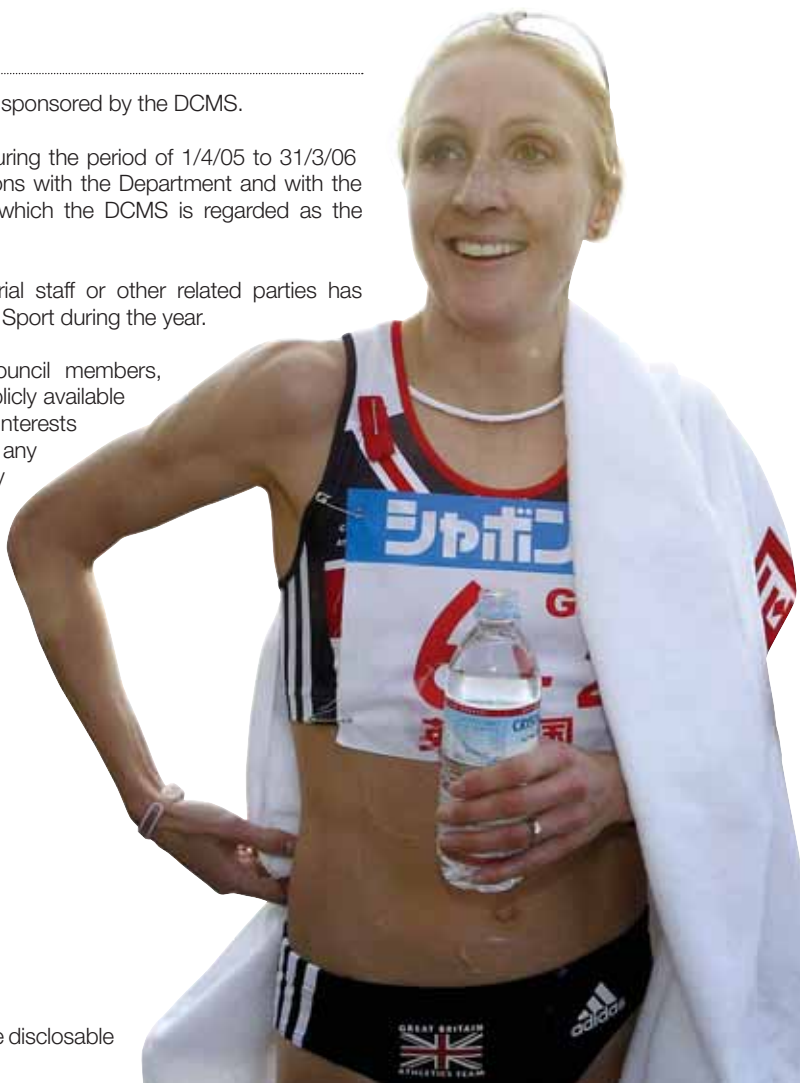
23. Related Party Transactions

UK Sport is a Non-Departmental Public Body sponsored by the DCMS.

The DCMS is regarded as a related party. During the period of 1/4/05 to 31/3/06 UK Sport has had various material transactions with the Department and with the sports councils for the home countries for which the DCMS is regarded as the sponsoring Department.

None of the Board members, key managerial staff or other related parties has undertaken any material transactions with UK Sport during the year.

As a matter of policy and procedure, Council members, Award Panel members and staff maintain publicly available registers of interests and declare any direct interests in grant applications made to UK Sport and any commercial relationships of the Council. If any member has an interest in an application, they exclude themselves from the relevant grant appraisal discussion and decision process within the Council.



The following transactions are considered to be disclosable Related Party Transactions:

AWARD DATE	AWARD	RECIPIENT ORGANISATION	BOARD MEMBER	RELATIONSHIP
5/07/05	£10,000	British Olympic Association	Rod Carr OBE	Member BOA National Olympic Committee
29/01/04	£212,625	sportscotland	Julia Bracewell Louise Martin CBE	Chair Board Member
01/08/03	£5,269	Scottish Gymnastics	Louise Martin CBE	Hon. Vice president
09/11/04	£36,000	Sports Council for Northern Ireland	Prof Eric Saunders OBE	Chair





ANNUAL REPORT 2005-2006



The United Kingdom Sports Council
Lottery Distribution Fund
Accounts for the Year Ended
31 March 2006

Statement of the Council's and Chief Executive's Responsibilities

Under section 35(2) and (3) of the National Lottery etc. Act 1993 the UK Sports Council is required to prepare a statement of accounts for the financial period in the form and on the basis directed by the Secretary of State for Culture, Media and Sport with the consent of HM Treasury.

The financial statements are prepared on an accruals basis and must show a true and fair view of the state of affairs of the UK Sport Lottery Fund distribution activities at the period end and of its income and expenditure and cash flows for the financial period.

In preparing the accounts the Council is required to:

- **observe the accounts directions issued by the Secretary of State, including the relevant accounting and disclosure requirements;**
- **apply suitable accounting policies on a consistent basis;**
- **make judgements and estimates on a reasonable basis;**
- **state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and**
- **prepare the financial statements on the going concern basis, unless it is inappropriate to presume that UK Sport will continue in operation.**

The Accounting Officer for the Department for Culture, Media and Sport (hereafter referred to as "DCMS") has designated the Chief Executive Officer of UK Sport as Accounting Officer for the Council. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the finances for which he is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by HM Treasury and published in "Government Accounting" (HMSO), and in the Financial Directions issued by the Secretary of State for Culture, Media and Sport under section 26(3) of the National Lottery etc. Act 1993.



