National Lottery Commission

# Ensuring a fair Lottery for the nation

National Lottery Commission
Annual Report and Accounts **2011/2012**

# National Lottery Commission Annual Report and Accounts 2011/2012

Report and Accounts presented to Parliament pursuant to Section 14(3) and Paragraph 11(4) of Schedule 2A of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998 and the National Lottery Act 2006)

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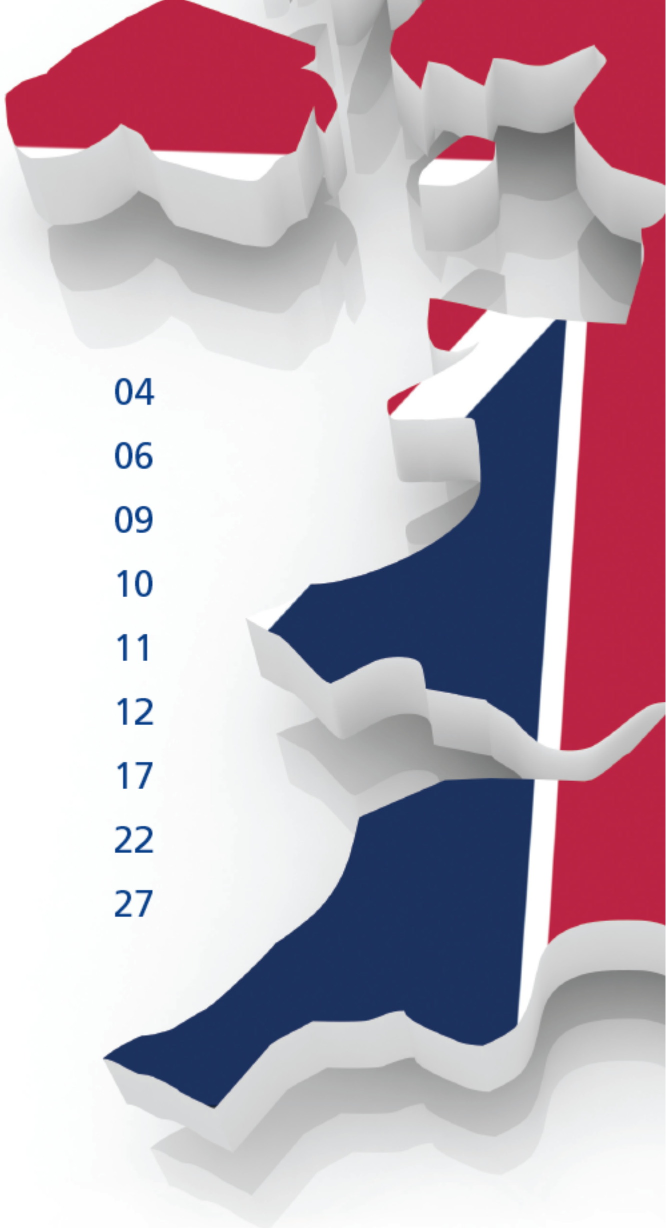

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## Vision

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

## Mission Statement

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

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



*The whole of the UK benefits enormously from the National Lottery. On average there are 120 National Lottery-funded projects in each of the UK's 2,900 postcode districts. The total number of grants now stands at 370,000. This year the Olympics, with the £2.175 billion it has received from the National Lottery, will present in a very obvious way how the National Lottery really delivers benefits to the nation.*

With all that excitement it is important not to forget that 70% of all grants are for smaller community projects and are below £10,000 – the National Lottery is a truly inclusive enterprise.

It is also important for me to continue to describe the National Lottery as a great national asset. As the independent regulator we are proud to continue to protect this asset on behalf of the nation. The National Lottery Commission ensures a healthy long-term future for a National Lottery that is first and foremost safe to play but also raises as much as possible for good causes.

This year, good causes received £1.8 billion, an increase of 9.5% (or £157 million) on last year, and the highest total since the National Lottery's launch in 1994. This is a most welcome result, reflecting a strong performance by our operator Camelot.

## The licence extension decision

We have dealt with major regulatory challenges and opportunities during the past year. With our focus on the long-term perspective, we responded positively to a proposal from Camelot to increase the terminal estate by 8,000 terminals in return for an extended licence.

We concluded that the additional terminals are likely to generate an extra minimum of £419 million for good causes to 2019 alone before the licence extension started, and probably substantially more. Indeed, Camelot's forecasts estimate the increase could be between £723 million and £754 million and this will continue over the additional four years granted.

We are satisfied that Camelot will extend its arrangements for prevention of underage play to cover the new terminals. We did not identify any issues that are likely to have an adverse impact on either the propriety of the running of the Lottery, or on player protection.

This decision reflects what the Commission is all about: protecting players first and then looking to safeguard the long-term maximisation of returns to good causes.

## The move to Birmingham

Our achievements during the year have been against a backdrop of the successful move to Birmingham to co-locate with the Gambling Commission. In addition to the move half the organisation has been newly recruited and we have embedded a new back-office support service provided by the Gambling Commission. Most of the costs were met in 2011/2012 and we will realise relatively full savings in 2012/2013 and more when the exceptional costs of the move and redundancies arising from it are taken out of the budget in future years.

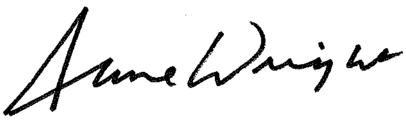
The proposed merger with the Gambling Commission, if that is the chosen outcome of DCMS's consultation, will form a key part of our year ahead. We look forward to continuing to work with all parties to manage the transition and ensure that any new arrangements continue to protect the National Lottery as a national asset.

I would like to thank staff, past and present who have succeeded in challenging circumstances and shown a commitment and skill for which I am most grateful.

## And finally...

I would like to express my appreciation to Commissioners for their considered, inclusive and conscientious support and advice through the year; and to the Chief Executive who has steered the organisation through the regulatory business and the relocation to Birmingham.

I strongly believe in this institution: a national lottery, played by the whole nation, benefiting the whole nation. I encourage everyone to see what funding is going on in their area at www.lotterygoodcauses.org.uk – it is humbling, as well as reassuring, to know how all that huge amount of £1.8 billion actually benefits a project near you.



Dr Anne Wright CBE
**Chair of the National Lottery Commission**

# Chief Executive's report

*The National Lottery is a multi-billion pound business run by Camelot, a commercial licensee, for the benefit of the nation. The National Lottery Commission plays a vital role in oversight of this operation to ensure that it is run in the best interests of players and good causes, both over the current licence period and beyond.*

## An encouraging year and safeguarding the way ahead

We have met a myriad of challenges both operational and environmental this year. My report reflects on some of those key challenges, as we continue to protect this great national asset.

The huge sum raised for good causes reflects both a purposeful operator and the continuing benefits of the third licence. This gives a greater proportion of ticket sales to good causes than ever before by closely aligning Camelot's commercial incentives with maximising returns.

It's important to remember that future improvement is not inevitable. In looking to ensure that this positive trend continues, strategic, forward looking monitoring is one of the key controls we have in place. Our Commissioners continue to meet with Camelot's most senior management twice a year to listen, challenge and gain further assurance on the investment we have made on behalf of the nation. We also meet Camelot's full Board annually. We understand that it is not our role to second-guess Camelot's commercial judgement; but it is important that, to meet our statutory duties, we have a strategic understanding of the context it is operating in and assess its forward planning as well as past performance.

The National Lottery has been well placed during the hard economic times to sustain growth given the low value, 'small treat' nature of the ticket and the games but there is no guarantee. The ways the games are sold are developing to meet consumer expectations of today and tomorrow. It is also clear that the competitive environment is one that is ever more expansive and complex.

This constant evolution means that the operator needs to stay fleet of foot to respond to competition, such as the Health Lottery, to combat fatigue in longer-established games and to harness technology developments. All this can make heavy demands on our lean structure, as the operator seeks approval for new approaches, but I am pleased with how we have responded to that challenge over a year of major change and where significant demands have been made of us.