Statement on internal control

Scope of responsibility

The Accounting Officer is responsible for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which the Accounting Officer is personally responsible, in accordance with the responsibilities assigned to him in Government Accounting.

There is no separation or difference between the mechanisms by which the Accounting Officer, together with the directors and senior managers, gain assurance, from those that the Board uses, to assure themselves that the systems of internal control are working effectively.

The Accounting Officer has separate responsibilities to Parliament, in particular responsibility for taking action should the Chair or the Board contemplate a course of action involving a transaction which will infringe the requirements of regularity or propriety or which does not represent efficient or effective administration. Under the terms of the UK Sport Financial Directions, neither the Chair nor the Board is permitted to give instructions which conflict with the duties of the Accounting Officer.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of UK Sport'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. This system of internal control has been in place in UK Sport for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

The system of internal control seeks to mitigate rather than eliminate all risk. It can therefore only provide reasonable and not an absolute assurance of effectiveness. It is also not possible to mitigate every risk. It is based on a process designed to identify, prioritise and evaluate the likelihood of risks being realised and the resulting impact should this occur, and maintain this using a risk register.

Capacity to handle risk

The senior management team provide leadership to the risk management process and carry out regular reviews. This is embedded at line management level through our Leadership Team who are responsible for reviewing risks and mitigating controls in their area of responsibility.

Audit Committee members attend Audit Committee training sessions organised by the NAO and HM Treasury. They also receive guidance from HM Treasury. This guidance is made available to Audit Committee members and Senior Managers via the organisations extranet site.

The risk and control framework

The organisation has an Internal Control Policy that defines risk management processes. The risk register contains an assessment of gross risk and strategies to manage and mitigate each risk. Directors and senior management assess the adequacy and effectiveness of the controls to manage risk thereby determining the net exposure on a regular basis. The risk register is reviewed regularly by the Audit Committee and the Board.

Currently the most significant risk in terms of high net exposure is "Our Reliance of the organisation on third party bodies to deliver targets".

Key controls in place to mitigate this risk include:

- **Annual review of performance against KPIs reported to the Board and a quarterly Sports Summary identifying risks within each performance pathway programme and actions being taken.**
- **Four-yearly One Stop Plan reviews; Annual reviews; moving to performance operations via peer group assessment and involving partner organisations. Significant outcomes reported to the Board. An independent evaluation undertaken once per Olympic/Paralympic cycle.**
- **The Performance team reviews National Governing Bodies board papers and can attend NGB board meetings and be involved in senior staff recruitment, appraisal and performance planning/management groups.**
- **Sport specific conditions of grant and management audits/compliance checks of National Governing Bodies scheduled to reflect risk including a self assurance process.**



Review of effectiveness

The Accounting Officer has responsibility for reviewing the effectiveness of the system of internal control. His review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. He has been advised on the implications of the result of his review of the effectiveness of the system of internal control by the board and the Audit Committee. He believes that the systems of internal control are working effectively and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Further detail of the mechanisms in place to assist him in the management of the system of internal control, and additional controls that are important to the system of internal control as are follows:

The Board and the Audit Committee

The Board, through the Audit Committee, have responsibility for maintaining a sound system of internal control. The Chair of the Audit Committee reports the outcome of Audit Committee meetings to the Board orally and through minutes of meetings. The Board also review twice per annum the Internal Control report in line with the Policy on Internal Control, and where appropriate discuss key risks in more detail.

The Audit Committee of the Board is comprised of Board and Independent Members. Its primary functions are to:

- **Review with external and internal auditors, directors and management the audit strategy and the annual internal audit plan. Prioritisation of internal audit work is based upon the level of risk as detailed in the risk register;**
- **Consider reports from management and internal and external auditors on any material control weaknesses;**
- **Discuss with management the actions taken on problem areas identified by Board and Audit Committee Members and both external and internal audit reports; and**
- **Ensure the published financial statements are a true and fair reflection of UK Sport's financial position.**

Internal audit

Internal Audit works to the agreed annual audit plan. It provides assurance reports to support the internal control process.

There are two established internal audit functions in operation:

- **Deloitte and Touche LLP provide assurance on internal control at UK Sport; and**
- **Littlejohn Frazer carry out management audit and compliance checks of National Governing Bodies.**

The Board, through the Audit Committee, have reviewed letters of assurance from internal auditors.

The annual assurance statement from Deloitte and Touche LLP shows the level of assurance achieved in the internal audit programme undertaken for 2005/06. Internal audit work was performed in accordance with Government Internal Audit Standards issued by HM Treasury. Of the 8 internal audit reports none were given full assurance, six were given substantial assurance and two were given limited assurance. The Audit Committee reviewed all reports with emphasis on high risk areas and those receiving less than substantial assurance. In all cases, satisfactory management responses were provided for all recommendations.

A total of 10 NGB/other UK Sport funded organisations, Major Event and IRGAP reviews were undertaken by AHL during the year. This is slightly less than the number planned because work is still in progress on one NGB audit and the need for and timing of some of the remainder was reviewed due to the change of focus of the programme from a historical rolling programme to a more risk-based approach. The audit of one funded organisation resulted in a down-grading of the assurance rating to no assurance. However, following a number of remedial actions by the organisation concerned, this was subsequently raised to limited and is being closely monitored, with a follow-up audit scheduled in 2006-7. All funded priority sports/other organisations have now been subject to an audit and compliance review at least once since 2002. Of these, 17 have a "reasonable" assurance rating and 9 have "limited" assurance and all were considered fit to receive and manage public funding. There were no instances of fraud, malpractice or significant losses reported. There was one small over-payment of grant on IRGAP (£1,195) but this was re-paid by the governing body. Employees are aware of their responsibilities in respect of propriety and regularity and ways of rectifying any known breaches.

Statement on internal control

Other Key Controls

In addition to the processes described above key controls include:

- › Compliance with the DCMS Management Statement / Finance Directions and Accounts Directions and regular review of the three year funding agreement agreed with the DCMS;
- › A new performance management system to ensure that UK Sport recruits, develops and retains the appropriate calibre of staff to support the delivery of its business plan. Processes are in place to ensure that all relevant employment legislation is incorporated within its staff policies;
- › A Performance Investment Strategy which guides UK Sport's performance investment for the period 2005/06 – 2008/09. The strategy provides an open, transparent, logical process for arriving at the level of investment to National Governing Bodies and athletes.
- › Systems for the assessment and control of grant applications ensuring that all applications receive sufficient and consistent processing in line with policy and financial directions of the Secretary of State;
- › A fraud policy and response plan that has been approved by the Audit Committee;
- › A conflict of interest register that is regularly reviewed.
- › Planning and budgeting systems
 - › A three-year Funding Agreement with the DCMS, with performance against key targets reviewed regularly with the DCMS;
 - › A planning process including a review of the Business Plan 2005/06 – 2008/09, followed by the development of an annual corporate plan; and
 - › An annual budget approved by the Accounting Officer and the Board and the provision of regular financial management reports.
- › An agreed national anti-doping policy setting out publicly accountable standards for UK Sport and its partner organisations has been in place since January 2002 to demonstrate compliance, assess risks and implement plans for continuous improvement of policies and practices to monitor the achievement of drug-free sport. Key features are:
 - › A UK National Anti-doping Policy, Model Rules for Governing Bodies and Procedures Guide will be launched in April 2005 to achieve compliance with the World Anti-doping Code.
 - › The anti-doping process itself is a system of risk management to protect investment and participation in sport. Any mismanagement of this process would damage the reputation of UK Sport as well as the governing bodies that are UK Sport's partners.
 - › ISO 9001:2000 for the management of the drug testing programme for human sport with 6 monthly BSI audits.
 - › An independent Scrutiny Panel whose key role is to review any potential conflicts of interest between UK Sport's Performance and Drug-Free Sport functions reports publicly.
- › Compliance with all current health and safety legislation. This includes ongoing risk assessments throughout the organisation.



John Steele
Chief Executive and Accounting Officer
United Kingdom Sports Council

21 June 2006




Sue Campbell
Chair
United Kingdom Sports Council

21 June 2006





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

I certify that I have audited the financial statements of the United Kingdom Sports Council Lottery Distribution Fund for the year ended 31 March 2006 under the National Lottery etc. Act 1993 (as amended). These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the United Kingdom Sports Council, Chief Executive and Auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Council has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on internal control reflects the Council's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

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



Basis of audit opinion

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

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

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Lottery etc. Act 1993 (as amended) and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury, of the state of the United Kingdom Sports Council Lottery Distribution Fund's affairs as at 31 March 2006 and of its decrease in funds for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

26 June 2006

INCOME & EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2006

	<i>Note</i>	2005/06	2004/05
		£,000	£,000
INCOME			
National Lottery share of proceeds	2	21,198	20,798
Investment returns from NLDF	2	332	182
Interest Receivable		37	25
Grant refunds		69	50
		21,636	21,055
EXPENDITURE			
Hard commitments	3	83,923	23,116
Hard de-commitments	3	(975)	(969)
Hard de-commitments transferred to GiA account	3	-	(2,909)
Staff costs	6	528	834
Depreciation - tangible assets	9	18	18
Other operating costs		284	249
Costs apportioned from UK Sport GiA account		819	771
		84,597	21,110
DECREASE IN LOTTERY FUNDS BEFORE TAXATION			
Net Return on Pension Assets	13.4	(8)	(7)
Taxation		(7)	(5)
		(62,961)	(55)
DECREASE IN LOTTERY FUNDS			
		(62,976)	(67)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>Note</i>	2005/06	2004/05
		£,000	£,000
Deficit For Period		(62,976)	(67)
Pension actuarial gain/(loss)	13.5	327	(158)
Total gains / (loss) recognised since last annual report		(62,649)	(225)