The public trust and engagement with the Lottery is strong, but this trust is hard-won and requires constant effort to maintain and improve – both from Camelot and ourselves. It is a relationship we are getting better at understanding and monitoring as a key driver for the long-term health of the Lottery.

## The licence extension challenge

This year we received a proposal from Camelot to increase the terminal estate by 8,000 terminals in return for an extension to the licence of five years. We entered consultation with Camelot on the proposal when we said we would, late in 2011 and by March had finalised arrangements which will deliver the additional terminals, in return for a four year licence extension.

This was a significant, difficult decision for the Commission to make. We had to assess the potential benefits of the extra terminals in the context of the length of extension sought by Camelot, with one eye on any opportunity cost from delaying the next licence competition. It has been important to take a considered and careful approach to ensure all the relevant questions were identified and the right experts were providing the right evidence for us to make our decision. We are confident our approach has delivered a sound and fair deal for the future of good causes.

## Protection remains our primary concern

While the commercial side of our business is often more prominent, we never forget that the maximisation of good causes is secondary to our first two duties of propriety and player protection. Much of our operational time is taken up with such matters. We research, for example, the level of prevalence of under 16s playing the National Lottery. This number has remained stable at a low rate but we continue to monitor and challenge the operator in this area.

The Lottery has always been a safe place for players to play – our duty is for it to remain so. We work hard to become ever more sophisticated in understanding where potential problems may arise in terms of play.

Particularly in the online sphere, there are increasingly complex, researched ways of understanding play and potential triggers for concern. This year, as we have granted relaxations for interactive instant win game releases, we have engaged with Camelot to ensure that we both seek to understand, through enhanced monitoring, the outcomes those changes are producing.

This is an area which will continue to develop and it is right and proper that our National Lottery should provide market-leading protection for its players.

## Our continued drive for better regulation

We have continued to embed and extend a better regulation culture across all parts of our organisation. Some key examples from this year have been:

- Assurance or information requirements are now entirely risk-identified and prioritised (according to outcomes as the default regulatory driver).
- We have moved from the model of System Function Testing to an Optimised Testing Model, putting the onus on Camelot to ensure that product release is fit for purpose (saving Camelot over £1m per year) and regulating on that outcome.

- We have considered the requirement for the level of compliance activity associated with assessment of lottery funds monitoring. As a result we have moved from "complete and accurate" to "complete and accurate in all material respects". This has delivered a 50% reduction in staff hours required to deliver a very similar degree of assurance (95% confidence with error ratio less than 0.1%).

These examples give me confidence that the purposeful strides made in previous years continue. Our approach to better regulation is now not project driven but simply business as usual. Our efforts have been recognised by both Camelot and the Government, so whilst there is always more to do, we believe we are set on the right course.

## Keeping an eye on costs and moving

The economic context in which we work and operate means it is right that we should consider more than ever the costs that we incur. This year we have been able to reduce our running costs. Our continuing drive for effectiveness and efficiency through ongoing development of our approach to better regulation has enabled us to decrease the overall staff requirement. Our move to Birmingham to co-locate with the Gambling Commission has also contributed.

The move to Birmingham has been a significant challenge for us with a major turnover in staff. I think it reflects hugely well on our staff, who have worked extremely professionally at a time of considerable personal uncertainty, regardless of whether they were imminently to leave us or had only just joined us. The Commission and the National Lottery are indebted to them, and especially those who worked so hard prior to leaving us to transfer their knowledge and experience to their successors. We are confident our new structure and staff provide us with a great opportunity to draw on new perspectives and further refine our regulatory approach, future-proofing the essential protections we provide for the National Lottery. I would also like to thank the Gambling Commission and its staff for their welcome to co-location in Birmingham.

This is a smaller annual report in volume than previous years. I think that this highlights that we are more targeted, seeking to reflect modern practice and keeping an eye on the cost – and that is what we are all about.

Mark Harris
**Chief Executive**

**For more detail on our work visit our website at www.natlotcomm.gov.uk or call us on 0121 230 6750.**

# Key Facts from year 2011/2012

## During 2011/2012 the National Lottery Commission:

- Awarded Camelot an additional four years to the licence following an extensive assessment. This will bring a £92m investment to the National Lottery, including 8,000 extra terminals and an additional £419m for good causes up to 2019
- Validated the payment of £1.81 billion to the Department for Culture, Media and Sport (DCMS) to share amongst the UK's good causes, a 9.5% increase on last year
- Confirmed that £136m of this was raised this year for the London 2012 Olympic and Paralympic games from specific designated games, with the £750m[1] target reached in April 2012
- Analysed £6.5 billion worth of sales transactions through our independent verification systems to ensure that the correct amount was paid to winners and good causes
- Successfully relocated to the Gambling Commission's offices in Birmingham from London, ensuring a significant saving for good causes
- Continued to engage with Camelot to understand its longer term strategy to ensure the continued success of the National Lottery and associated regulatory implications
- Recruited over half a new organisation as a result of the move and embedded a set of shared services with the Gambling Commission
- Agreed four changes to the licence to ensure that it remains fit for purpose
- Assessed and agreed to relaxations in the areas of scratchcards and instant win games
- Worked with Camelot to ensure more extensive monitoring to understand the result of those relaxations, enabling further action as appropriate
- Checked that players won nearly £3.4 billion in prize money
- Continued to engage with the public through the forum of our innovative online community

[1] The London 2012 Olympics and Paralympics has received £2.175 billion overall in National Lottery funding, £750 million of which has come from a series of specifically designated games.

# Priorities for 2011/2012 and 2012/2013

## – protecting players and safeguarding the National Lottery

As part of our commitment to working transparently we set out in our last annual report our priorities for 2011/12. This table reports on that.

| Objective | Update |
|---|---|
| To deliver the best possible outcome for the National Lottery by securing the optimum performance from the operator. | Returns to good causes have improved again and we continue to develop improved assessment tools to ensure we fully understand the context of the performance. |
| To protect the Nation's interest in the benefits that the National Lottery provides. | The Commission considered carefully Camelot's proposal for an extended licence in return for an increased terminal network. This positive decision will bring increased benefits over the long-term to the nation. |
| To contribute to the government's polices on public bodies by: | |
| • Managing the relocation of the Commission by January 2012 | This was successfully completed on time. |
| • Considering the potential for shared services with the Gambling Commission | This has been actioned and the Commission now share Communications, IT, HR, Legal and Finance services with the Gambling Commission, cutting costs. |
| • Actively participating in the development and implementation of proposals for the merger of the National Lottery Commission and Gambling Commission to ensure that the National Lottery is secure for the future. | We continue to work closely with the Gambling Commission and DCMS to make sure that any potential merger is smooth and efficient and protects the important work the Commission does as well as the specific role the National Lottery plays. |
| To use and review our skills and resources and deliver our objectives in a cost effective and efficient manner. | As part of its move to Birmingham the Commission has fully reviewed its structure and revised it to make it fit for purpose and reduced its operating costs. |

**In our recent business plan we have refined our approach while retaining the previous central core and set out the following strategic objectives for 2012/2013:**

1. To deliver the best possible outcome for the National Lottery by using our powers to secure the optimum performance from the Licensee
2. To work with our partners to protect the Nation's interests in the benefits that the National Lottery provides
3. To contribute to the development and implementation of proposals for the merger of the National Lottery Commission and the Gambling Commission to ensure that the National Lottery is secure for the future
4. To regulate efficiently and effectively, embedding our new structure and people within our developing regulatory approach, knowledge base and culture

# Commissioners' biographies

Dr Anne Wright CBE

Mark Harris

Mary Chapman

Robert Foster

**Dr Anne Wright CBE** was appointed as Chair of the Commission in October 2005. She is a member of the Commission's Remuneration Committee and the Regulating with Excellence Reference Group. She was Chair of the School Teachers Pay Review Body until 31 March 2011 at the end of her term of office. Her former non-executive roles include the Board of English Partnerships and the Armed Forces Pay Review Body. Her former executive posts include Chief Executive of the Ufi/learndirect and Vice-Chancellor of the University of Sunderland. Former voluntary roles include Chair of Trustees for Youth Music Theatre UK.

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

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

**Robert Foster** was appointed as a National Lottery Commissioner in April 2005 and was Chairman of the Project Board which was responsible for overseeing the licence competition and transition. He was, until September 2004, Chief Executive of the Competition Commission. He has also held a number of senior posts in Whitehall including responsibility for the Department for Business, Innovation and Skills' innovation expenditure and science policy in the Cabinet Office. He is a Chartered Engineer and previously was an engineering manager in the telecommunications industry. He holds a number of non-executive director appointments including the Jersey Competition Regulatory Authority and Vice-Chair of King's College Hospital NHS Foundation Trust. He is also a member of the Advisory Council of Oxford Capital Partners.

**James Froomberg** was appointed as a National Lottery Commissioner in January 2008. He sits on the Commission's Audit and Remuneration committees. He is a leisure and property industry director with more than 20 years' experience in the private, public and consultancy sectors, and a trustee of Young Enterprise. He was previously a member of the government's Casino Advisory Panel, the Commercial Director of British Waterways, the Director of Corporate Development at Wembley plc and a KPMG Partner, leading its UK leisure, tourism, property and PFI consultancy business.

**Deep Sagar** became a Commissioner of the National Lottery Commission in September 2007. He is the Chair of the Commission's Audit Committee and was also a member of the Project Board. He combines non-executive work with consultancy. Among his other roles currently are Chair of LEASE and of Flood Risk Management Wales. His main background is as a senior manager in multinationals like Coca-Cola.

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

James Froomberg

Deep Sagar

Sarah Thane CBE

# Appendix A: National Lottery sales performance 2011/2012

## for the year ended 31 March 2012

| | 2011/2012 | 2010/2011 |
|---|---|---|
| **Sales** | **£ millions** | £ millions |
| Lotto | **2,475.0** | 2,667.0 |
| Lotto Plus 5 | **101.7** | 19.5 |
| Thunderball | **330.6** | 355.9 |
| Scratchcards (including Interactive Instant Win Games (IIWGs)) | **1,725.8** | 1,436.1 |
| Hotpicks | **199.8** | 205.7 |
| Daily Play | **4.3** | 46.1 |
| EuroMillions | **1,666.10** | 1,055.5 |
| Dream number | **0.0** | 38.9 |
| **Total** | **6,503.3** | 5,824.7 |
| Prizes capable of being won by players (including unclaimed prizes) | **3,379.4** | 2,984.5 |

| **Payments to the National Lottery Distribution Fund and Olympic Lottery Distribution Fund (NLDF/OLDF)** | | |
|---|---|---|
| Primary Contribution (Note 1) | **1,705.3** | 1,558.1 |
| Unclaimed prizes | **106.3** | 93.8 |
| Interest from Trust Accounts | **0.5** | 0.2 |
| Other miscellaneous payments (Note 2) | **0.5** | 3.2 |
| **Total** | **1,812.6** | 1.655.3 |

| **Other payments** | | |
|---|---|---|
| Lottery duty | **780.5** | 699.3 |
| Retailers' commission | **296.3** | 270.0 |

Note 1: Amount Payable on sales figures less adjustments such as the National Lottery Promotions Unit (NLPU).

Note 2: Expected 2011/2012 adjustments for secondary contribution, ancillary activities and 2010/2011 NLPU potential under spend are not included in this figure.

# Appendix B: Section 5 Licence variations

## for the year ended 31 March 2012

| Date | Condition | Effect of the variation |
|---|---|---|
| 01 June 2011 | Conditions 7.53 – 7.59 and 7.62 | As Camelot is subject to the CAP and BCAP Codes in relation to advertising, the Commission agreed to withdraw the requirement for Camelot to adopt, maintain and comply with a separate National Lottery Advertising and Sales Promotion Code of Practice (the NL Ad. Code). The Licence has been amended to include a requirement on Camelot to comply with all relevant industry codes, including the CAP and BCAP Codes. A couple of provisions in the NL Ad. Code which we felt should be retained have been inserted into the Licence. |
| 29 September 2011 | Condition 19.10(a); Schedule 8 Part 1 paragraph 1.1 definition of 'Weekly Payment'; Schedule 8 Part 3 paragraphs 7.1, 7.2, 7.6 and 8.1; and Schedule 8 Part 4 paragraphs 12.1 and 13.2(a) | Variation to alter the Weekly Payment day from Tuesday to Wednesday. |
| 10 January 2012 | Condition 5.13 and definitions of Technology Processes, Technology Specification and System Function Proving. | Changed to better reflect the current testing arrangements and sign off process within Camelot. Camelot must inform the Commission of all planned changes to the technology solution. Camelot must also certify that the development will comply with Condition 5.1 and provide the results of any testing undertaken in the form of a report. The Commission can make further requirements to satisfy itself that the release of technology does not have to be prevented. |
| on 5 March 2012 | Conditions 1.2, 1.3(a), 5.22, 5.23, 8.4(d), 11.1, 11.2, 11.5, 23, 29.1 and Schedule 1, Schedule 8 Part 2, Schedule 10 Part 1, Schedule 15 Part 1 and Schedule 15 Part 2. | 1.2 – extends licence period from 31 January 2019 to 31 January 2023.<br>1.3(a) – change to provisions that may only be changed with the consent of the licensee (Schedule 15 added).<br>5.22 – revisions to the minimum number of retail outlets throughout the licence period.<br>5.23 – general requirement to review retail outlet numbers replaced with more specific requirement for years 10 to 14 to be carried out in 2018/19.<br>8.4(d) – Increase in test visits to retail outlets from a minimum of 9,000 to 11,600 with effect from 1 April 2013.<br>11.1 – Payments to the Secretary of State – Extending provisions to include Schedule 15.<br>11.2 – Payments to the Secretary of State – Extending provisions to include Schedule 15.<br>11.5 – Payments to the Secretary of State – Extending provisions to include Schedule 15. |

| Date | Condition | Effect of the variation |
|---|---|---|
| | | 23 – Licence extension condition updated to reflect the licence being extended.<br>29.1 – What survives the Licence – Extending provisions to include Schedule 15.<br><br>*Schedule 1* – changes to reflect variation to Condition 23.<br>*Schedule 8 Part 2* – The calculation for secondary contribution has been amended for the period April 2012 going forward. Schedule also updated to reflect licence extension.<br>*Schedule 10 Part 1* – adjusts the floor minimum marketing expenditure to account for the licence extension.<br>*Schedule 15 Part 1* – sets a minimum investment expenditure requirement, what can be considered as investment expenditure, how much must be spent and what happens if the minimum is not met.<br>*Schedule 15 Part 2* – sets a requirement that Camelot has to provide a statement each financial year setting out details of investment expenditure. |