BALANCE SHEET AS AT 31 MARCH 2006

	Note	2005/06 £,000	2004/05 £,000
FIXED ASSETS			
Tangible Assets	9	45	63
CURRENT ASSETS			
Investments - balance in NLDF	2	10,074	7,690
Debtors and prepayments	10	27	10
Cash at bank and in hand		205	245
		10,306	7,945
CREDITORS			
Sundry creditors falling due within one year	11	(298)	(345)
Hard grant commitments falling due within one year	3	(31,777)	(7,077)
		(32,075)	(7,422)
NET CURRENT LIABILITIES		(21,769)	523
Hard grant commitments falling due after one year	3	(51,892)	(11,151)
Pension Liability	13.2	(159)	(560)
TOTAL ASSETS LESS ALL LIABILITIES		(73,775)	(11,125)
REPRESENTED BY:			
Pension Reserve	13.2	(159)	(560)
Revenue Reserve	12	(73,616)	(10,565)
		(73,775)	(11,125)

John Steele
Chief Executive and Accounting Officer
United Kingdom Sports Council

21 June 2006



Sue Campbell
Chair
United Kingdom Sports Council

21 June 2006



CASH FLOW STATEMENT

	<i>Notes</i>	2005/06	2004/05
		£,000	£,000
OPERATING ACTIVITIES			
Cash drawn down from NLDF	2	19,146	17,075
Other Income		69	53
Staff Costs		(611)	(337)
Operating Costs		(1,169)	(1,332)
Award payments	5	(17,507)	(15,642)
Net cash (outflow)/inflow from operating activities	14	(72)	(183)
RETURNS ON INVESTMENTS			
Interest received		37	25
TAXATION			
Corporation tax paid		(5)	(4)
(Decrease)/increase in cash	16	(40)	(162)

There are no discontinued activities. The following notes form part of these accounts.



Notes to the Accounts

1. Accounting Policies

1.1 Accounting Convention

The financial statements have been prepared under the historical cost convention as modified by the inclusion of fixed assets at their fair value to the business and on the basis of the Accounts Direction issued by the Secretary of State for Culture, Media and Sport on 26 March 2002, a copy of which can be obtained from UK Sport at 40 Bernard Street, London, WC1N 1 ST.

The Members consider that the modified historical cost of fixed assets is not materially different from historical cost and as such report fixed assets at their historical cost.

Without limiting the information given, the accounts meet the requirements of the Companies Act 1985, the Accounting Standards issued or adopted by the Accounting Standards Board (except in relation to the recognition of commitments as detailed below), HM Treasury guidance on the accounts of Non Departmental Public Bodies and the National Lottery etc. Act 1993 insofar as those requirements are appropriate to the UK Sport Lottery Fund.

The accounts have been prepared under the accruals convention and, as such, all income and expenditure is taken into account in the financial period to which it relates.

The accounts cover the year to 31 March 2005, in compliance with section 35 of the National Lottery etc Act 1993.

Separate accounts have been prepared for the UK Sport operations funded from Grant in Aid, in accordance with the instructions issued by the Secretary of State. Consolidated accounts have not been prepared.

1.2 Hard and Soft Commitments

As required by the Secretary of State, a distinction is made in respect of Lottery awards between "hard" and "soft" commitments as follows:

- a "hard commitment" occurs where a firm offer of award has been made by UK Sport and this offer has been accepted, together with any conditions dependent upon which the award has been made; and
- a "soft commitment" occurs where a firm offer of award has been made by UK Sport but the offer and associated conditions have not yet been accepted.

Only "hard commitments" are recognised in the Income and Expenditure accounts (and shown in note 2); soft commitments are detailed in Note 4.

1.3 Tangible Fixed Assets

The UK Sport Lottery Fund does not own any land or buildings. All tangible fixed assets are shown at cost less accumulated depreciation.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Computer Hardware	3 years
Computer Software	3-9 years

1.4 Pension Costs

The pension liabilities and assets are recorded in line with FRS17, with a valuation undertaken by an independent actuary. FRS17 measures the value of pension assets and liabilities at the Balance Sheet date, determines the benefits accrued in the year and the interest on scheme assets and liabilities. The value of benefits accrued is used to determine the pension charge in the Income and Expenditure Account and the interest on scheme assets and liabilities is shown in the Income and Expenditure Account. The change in the value of the assets and liabilities arising from asset valuations, changes in benefits, actuarial assumptions or change in the level of deficit attributable to members, is recognised in the Statement of Total Recognised Gains and Losses. The resulting pension liability or asset is shown on the Balance Sheet.

Further information on the pension scheme is available in note 15 to the accounts.

Details about the valuation of the pension fund and the recharges are also in note 15.



1.5 Charges to and from UK Sport

UK Sport is required to apportion between its Grant-in-Aid and National Lottery distribution activities the costs of services provided from its Grant-in-Aid budget that are directly and demonstrably used on UK Sport Lottery Fund functions and vice versa. The costs so apportioned to the National Lottery distribution activities are paid from the UK Sport Lottery Fund to the Grant-in-Aid account. The apportionment of the costs has been determined in the manner most appropriate to the particular service, for example staff numbers, staff time or floor space. In all cases the charges to the National Lottery distribution activity have been calculated on a full cost recovery basis in accordance with HM Treasury's "Fees and Charges Guide".

1.6 Taxation

Amounts of interest in the National Lottery Distribution Fund do not fall within the scope of Corporation Tax. Once drawn down into the nominated accounts of UK Sport interest thereon is subject to Corporation Tax and is fully provided in the period to which it applies.

1.7 Investments

The funds attributable to the Lottery Fund, whilst they are within the National Lottery Distribution Fund, are invested by the National Debt Commissioners, and interest accrued is credited to the balance available for distribution.

Capital sums are distributed in accordance with the provisions of the National Lottery etc Act 1993. Interest earned on the sums invested is apportioned to each of the Lottery Distributors on the basis of their percentage share of the total remaining National Lottery Distribution Fund at the time the interest is received.



NOTES TO THE ACCOUNTS

2. National Lottery Distribution fund

During the period under review the UK Sport Lottery Fund has received and drawn down the following sums:

	2005/06	2004/05
	£,000	£,000
Balance brought forward	7,690	3,785
Share of net operator proceeds	21,198	20,798
Investment returns from NLDF	332	182
Available for distribution	29,220	24,765
Funds drawn down	(19,146)	(17,075)
Balance carried forward	10,074	7,690

Balances held in the National Lottery Distribution Fund (NLDF) remain under the stewardship of the Secretary of State for Culture, Media & Sport. However, the share of these balances attributable to UK Sport as shown in the accounts and at the Balance Sheet date has been certified by the Secretary as being available for distribution by the body in respect of current and future commitments.

Funds are withdrawn from the National Lottery Distribution Fund into the bank account of the UK Sport Lottery Fund in order to meet payments falling due from suppliers and awards to recipients on a monthly basis.

The market value carried forward at 31/3/06 of £10.074m (2004/05 £7.690m) represents the cost of the fund of £10.143m (2004/05 £7.719m) less unrealised losses of £69,000 (2004/05 £29,000) which are charged against Investment Returns.

The NLDF balance increased during 2005/06 to stand at £10.074m at 31/3/06, representing one eighths of commitments made at that point.

3. Hard Commitments

	2005/06	2004/05
	£,000	£,000
Hard commitments brought forward	18,228	14,632
Hard commitments made this year	83,923	23,116
Hard de-commitments	(975)	(969)
Hard de-commitments to GIA	-	(2,909)
Total Hard commitments	101,176	33,870
Hard commitments met in the period	(17,507)	(15,642)
Hard commitments carried forward as at year end	83,669	18,228
Hard Commitments by year	2005/06	2004/05
	£,000	£,000
Amounts falling due during 2005/06	-	7,077
Amounts falling due during 2006/07	31,777	4,455
Amounts falling due during 2007/08	26,430	6,696
Amounts falling due during 2008/09	25,462	-
	83,669	18,228



NOTES TO THE ACCOUNTS

It was necessary to make hard commitments during March 2006 to the value of £48.5m to the English Institute of Sport and NGBs which arise from the transfer of responsibilities from Sport England (which is described in the Annual Report) and relate to grants payable from 1 April 2006 onwards. These are included in hard commitments at 31 March 2006 listed above.

Hard commitments made in the year are shown as expenditure, but during the year some commitments will be made and paid in the same year, which accounts for the difference between outstanding hard commitments at 31 March 2005 and actual amount paid in 2006.

4. Soft Commitments

	2005/06	2004/05
	£,000	£,000
Soft commitments brought forward	26,374	3,426
Soft commitments made	80,675	46,232
Soft commitments transferred to hard commitments	(83,923)	(23,116)
Soft de-commitments	(84)	(168)
Soft commitments carried forward as at 31 March	23,042	26,374

Soft commitments made in the year are not recognised in the accounts.

The accounting policies applied for lottery funding require commitments to be recorded in the accounts when an offer has been made and accepted. Revenue can only be recognised when funds are made available within the National Lottery Distribution Fund. With effect from 2002/03, and to provide appropriate financial security for grantees, UK Sport commits funds for a period of up to four years with the expectation that actual funds will be available from future lottery revenue to meet future years' expenditure.



NOTES TO THE ACCOUNTS

5. Lottery Grant Payments during the Year

	2005/06	2004/05
	£,000	£,000
TO ATHLETES:		
Amateur Rowing Association	629	786
British Swimming	621	1,007
British Gymnastic	-	207
British Canoe Union	283	280
British Cycling Federation	550	458
British Equestrian Federation	217	204
British Judo Association	133	188
British Tennis Federation	-	129
British Triathlon Association	182	237
Great Britain Wheelchair Basketball Association	214	282
Modern Pentathlon Association of Great Britain	128	110
Royal Yachting Association	604	473
UK Athletics	825	1,062
Other athletes	670	643
	5,056	6,066
TO GOVERNING BODIES:		
Amateur Swimming Federation of Great Britain	2,658	1,260
British Amateur Gymnastic Association	482	1,247
British Canoe Union	900	365
British Equestrian Federation	1,274	322
British Judo Association	495	245
British Olympic Association	-	800
British Paralympic Association	500	869
British Ski and Snowboard Federation	175	208
British Taekwondo Council	180	149
British Triathlon Association	528	391
British Water Ski Federation	-	180
Great Britain Target Shooting Federation	347	99
Great Britain Wheelchair Basketball Association	278	200
Modern Pentathlon Association of Great Britain	381	126
National Ice skating Association	159	-
Great Britain Wheelchair Rugby Association	157	-
British Curling Association	148	-
British Fencing association	196	-
Grand National Archery Society	370	143
British Badminton Olympic Committee	104	-
UK Athletics	577	777
British Table Tennis Association	103	-
Other Governing Bodies	634	849
	10,646	8,230