# Appendix C: Licence Breaches

## for the year ended 31 March 2012

**No licence breaches recorded 2011/2012.**

# Appendix D: Camelot Performance Standards

## for the year ended 31 March 2012

| 2011/2012 | Standard | Achieved |
|---|---|---|
| **Payments to the Secretary of State** | | |
| Payment to NLDF | No late payments | 98% |
| **Computer Systems** | | |
| Terminal availability to sell tickets | 99.5% availability | 99.96% |
| Terminal availability to validate tickets | 99% availability | 99.96% |
| **Players Services (NLL, ICC and Subs)** | | |
| **Voice contact** | | |
| Calls to the Contact Centre | 70% of all calls answered within 30 seconds | 75.8% |
| Abandoned calls to the Contact Centre | Less than 5% abandoned calls | 3.5% |
| **Written Correspondence** | | |
| Responses to emails | 80% of emails to be answered within 8 hours | 88.7% |
| Responses to letters | 80% of letters to be answered within 5 working days | 99.1% |
| **Complaints** | | |
| Resolution of Player complaints | 95% of complaints to be answered within 10 working days | 99.4% |
| **Quality** | | |
| Resolution of Player complaints and enquiries | 80% of contacts resolved at first attempt | 87.2% |
| Customer Satisfaction Surveys offered | 80% of player calls to be offered a customer satisfaction survey | 84.2% |
| Customer Satisfaction Surveys completed | 25% of player customer satisfaction surveys completed | 26.4% |
| Customer Satisfaction Score | 80% average score on player customer satisfaction survey | 98.5% |
| Accuracy | 300 player accuracy checks to be carried out each month[1] | Yes |
| **Prize Payment** | | |
| Claims paid by cheque within 1 hour of winners visiting a Regional Centre (including interactive) | 92.5% within 1 hour (remaining 7.5% in 20 working days) | 92.87% |
| Prize claims made in person (including interactive) within 1 hour where the claim is settled through CHAPS | 92.5% within 1 hour (remaining 7.5% in 20 working days) | 99.80% |
| Postal claims (including interactive) | 95% within 5 working days (remaining 5% in 20 working days) | 100% |
| Resolution of claims in respect of damaged tickets for draw-based games | 95% within 20 working days (remaining 5% in 30 working days) | 100% |
| Resolution of claims in respect of previously validated tickets for draw-based games | 90% within 20 working days (remaining 10% in 40 working days) | 97.92% |
| Resolution of claims in respect of missing multi-draw exchange tickets for draw-based games | 90% within 20 working days (remaining 10% in 40 days) | 100% |

[1] Implemented midway through the year.

# Appendix D: Camelot Performance Standards continued
for the year ended 31 March 2012

| 2011/2012 | Standard | Achieved |
|---|---|---|
| Resolution of claims in respect of lost, stolen and destroyed tickets for draw-based games | 75% within 20 working days | **99.84%** |
| Resolution of scratchcard claims in respect of damaged tickets | 95% within 20 working days (remaining 5% in 30 working days) | **100%** |
| Resolution of scratchcard claims in respect of stolen tickets/packs | 92.5% within 20 working days (remaining 7.5% in 40 working days) | **99.85%** |
| Resolution of scratchcard claims in respect of previously validated tickets | 95% within 20 working days (remaining 5% in 40 working days) | **98.92%** |
| Resolution of any other claims for draw-based games and scratchcard games | 75% within 20 working days (remaining 25% in 40 working days) | **99.87%** |

# Appendix E: NLC performance standards

## for the year ended 31 March 2012

| Correspondence | Standard | Achieved |
|---|---|---|
| All correspondence acknowledged within 5 working days | 98% | **95%** |
| Substantive response to simple complaints and enquiries within 10 working days | 95% | **96%** |
| Response to correspondence requiring investigation within 20 working days | 95% | **70.3%*** |

* Note on achievement. Failure to meet standard was due to a mix of issues relating to relocation and change in personnel and the impact of third parties. This impact will be considered during 2012/2013 to understand if the standard remains appropriate in this area.

**Equal opportunities analysis 2011/2012**

| Position | Applicants selected for interview | | | Successful candidate | |
|---|---|---|---|---|---|
| | Total | Ethnic minority | Female | Gender | Ethnic origin |
| Compliance Auditor | **4** | **1** | **2** | **F** | **White British** |
| Consumer Protection Manager | **4** | **1** | **4** | **F** | **White British** |
| Head of Licensing & Enforcement x2 | **12** | **0** | **4** | **1 F 1M** | **2 x White British** |
| Licensing Manager | **5** | **3** | **3** | **F** | **Indian** |

| Other | Standard | Achieved |
|---|---|---|
| Cumulative sickness absence (Civil Service average 8 working days lost per staff year) | **7** | **7.2** |
| Return to work interviews completed within five working days | **95%** | **67%**** |
| Staff turnover rate | **N/A** | **62%**** |

** The move to Birmingham had a significant impact on these figures.

**NLC prompt payment analysis 2011/2012**

| Total number of invoices | Number paid within 30 days | Percentage paid within 30 days | Number paid within 40 days | Percentage paid within 40 days |
|---|---|---|---|---|
| **553** | **495** | **90%** | **513** | **93%** |

## Commissioners

***Dr Anne Wright CBE***
Chair from 16 October 2005 and was re-appointed as Chair on 16 October 2006 for a term of four years. Re-appointed for a further term of four years with effect from 16 October 2010.

***Mary Chapman***
Appointed on 14 January 2008 for a term of four years and re-appointed 14 January 2012 for a further term of four years.

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

***James Froomberg***
Appointed on 14 January 2008 for a term of four years and re-appointed 14 January 2012 for a further term of four years.

***Deep Sagar***
Appointed on 1 September 2007 for a term of four years and re-appointed 1 September 2011 for a further term of four years.

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

***Mark Harris***
Chief Executive and appointed as Commissioner from 1 October 2007 for a term of four years. Re-appointed for a further term of four years with effect from 1 October 2011.

## Registered address

Victoria Square House
Victoria Square
Birmingham B2 4BP

## External auditors

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

## Internal auditors

***BDO LLP***
55 Baker Street
London W1U 7EU

## Bankers

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

## Solicitors

***Herbert Smith***
Exchange House
Primrose Street
London EC2A 2HS

## Background

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

## Functions, duties and powers

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

### (a) Functions

- by licence to authorise a person to run the National Lottery (Section 5); and
- by licence to authorise a person to promote lotteries as part of the National Lottery (Section 6).

### (b) Summary of duties

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

### (c) Powers

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

## Commission membership

There are seven Commissioners including the Chief Executive. All Commissioners are appointed by the Secretary of State for Culture, Olympics, Media and Sport, who also determines their remuneration. Commissioners have corporate responsibility for ensuring that the Commission fulfils the aims and objectives set out in legislation and complies with any statutory or administrative requirements for the use of public funds.

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

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

## Chief Executive

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

## Register of Interests

The Commission maintains a Register of Interests to record any declaration of financial and other interests of Commissioners, their close family members and senior staff of the Commission that may conflict with their management responsibilities. The Register of Interests is open for inspection at the Commission's offices upon request and is available on the Commission's website. During 2011/2012 no directorships or other significant interests were held by Commissioners or Directors which may have conflicted with their management responsibilities.

## Management Commentary

### Results for the year

The accounts have been prepared in accordance with the Accounts Direction given by the Secretary of State for Culture, Olympics, Media and Sport with the consent of HM Treasury in accordance with the National Lottery etc. Act 1993 (as amended). Total comprehensive net expenditure for the year amounted to £5.0 million (£5.1 million in 2010/2011). The decrease in net expenditure between the years is as a result of expenditure on legal costs in 2010/2011 in respect of advice required to assess proposals put forward by the operator in respect of commercial services (of the total legal costs of £1.33 million in 2010/2011, £1.06 million related to the review of commercial services). This reduction in expenditure has been partly offset by additional costs arising from the office relocation to Birmingham, and associated redundancy costs arising from employees leaving the Commission.

The Statement of Financial position at 31 March 2012 shows net assets of £411k (31 March 2011, £292k net assets). This includes significant cash balances at the end of the year of £1.5 million, an increase of £922k. This positive cash movement has arisen due to grant-in-aid being drawn down from DCMS to cover anticipated costs in respect of the office relocation to Birmingham. Cash outflows associated with a proportion of these costs will not materialise until 2012/2013, giving rise to the surplus cash position.

The net liabilities include £227k of pension liabilities relating to a former Director General of the Office of the Lottery (OFLOT), which represents a long-term liability to the Commission, and which will not be required to be met in full in the short term.

### Review of activities

The review of the Commission's activities during the period is included within the main annual report narrative, on page 9.

The Commission recorded no licence breaches during 2011/2012 (two in 2010/2011).

## Pension liabilities

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer defined benefit scheme. Bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ, by payment of contributions calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole. For new entrants from 1 October 2002 the pension options include a money purchase stakeholder scheme, and from 30 July 2007 an additional option was introduced called nuvos, which is a 'whole career' scheme.

The Commission has a pension liability for a former Director General of OFLOT. The liability for this pension passed from DCMS to the Commission. Full disclosure can be found in the remuneration report and in Note 4.

## Equal opportunities

The Commission is committed to a policy of equal opportunities for all job applicants and employees. It does not discriminate against staff or eligible applicants for posts on the grounds of age, disability including mental health, gender re-assignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation. The Commission ensures that staff are treated equally and fairly and that decisions on recruitment, selection, training, promotion and career management are based solely on objective and job-related criteria. It does not tolerate any form of discrimination, harassment or victimisation. All staff are required to co-operate in making this policy work effectively.

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

## Investors in People (IiP)

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

## Disability policy

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

## Staff communication

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

## Audit Committee and Remuneration Committee

The Commission has an Audit Committee and a Remuneration Committee, each made up of three Commissioners. The Audit Committee meets at least three times a year and the Remuneration Committee meets at least once a year. Further details of the work of the Audit Committee are set out in the Annual Governance Statement and details of the work of the Remuneration Committee are set out in the Remuneration Report. The table below details the members of each Committee during 2011/2012.

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

## Payment performance

The Commission adheres to the government's Better Payment Practice Code, which is to settle all valid bills within 30 days of the invoice date, or any other specified terms, inclusive of credit card and cheque payments as applicable. In the financial year to 31 March 2012 the Commission settled 90 percent of invoices within 30 days (89 percent in 2010/2011). No interest was paid during 2011/2012 (£Nil in 2010/2011) under the Late Payment of Commercial Debts (Interest) Act 1998.

## Sickness absence

During the year the average number of days lost due to sickness absence was 7.2 compared to the Civil Service average of 8.7 days. (In 2010/2011, the average was 6.8 days compared with the Civil Service average of 8.7 days).

## Personal data incidents

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

The Commission has suffered no protected personal data incidents during 2011/2012 and has made no reports to the Information Commissioner's Office.

## Disclosure of information to auditors

The Comptroller and Auditor General is the external auditor for the Commission's accounts. The external auditor's remuneration in 2011/2012 was set at £21.5k (£21.5k 2010/2011). The external auditors did not undertake any non-audit work during the year.

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

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

## Social, community and environmental issues

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

Mark Harris
**Chief Executive**

25 June 2012

# Remuneration Report

## Remuneration policy

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

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

The Chief Executive's remuneration is determined by the Remuneration Committee and is set out in a contract that is subject to DCMS approval.

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

## Remuneration Committee

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

The Committee's main functions are:

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

In 2011/2012 the Committee met five times and its members were:

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

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

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

## Chief Executive's remuneration

The Chief Executive's appointment and contract is approved by DCMS. The contract provides for a bonus of up to 20 percent of salary, subject to performance. Up to 5 percent of the bonus can be consolidated as a pay increase. Otherwise, the bonus is non-pensionable and non-consolidated. The bonus and any consolidated pay increase are set by the Remuneration Committee. Due to delays in the approval of the Chief Executive's bonus in 2010/2011, staff costs within this year's accounts includes the amount of bonus awarded for performance in both 2010/2011 and 2011/2012. The bonus has, however, been identified in the appropriate year to which it relates within the Chief Executive and Director's remuneration table on page 24.

## Directors' remuneration

Appointments of the Commissions' Directors are made on merit and on the basis of fair and open competition. Unless otherwise stated, the Directors covered in this report hold appointments that are open-ended until they reach the normal retiring age of 65. Early termination of contracts, other than for misconduct, would result in individuals receiving compensation as set out in the Civil Service Compensation Scheme. The period of notice for termination is three months.

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

Bonus amounts for Directors are set at 3 percent of salary for meeting objectives and 5 percent of salary if objectives are exceeded.

## Commissioners' remuneration

All Commissioners are remunerated on a daily rate apart from the Chair of the Commission who is paid an annual salary. The Secretary of State for Culture, Olympics, Media and Sport sets the basis for Commissioners' remuneration in line with government guidance. The Chief Executive is paid as an employee not as a Commissioner.

## Remuneration for 2011/2012

The tables below set out the total remuneration for the year for all Commissioners and senior staff of the Commission. The figures in the tables are audited as part of the audit of the annual accounts. Salary includes basic salary and any other allowances to the extent they are subject to UK taxation. Bonuses are shown separately.

## Commissioners' remuneration 2011/2012

| Name and designation | 2011/2012 Salary £'000 | 2011/2012 Bonus Payments £'000 | 2011/2012 Benefits in kind (to nearest £100) | 2010/2011 Salary £'000 | 2010/2011 Bonus Payments £'000 | 2010/2011 Benefits in kind (to nearest £100) |
|---|---|---|---|---|---|---|
| Dr Anne Wright CBE *Chair* | **60-65** | **–** | **100** | 60-65 | – | – |
| Mary Chapman *Commissioner* | **5-10** | **–** | **–** | 10-15* | – | 100 |
| Robert Foster *Commissioner* | **5-10** | **–** | **100** | 5-10 | – | 100 |
| James Froomberg *Commissioner* | **5-10** | **–** | **400** | 5-10 | – | 100 |
| Deep Sagar *Commissioner* | **5-10** | **–** | **900** | 5-10 | – | 800 |
| Sarah Thane CBE *Commissioner* | **5-10** | **–** | **2,100** | 5-10 | – | 2,000 |

* Mary Chapman was paid £4,616 in 2010/2011 in respect of fees owed for 2009/2010.

## Chief Executive and Directors' remuneration 2011/2012

| Name and designation | 2011/2012 Salary £'000 | 2011/2012 Bonus Payments £'000 | 2011/2012 Benefits in kind (to nearest £100) | 2010/2011 Salary £'000 | 2010/2011 Bonus Payments £'000 | 2010/2011 Benefits in kind (to nearest £100) |
|---|---|---|---|---|---|---|
| Mark Harris *Chief Executive and Commissioner* | **110-115** | **20-25** | **9,600** | 110-115 | 20-25 | 100 |
| Annette Lovell *Deputy Chief Executive* | **–** | **–** | **–** | 15-20 (80-85 fte) | 0-5 | – |
| Joy Watkins *Director of Resources* | **70-75** | **0-5** | **7,100** | 70-75 | 0-5 | 100 |
| Marta Phillips OBE *Director* | **–** | **–** | **–** | 5-10 (70-75 fte) | 0-5 | – |
| Simon D'Arcy *Director of Compliance (left 20 July 2011)* | **25-30 (85-90 fte)** | **N/A** | **–** | 85-90 | – | 100 |
| Ben Haden *Director* | **80-85** | **0-5** | **5,200** | 55-60 (60-65 fte) | 0-5 | 100 |
| Band of highest paid directors total remuneration (£'000) | | **145-150** | | | 135-140 | |
| Median total remuneration | | **38,137** | | | 32,957 | |
| Ratio | | **3.9:1** | | | 4.2:1 | |

**Notes** Mark Harris joined the Commission in April 1999 and was appointed as a Commissioner on 1 October 2007 but does not receive additional remuneration in this capacity. Mark's notice period is six months.

Joy Watkins joined the Commission in July 2001, and Joy's contracted notice period is one month.

Ben Haden joined the Commission in April 2003. Ben's role changed in February 2012 to NLC Director (formerly Director of Corporate Affairs), and his contracted notice period is three months.

Simon D'Arcy was employed on a fixed term contract from March 2010, and therefore was not eligible to join the pension scheme, and no bonus is payable.

### Benefits in kind

The monetary value of benefits in kind covers any benefits provided and treated by Her Majesty's Revenue & Customs (HMRC) as a taxable emolument. A PAYE settlement agreement has been made with HMRC to meet the taxable emoluments of Commission staff and Commissioners. Increases in this area include relocation travel and accommodation costs, reflecting uncertainties prior to merger.