NOTES TO THE ACCOUNTS
FOR EVENTS:

Rowing World Cup 2005	114	236
World Rowing Championship 2006	472	318
Irish Football Association	-	100
2006 Youth ISAF World Championships	225	-
European Indoor Athletics	100	-
Paralympic world Cup 2005	290	-
Other events	604	692
	1,805	1,346
Total grant payments in the year	17,507	15,642

6. Staff costs

The aggregate payroll costs (staff and management) of the Lottery Sports Fund during the period under review were as follows:

	2005/06	2004/05
	£,000	£,000
Wages and salaries	434	441
Social security costs	41	38
Pensions: Current service cost	53	89
Past service costs	-	39
Impact on settlement and curtailments	-	216
Temporary and agency staff	-	11
Total Employee Costs	528	834

7. Staffing

The average number of staff employed, during the period were as follows:

	2005/06	2004/05
Operations/Planning/Development	10	11
Average Staff Numbers	10	11

8. Lottery Funds

	2005/06	2004/05
	£,000	£,000
The Lottery Fund is stated after charging for:		
External Auditors' remuneration	25	19
Panel members travel, subsistence and hospitality	-	2
Corporation tax on interest received	7	5

NOTES TO THE ACCOUNTS

9. Tangible Fixed Assets

All tangible fixed assets are computer software or equipment.

		2005/06
		£,000
Cost		
At 1 April 2005 and 31 March 2006		535
Depreciation		
Start of year		(472)
Charge for year		(18)
End of year		(490)
Net book value		
At 1 April 2005		63
At 31 March 2006		45

10. Debtors

	2005/06	2004/05
	£,000	£,000
Debtors	15	-
Prepayments	12	10
	27	10
All amounts fall due within one year		

11. Creditors

	2005/06	2004/05
	£,000	£,000
Trade Creditors	88	181
Accruals	203	159
Corporation tax	7	5
	298	345
All amounts fall due within one year		

12. Revenue Reserve

	2005/06	2004/05
	£,000	£,000
Income and Expenditure Account		
Opening Balance	(10,565)	(10,703)
Decrease in Lottery Fund	(62,976)	(67)
Transfer from Pension Reserve *	(75)	205
Fund balance as at 31 March	(73,616)	(10,565)

* This relates to the difference between the actual contributions paid and the net present value of pension costs as valued by the actuaries in line with FRS17.



NOTES TO THE ACCOUNTS

13. Superannuation Scheme

Most staff of UK Sport (Grant-in-Aid and Lottery) are members of the London Pension Fund Authority (LPFA) Superannuation Scheme. UK Sport is one of several employers whose staff participates in the scheme, and data given in this note refers to the whole scheme and to the identified UK Sport portion of it. There is a generic scheme for staff covered by policy note 1.4 above.

All staff are contractually employed by UK Sport. Whether they work on Lottery related matters or not does not affect the terms and conditions of their employment or of their pension entitlement. If in the long term they were still employed by UK Sport but the lottery accounts continued with Pension Fund deficits, then the employees, regardless of the Lottery nature of their employment, would still be entitled to look to the Grant-in-Aid accounts to ensure their pension entitlement was met. However under FRS 17 it is the economic entity which suffers the charge to its income statement that must make disclosure of that relevant portion of the shared fund.

The pension is the defined benefit type and is funded by employees and employers at actuarially determined rates.

Employer's contribution in the year amounted to £42,010 or 10.2% of pensionable pay (2004/05 £61,000 or 16.2% pensionable pay). The share charged to these accounts is a proportion of the amount paid by UK Sport in total. An additional pension contribution of £94,089 was also made to reduce the pension deficit.

The scheme is subject to triennial valuations by the consulting actuaries to the LPFA and the latest valuation was carried out as at 31 March 2004. The actuarial method used is market related, based on average yields and market values in the 12 months leading up to the valuation date.

Financial Reporting Standards 17 (FRS17) issued by the Accounting Standards Board requires that the following information, which has been prepared for us by Hymans Robertson (the Consulting Actuaries to the LPFA) for this purpose, be disclosed in these accounts with respect to the scheme:

13.1 Balance Sheet disclosure as at 31 March 2006

	2005/06 % Asset Distribution % / year	Fund Value at 31/3/05 £,000	2004/05 % Asset Distribution % / year	Fund Value at 31/3/05 \$,000
Whole Pension fund assets				
Equities	63%	1,296,100	77%	1,215,776
Target return funds/ Bond	19%	391,600	10%	166,489
Alternative assets/Property	12%	242,400	7%	109,781
Cash	6%	126,300	3%	93,681
	100%	2,056,400	100%	1,585,727