### Pensions

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

## Pension benefits 2011/2012

| **2011 (12 Months to 31 March 2012)** Name and designation | Accrued pension at age 60 as at 31/03/12 and related lump sum £'000 | Real increase in pension and related lump sum at pension age £'000 | *CETV at 31/03/12 £'000 | *CETV at 31/03/11** £'000 | Real increase in CETV £'000 | Employer contribution to partnership pension account (to nearest £100) |
|---|---|---|---|---|---|---|
| Mark Harris<br>*Chief Executive and Commissioner* | **40-42.5 lump sum 120-122.5** | **(2.5)-0 lump sum (2.5)-0** | **705** | 661 | **(13)** | **0** |
| Joy Watkins<br>*Director of Resources* | **7.5-10 lump sum 27.5-30** | **0-5 lump sum 0-2.5** | **142** | 125 | **7** | **0** |
| Ben Haden<br>*Director of Corporate Affairs* | **10-12.5 lump sum N/A** | **0-2.5 lump sum N/A** | **115** | 93 | **12** | **0** |

* CETV = Cash equivalent transfer value.

** The actuarial factors used to calculate CETVs were changed in 2011/12. The CETVs at 31/3/11 and 31/3/12 have both been calculated using the new factors, for consistency. The CETV at 31/3/11 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

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

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2012. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

Further details about the Civil Service pension arrangements can be found at the website **http://www.civilservice.gov.uk/pensions**

## Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

## Real increase in CETV

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

## Compensation for loss of office

There have been no compulsory or flexible early retirements, or any compulsory early severances during the year. All compensation amounts paid following the National Lottery Commission's relocation to Birmingham fell within Civil Service redundancy arrangements.

Mark Harris
**Chief Executive**

25 June 2012

# Accounts **2011/2012**

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

Under Schedule 2A Section 11(1) and (2) of the National Lottery etc. Act 1993 (as amended), inter alia, by the National Lottery Acts 1998 and 2006, the Commission is required to prepare a statement of accounts for each financial year in the form and on the basis directed by the Secretary of State for Culture, Olympics, Media and Sport. The accounts are prepared on an accruals basis and must give a true and fair view of the Commission's state of affairs and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts the Commission is required to:

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

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

Mark Harris
**Chief Executive**

25 June 2012

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

# National Lottery Commission Governance Statement

for the year ended 31 March 2012

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

This statement explains the key features of the Commission's governance structure, and how it has complied with the principles and provisions of the Corporate Governance Code for central government departments.

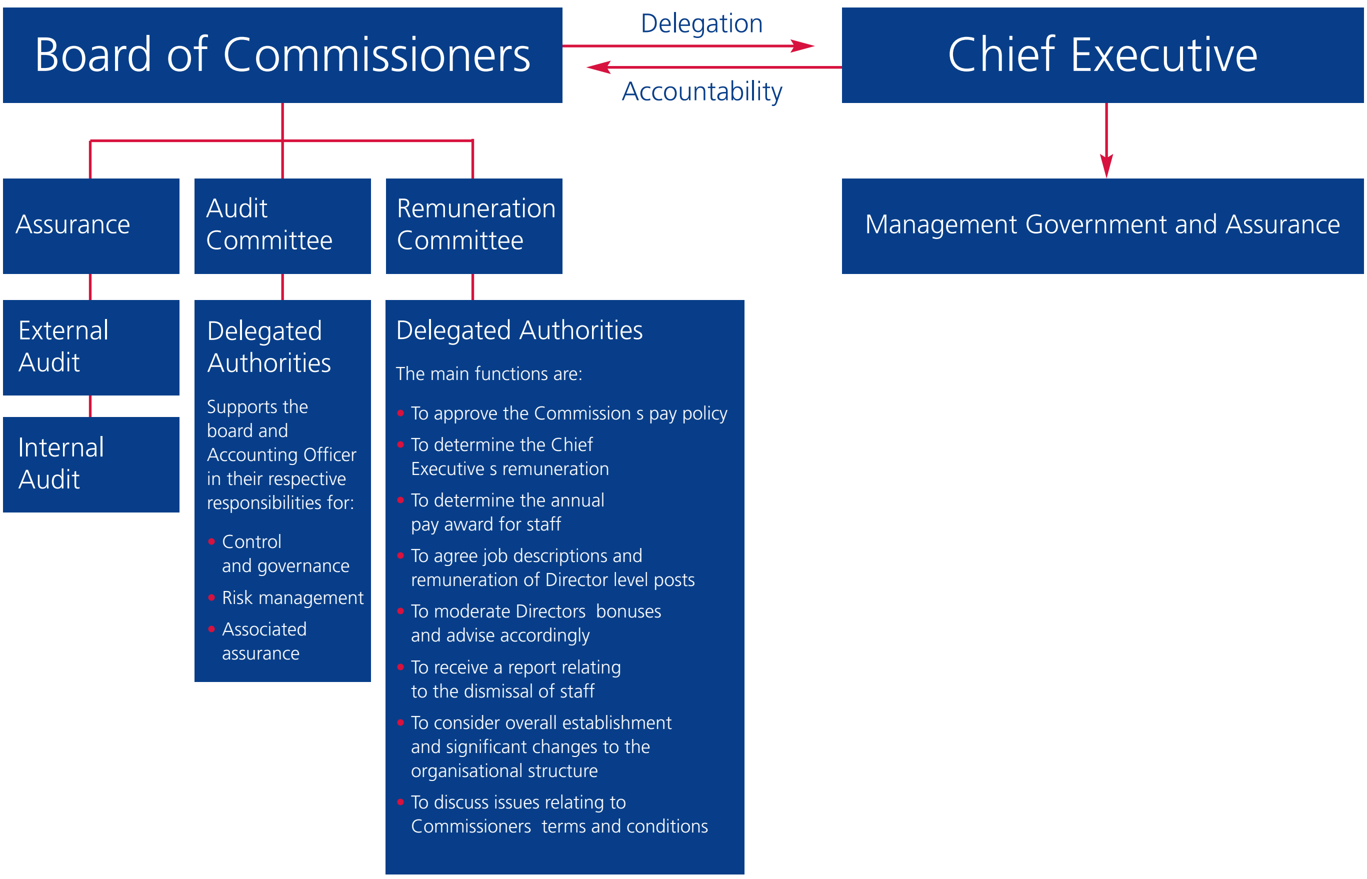
**Governance Framework**

The Board of Commissioners, led by the Chair, Anne Wright, oversees the business of the Commission. The day to day activity of the Commission is managed by the senior management team, led by the Chief Executive, Mark Harris.

Commissioners have corporate responsibility for ensuring that the Commission fulfils the aim and objectives set out in legislation and complies with any statutory or administrative requirements for the use of public funds.

The Chief Executive, as Accounting Officer is responsible for maintaining a sound system of internal control that supports the achievement of the Commission's policies, aims and objectives.

## The Commission's Governance Structure



## Composition of the Board

There are seven Commissioners including the Chief Executive. All Commissioners are appointed by the Secretary of State for Culture, Olympics, Media and Sport, who also determines their remuneration.

There were no changes in the composition of the board during the year, but extensions were approved for Mary Chapman, James Froomberg, Deep Sagar and Mark Harris.

## Board Performance

### The Board

The Board minutes are published on the Commission's website. Senior managers also attend Board meetings regularly. In addition the Board monitors and receives regular reports from its Audit and Remuneration Committees.

The Board sets the strategic objectives of the Commission and is responsible for performance of the Chief Executive. Commissioners are required to disclose any potential conflicts of interest, as set out within the Code of Practice for Commissioners. This is agreed with DCMS (on behalf of the Secretary of State) and the register of interests is copied to DCMS twice yearly. No conflicts of interest were declared during the year which led a Commissioner to have to withdraw from the discussion of an agenda item or not participate in a decision.