13.2 Net Pension assets¹

	31/3/06 £,000	31/3/05 £,000	31/3/04 £,000
Estimated Assets	1,552	1,123	508
Present value of scheme liabilities ²	(1,711)	(1,683)	(741)
Net Pension Assets / (Liabilities)	(159)	(560)	(233)

Assumptions	31/3/06 % / year	31/3/05 % / year	31/3/04 % / year
Price increases	3.1%	2.9%	2.9%
Salary increases	4.6%	4.4%	4.4%
Pension increases	3.1%	2.9%	2.9%
Discount rate	6.0%	5.4%	6.5%

¹ In order to assess the actuarial value of the London Pensions Fund Authority Pension Fund's liabilities as at 31 March 2006, Hymans Robertson have rolled forward the actuarial value of the liabilities reported as at 31 March 2004, allowing for changes in financial assumptions as prescribed under FRS 17. In addition, they have also considered the effect of contributions paid into, and estimated benefits paid from, the Fund by UK Sport and its employees.

NOTES TO THE ACCOUNTS

² Hymans Robertson estimate that this liability comprises approximately £4,846,000, £1,782,000 and £475,000 (2004/05 - £3,454,276, £ 1,422,796 and £364,268) in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2005. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable for certain types of employer. However, UK Sport are satisfied that the approach used leads to reasonable estimates for the aggregate liability figure.

It is assumed that all unfunded pensions are payable for the remainder of the member's life. It is further assumed that 80% of pensioners are married at death and that their spouse will receive will receive a pension equal to 50% of the member's pension as at the date of the member's death.

13.3 Amount Charged to Operating Profit

	2005/06 £,000	2005/06 % Payroll	2004/05 £,000	2004/05 % Payroll
Service Cost	53	12.8%	89	13.7%
Past Service Costs	-		39	6.0%
Curtailment and Settlements	-		216	33.4%
Total Operating Charge (A)	53	12.8%	343	53.1%

13.4 Projected Amount Credited to Other Finance Income

	2005/06 £,000	2005/06 % Payroll	2005/06 £,000	2005/06 % Payroll
Expected Return on Employer Assets	84	14.1%	74	7.4%
Interest on Pension Scheme Liabilities	(92)	(15.5%)	(81)	(10.7%)
Net Return (B)	(8)	(1.4%)	(7)	(3.3%)
Net Revenue Account Cost (A)-(B)	61	14.1%	350	12.4%

13.5 Analysis of Statement of Total Recognised Gains and Losses.

	2005/06 £,000	2004/05 £,000
Actual return less expected return on pension scheme assets	183	33
Experience gains and losses arising on the scheme liabilities	(4)	217
Changes in financial assumptions underlying the present value of the scheme liabilities	148	(408)
Actuarial gain/(loss) recognised in STRGL	327	(158)

13.6 Movement in Surplus / Deficit during year

	2005/06 £,000	2004/05 £,000
Opening surplus/(deficit)	(560)	(233)
Current Service Cost	(53)	(89)
Employer contributions	135	182
Past service costs	-	(39)
Impact of settlements and curtailments	-	(216)
Net return on assets	(8)	(7)
Actuarial gains/(losses)	327	(158)
Closing surplus/(deficit)	(159)	(560)


NOTES TO THE ACCOUNTS
13.7 History of experience gains and Losses

	2005/06	2004/05
	£,000	£,000
Difference between the expected and actual return on assets	183	33
Value of assets	1,552	1,123
Difference as % asset value	11.8%	2.9%
Experience gains/(losses) on liabilities	(4)	217
Present value of liabilities	1,711	1,683
Gain / (loss) as % present value of liabilities	(0.2%)	12.9%
Actuarial gains/(losses) recognised in STRGL	327	(158)
Gain / (loss) as % present value of liabilities	19.1%	(9.4%)

The Actuarial Valuation for FRS 17 purposes has been allocated between the Lottery and Exchequer (GIA) accounts in accordance with accounting policy note 4.

14. Reconciliation of Increase in lottery funds before taxation to net cash inflow/(outflow) from Operating Activities

	2005/06	2004/05
	£,000	£,000
(Decrease) in lottery funds before taxation	(62,961)	(55)
Depreciation of tangible assets	18	18
(Increase) / decrease in debtors	(17)	3
Increase in creditors	65,393	3,586
Interest receivable	(37)	(25)
(Increase) in NLDF	(2,384)	(3,905)
Pension scheme: non cash movement	(84)	195
Net cash (outflow) from operating activities	(72)	(183)

15. Reconciliation of net cash flow to movement in Net Funds

	2005/06	2004/05
	£,000	£,000
(Decrease) in cash	(40)	(162)
Movement in liquid resources	2,400	3,901
Increase in net funds	2,360	3,739
Net funds brought forward	7,946	4,207
Net funds at year end	10,306	7,946

16. Change in cash and cash equivalents during the year

	2005/06	2004/05
	£,000	£,000
Opening cash balance	245	407
Net cash (outflow)	(40)	(162)
Cash and bank balances at year end	205	245

NOTES TO THE ACCOUNTS

17. Financial Instruments

FRS 13 Derivatives and other financial instruments, require disclosure of the role which financial instruments have had during the period, in creating or changing the risks the UK Sport Lottery Fund faces in undertaking its role.