Commissioners review meeting effectiveness at each meeting and also annually review overall Board effectiveness through a specific paper discussed and actioned at a full meeting of the Commission, which in 2011/2012 included assessment against a checklist provided by the NAO.

**Board attendance (number of meetings attended/number of meetings held)**

Anne Wright (11/11)
Deep Sagar (10/11)
James Froomberg (10/11)
Mary Chapman (11/11)
Robert Foster (11/11)
Sarah Thane (11/11)
Mark Harris (11/11)

A Board meeting scheduled for 16 June 2011 was not held.

***Activity***

The Board over the course of the year receives a mix of items that are for decision, discussion or information. The following identifies key specific as well as regular activities undertaken:

*Regular*

A monthly Chief Executive report covering ongoing regulatory, policy and organisational issues.

A monthly report on the financial performance of the games portfolio, with particular reference to the trend of returns to good causes.

A six monthly strategic report which considers the overall performance of the operator in key areas, such as the maximisation of returns to good causes.

Regular updates on:

- organisational developments (such as improvements to Compliance planning)
- research reports (online community, Under 16s research)
- wider contextual issues (EU Gambling law)

External visitors (including last year the National Lottery Promotions Unit director to talk about their strategy and Jonathan Stephens, Permanent Secretary at DCMS to discuss operational issues of departmental interest).

Six monthly updates with Camelot to discuss strategic direction and past performance.

*Key Specific Issues*

Camelot's licence extension proposal – this featured throughout the year and was the key decision of the year.

Scratchcard relaxation decision.

£10 Scratchcard Licence approval.

Interactive Instant Win game relaxation decision.

A series of commercially confidential discussions and decisions relating to the development of the game portfolio.

Relocation progress monitoring.

The assessment undertaken in 2011/2012 indicated that the Commission is operating effectively in the majority of areas. One area was identified in overall board effectiveness where some improvements could be made. This related to communication with stakeholders.

When discussing the report the Board Commissioners queried the amber rating on this point and commented that:

a. The report should note the fact that the low level of interaction with stakeholders reflected budgetary constraints. Commissioners observed that the Commission had not held a reception for stakeholders on this basis.

b. The report should make it clear that no decisions were affected by a lack of stakeholder engagement.

c. It was important for the Commission to consider stakeholder engagement in light of the proposed DCMS consultation about the merger.

Otherwise the assessment indicated that:

- the Commission operates effectively;
- meetings are conducted well;
- the Commission's relationship with the Executive is effective.

The Board has gained assurance that the data quality of the information it receives is sound through a mix of internal audit work on data held and its own challenge of the data presented.

### Audit Committee

The Audit Committee comprises no fewer than three Commissioners. As Accounting Officer the Chief Executive normally attends the meetings.

It meets at least three times a year and in the year under review it met four times.

In 2011/2012 the Audit Committee members were:

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

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

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

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

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

**Audit Committee attendance**
**(number of meetings attended /number of meetings held)**
Deep Sagar (3/3)
James Froomberg (2/3)
Sarah Thane (3/3)
Mark Harris (3/3)

A meeting scheduled for 13 September 2011 was cancelled.

### Remuneration Committee

The Commission has a Remuneration Committee that is made up of three Commissioners and that meets at least once a year.

The Committee has full terms of reference that are reviewed annually. The Committee's main functions are:

1. To approve the Commission's pay policy and recommend to the full Commission for adoption.
2. To determine the Chief Executive's remuneration.
3. To determine the annual pay award for staff.
4. To agree job descriptions and remuneration of Director level posts.

5. To moderate Directors' bonuses and advise accordingly.
6. To receive a report relating to the dismissal of staff.
7. To consider overall establishment and significant changes to the organisational structure and to make recommendations to the full Commission accordingly.
8. To discuss issues relating to Commissioners' terms and conditions and agree recommendations for DCMS to consider.

The Committee met five times in 2011/2012, and provided additional oversight to the HR consequences of the Commission's relocation, including redundancy arrangements. The Chair of the Remuneration Committee updates the Commissioners on the work of the Committee after each Remuneration Committee meeting and provides a full written report on the work of the Committee once a year.

**Remuneration Committee attendance**
**(number of meetings attended /number of meetings held)**
Anne Wright (5/5)
James Froomberg (5/5)
Mary Chapman (5/5)
Mark Harris (5/5)

## Risk and Internal Control Framework

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Commission's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The principal features of the system of internal control and key high-level controls in place throughout the year are:

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

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

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

The internal audit opinion is that, and on the assumption that internal audit recommendations are implemented, the National Lottery Commission has a sound framework of control in the areas reviewed which we are satisfied should provide assurance regarding the effective and efficient achievement of the National Lottery Commission's objectives. The system of internal control has been in place in the Commission for the year ended 31 March 2012 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

The Commission is a public body, accountable to Parliament, operating in a governance framework set and monitored by HM Treasury and DCMS. The Commission subscribes to the seven principles of conduct underpinning public life as set out by Lord Nolan (selflessness, integrity, objectivity, accountability, openness, honesty and leadership).

The Commission is committed to high standards of Corporate Governance, including the effective management of risks throughout the Commission. The Senior Management team takes an active role in identifying and reviewing risks to ensure we can deliver our objectives. Leadership is given to the risk management process by the work of the Audit Committee which reviews the corporate risk register at each of its meetings. The Audit Committee meets at least three times per year. The Risk Register is considered by the full Commission at least annually.

On an operational level, managers are trained and equipped in a way appropriate to their duties and authority to identify risks which may impact on the aims and objectives of the Commission.

### The risk and control framework

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

The Commission's risk processes consider information risks and the controls in place to protect the Commission's information assets. These processes recognise that personal and other sensitive information, including employee information, requires extra safeguards. Security and confidentiality are key requirements in holding this data. The Commission holds only small quantities of personal information and I consider the level of information risk to be low. There were no losses of personal data during 2011/2012.

We fully reviewed the information risks associated with laptop computers following the theft of one laptop in 2011/2012. There were no losses of personal data as a result of this theft. Although a process is in place for signing out laptops and all custodians of a laptop ensure that the machine is held securely whilst it is in their care, exceptional circumstances may arise that result in loss or theft. Any such losses are reported immediately to ensure that all measures can be taken by the Commission to safeguard data. Machines are also encrypted and password protected and no information can be accessed as it is not stored on individual machines. The Commission's arrangements for remote working ensure that information accessed and generated in such circumstances is held at all times on the central server and not on the laptop hard drive, which cannot be accessed when working through the remote working portal.

Due to the uncertainty surrounding the timing of costs to the Commission arising from the relocation, cash balances, and hence net assets, at the end of the year were higher than planned. Grant-in-aid drawdown requests prior to January 2012 have been supported by prudent assumptions and plans, particularly in relation to potential redundancy costs arising following relocation. Requests had been independently reviewed and approved prior to submission to DCMS, and assurance was been provided by Internal Audit that appropriate grant-in-aid review mechanisms are were in place (although clearer evidence of independent review was recommended). Despite this, following the relocation to Birmingham, but before the Shared Service Agreement with the Gambling Commission came into force, an additional £500k was drawn down. This had been independently reviewed, but was not supported by realistic assumptions, and did not consider the current cash balance held at that time. As elements of budgeted costs failed to materialise, or were deferred into 2011/12, it became clear during the final quarter of the year that this grant-in-aid drawdown of £500k would not be necessary, and was in advance of need. Dialogue with DCMS has been ongoing regarding cash requirements, and robust cashflow forecasting processes have been introduced, together with evidence of independent review, to mitigate the risk that funds are drawn down ahead of need. DCMS have confirmed that they will not require any of this cash to be repaid.

The key risks managed by the Commission during 2011/2012 relate to delivery of our objectives and cover a range of areas including; reputation, returns to good causes and co-location and merger. Specific operator proposals and developments were considered as they arose and relevant risks and management strategies identified where needed.