Liquidity Risks

In 2005/06 £21.5m or 99.51% (2004/05 £20.8m or 99.78%) of the UK Sport Lottery Fund's income was derived from the National Lottery. The remaining income derived from Interest on Deposits and Sundry Income. UK Sport considers that the Lottery Fund's ability to meet the Award Commitments and other liabilities in the short and longer term is dependent on adequate sales revenue from the National Lottery and on the contingency arrangements in place with the DCMS in the event that the National Lottery revenue falls short of the amounts required.

Interest Rate Risks

The financial assets of the Fund are invested in the National Lottery Distribution Fund, which invests in a narrow band of low risk assets such as government bonds and cash. UK Sport has no control over the investment of Funds in the National Lottery Distribution Fund.

At the balance sheet date the Market Value of UK Sport's share of investment in the National Lottery Distribution Fund was £10.09m (2004/05 £7.69m). In the year the average return on these investments was 4.73% (2004/05 2.37%). Cash balances which are drawn down from the Fund to pay grant commitments and operating costs are held in a deposit account which on average carried an interest rate of 2.82% (2004/05 2.38%) in the year. Cash on deposit is gross of corporation tax. The cash balance at the year-end was £205,000 (2004/05 £245,000) The Members consider that the Fund is not exposed to significant interest rate risks.

Foreign Currency Risk

The Fund is not exposed to any foreign exchange risks.

18. Contingent Liabilities

There were no contingent liabilities as at 31 March 2006 (2004/05 Nil).

19. Capital Commitments

As at 31 March 2006, the Lottery Fund had made no commitments to purchase further capital equipment (2004/05 Nil).





NOTES TO THE ACCOUNTS

20. Related Party Transactions

The Department for Culture, Media and Sport is the sponsoring department for the UK Sport, and is regarded as a related party of the Council. During the year the UK Sport had a number of material transactions with the Department.

None of the council members, key managerial staff or other related parties has undertaken any material transactions with UK Sport during the year.

As a matter of policy and procedure, Council members, Lottery Awards Panel members and staff maintain publicly available registers of interests and declare any direct interests in grant applications made to the Lottery Sports Fund and any commercial relationships of the Council. If any member has an interest in an application, they exclude themselves from the relevant grant appraisal, discussion and decision process within the Council.

With respect to the Lottery Fund business, the following transactions are considered to be disclosable Related Party Transactions:

MEETING DATE	AWARD	BENEFITING ORGANISATION	PANEL/BOARD MEMBER	RELATIONSHIP
15/2/05	£500,000	British Paralympic Association	Chris Holmes	Patron
18/3/04 01/4/05 17/5/05	£242,200	Royal Yachting Association	Rod Carr OBE	Chief Executive
26/10/05	£368,000	U19 Rugby World Cup*	Mervyn Elder	Chair of NI events company
27/4/05	£54,000	World Cup Judo**	Brian Stocks	Head of Sport, Birmingham City Council
27/5/05	£202,000	World Cup Trampoline & Tumbling**	Brian Stocks	Head of Sport, Birmingham City Council & President of the British Gymnastics Association
26/10/05	£482,000	World Wheelchair Basketball**	Brian Stocks	Head of Sport, Birmingham City Council

* The Northern Ireland Events Company also funds the event.

** All these events are proposed to be held in Birmingham.



NOTES TO THE ACCOUNTS

21. Differences between commitment and accrual accounting methodology

These Lottery statutory accounts are prepared on a commitment basis – recognising grant awards at the point that commitment and conditions are agreed between UK Sport and recipients, although actual payment of grants may lag by up to four years. Thus the income and expenditure account reflects hard commitments made, rather than payments. This timing difference is also reflected on the balance sheet as both a current and long-term liability, according to whether it falls within one year. Cash flow is unaffected. Thus if the accounts were to be presented on the same basis as UK Sport's Exchequer accounts, which would allow them to be compared on a like-for-like basis, the following adjustments would be made:

	Lottery Accounts on Commitment Basis		Re-stated on an Accrual Basis	
	2005/06 £,000	2004/05 £,000	2005/06 £,000	2004/05 £,000
Income & Expenditure – excerpt				
Expenditure				
Hard commitments	83,923	23,116	-	-
Hard de-commitments	(975)	(969)	-	-
Hard de-commitments transfer to GIA		(2,909)	-	-
Grants payable			17,507	15,642
Staff costs	528	834	528	834
Depreciation	18	18	18	18
Other operating costs	284	249	284	249
Costs apportioned from GIA	819	771	819	771
	84,597	21,110	19,156	17,514
Increase / decrease in Lottery funds	(62,976)	(67)	2,487	3,529
Balance Sheet - excerpt				
Creditors				
Sundry creditors due <1 year	(298)	(345)	(298)	(345)
Hard grant commitments due <1 year	(31,777)	(7,077)	-	-
	(32,075)	(7,422)	(298)	(345)
Net Current Liabilities	(21,769)	523	10,073	7,663
Hard grant commitments due >1 year	(51,892)	(11,151)		
Pension liability	(159)	(560)	(159)	(560)
Total assets less all liabilities	(73,775)	(11,125)	9,894	7,166

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