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

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

**Information assurance**

The Commission continued to be compliant with Cabinet Office and other relevant guidelines and statutory requirements.

As part of our work around information assurance, the Commission maintains robust and proportionate business continuity plans to ensure we continue to remain operational during any period of severe business disruption and we intend to review this in the light of our relocation.

**Access to information**

As a public body the Commission is committed to meeting the statutory requirements laid down by the Freedom of Information Act 2000 and the Data Protection Act 1998.

We received 25 requests for information under the Freedom of Information Act during the year. In three cases we were asked to conduct an internal appeal and this was led by someone other than the original decision maker. None of these decisions have been subject to review by the Information Commissioner. We did not receive any subject access requests under the Data Protection Act.

We proactively publish information on our website as part of our statutory publication scheme.

**Conclusion**

Overall we believe there are satisfactory processes in place to identify and manage the significant risks faced by the Commission and meet the requirement of the Governance Code. We recognise that it remains of paramount importance that in this post relocation period, the design and operation of internal controls continue to operate and meet the needs of the Commission.

Mark Harris
**Chief Executive**

25 June 2012

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

I certify that I have audited the financial statements of the National Lottery Commission for the year ended 31 March 2012 under the National Lottery etc. Act 1993. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

**Respective responsibilities of the Board, Accounting Officer and auditor**

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

**Scope of the Audit of the Financial Statements**

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

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

**Opinion on regularity**

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

**Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the National Lottery Commission's affairs as at 31 March 2012 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 and Secretary of State directions issued thereunder.

**Emphasis of matter**

Without qualifying my opinion, I draw attention to the disclosures made in note 1 to the financial statements concerning the application of the going concern principle in the light of the Public Bodies Act 2011 which allows for the merger of the National Lottery Commission with the Gambling Commission. This is subject to the proposal and affirmative resolution in the Houses of Parliament of secondary legislation and there is therefore uncertainty over the National Lottery Commission's ability to continue to operate in its current legal form.

**Opinion on other matters**

In my opinion:

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

**Matters on which I report by exception**

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

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

**Report**

I have no observations to make on these financial statements.


**Amyas C E Morse** **Date 04 July 2012**
**Comptroller and Auditor General**

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

# Statement of Comprehensive Net Expenditure

for the 12 months ended 31 March 2012

| | Notes | 31 March 2012 £'000 | 31 March 2011 £'000 |
|---|---|---|---|
| **Expenditure** | | | |
| Staff costs | 3 | **(2,684)** | (2,027) |
| Administrative Expenses | 5 | **(1,402)** | (1,934) |
| Other Expenditure | 6 | **(876)** | (1,091) |
| | | **(4,962)** | (5,052) |
| **Income** | | | |
| Sundry Receipts | 2 | – | 1 |
| | | – | 1 |
| **Total net expenditure before finance costs** | | **(4,962)** | (5,051) |
| Finance cost on pensions | 4 | **(12)** | (11) |
| **Total net expenditure after finance costs** | | **(4,974)** | (5,062) |
| **Net expenditure after interest** | | **(4,974)** | (5,062) |

## Other Comprehensive Expenditure

| | Notes | 31 March 2012 £'000 | 31 March 2011 £'000 |
|---|---|---|---|
| Net gain/(loss) on Pension Liability | 4 | **(6)** | (1) |
| Changes in assumptions underlying the present value of the pension scheme liabilities | 4 | **(1)** | 12 |
| **Total Comprehensive Expenditure for the year ended 31 March 2012** | | **(4,981)** | (5,051) |

The notes on pages 42 to 55 form part of these accounts.

# Statement of Financial Position

as at 31 March 2012

| | Notes | **31 March 2012 £'000** | 31 March 2011 £'000 |
|---|---|---|---|
| **Non Current Assets** | | | |
| Property, Plant and Equipment | 8 | **37** | 87 |
| Intangible Assets | 9 | **54** | 395 |
| **Total Non-Current Assets** | | **91** | 482 |
| **Current Assets** | | | |
| Trade and other receivables | 10 | **34** | 208 |
| Cash and cash equivalents | 11 | **1,476** | 554 |
| **Total Current Assets** | | **1,510** | 762 |
| **Total Assets** | | **1,601** | 1,244 |
| **Current Liabilities** | | | |
| Trade and other payables | 12 | **(963)** | (240) |
| Provisions | 14 | **–** | (156) |
| **Total Current Liabilities** | | **(963)** | (396) |
| **Non Current Assets less Net Current Liabilities** | | **638** | 848 |
| **Non-Current Liabilities** | | | |
| Other payables | 13 | **–** | (335) |
| Pension Liability | 4 | **(227)** | (221) |
| **Assets less Liabilities** | | **411** | 292 |
| **Taxpayers' Equity** | | | |
| Income and Expenditure Reserve | | **411** | 292 |
| **Total** | | **411** | 292 |

The notes on pages 42 to 55 form part of these accounts.

Mark Harris
**Chief Executive**

25 June 2012

# Statement of Cash Flows

for the 12 months ended 31 March 2012

| | Notes | 31 March 2012 £'000 | 31 March 2011 £'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net Expenditure for the year | | **(4,974)** | (5,062) |
| Adjustments for non-cash transactions | | | |
| Depreciation and amortisation charge | 8 & 9 | **61** | 146 |
| Decrease in trade and other receivables | 10 | **174** | 6 |
| Increase (Decrease) in trade and other payables | 12 | **723** | (241) |
| Increase (Decrease) in provisions | 14 | **(156)** | 156 |
| Non-cash costs | | **13** | (22) |
| Items not in SCNE | | **–** | (41) |
| **Net cash outflow from operating activities** | | **(4,159)** | (5,058) |
| **Cash flows from investing activities** | | | |
| Payments to acquire property, plant and equipment & intangible assets | 8 & 9 | **(19)** | (4) |
| **Net cash outflow from investing activities** | | **(19)** | (4) |
| **Cash flows from financing activities** | | | |
| Capital grant received | 15 | **19** | 45 |
| Grant-in-aid for revenue expenditure | 15 | **5,081** | 5,175 |
| **Net cash inflow from investing activities** | | **5,100** | 5,220 |
| **Net increase in cash and cash equivalents in the period** | 15 | **922** | 158 |
| **Cash and cash equivalents at 1 April 2011** | | **554** | |
| **Cash and cash equivalents at 31 March 2012** | | **1,476** | |

The notes on pages 42 to 55 form part of these accounts.

# Statement of Changes in Taxpayers Equity

for the 12 months ended 31 March 2012

| | Income & Expenditure Reserve | Total Reserves |
|---|---|---|
| | £'000 | £'000 |
| **Balance at 1 April 2010** | 123 | 123 |
| **Changes in reserves** | | |
| Total net expenditure after finance cost | (5,062) | (5,062) |
| Actuarial gain arising on pension scheme | 11 | 11 |
| **Total Comprehensive Expenditure for 2010/2011** | (5,051) | (5,051) |
| Grant-in-aid for revenue expenditure | 5,175 | 5,175 |
| Grant-in-aid for capital expenditure | 45 | 45 |
| **Balance at 31 March 2011** | 292 | 292 |
| | | |
| **Balance at 1 April 2011** | **292** | **292** |
| **Changes in reserves** | | |
| Total net expenditure after finance cost | **(4,974)** | **(4,974)** |
| Actuarial loss arising on pension scheme | **(7)** | **(7)** |
| **Total Comprehensive Expenditure for 2011/2012** | **(4,981)** | **(4,981)** |
| Grant-in-aid for revenue expenditure | **5,081** | **5,081** |
| Grant-in-aid for capital expenditure | **19** | **19** |
| **Balance at 31 March 2012** | **411** | **411** |

The notes on pages 42 to 55 form part of these accounts.

## 1: Accounting policies

### Basis of accounting

The financial statements are drawn up in accordance with a Direction given by the Secretary of State for Culture, Olympics, Media and Sport with the approval of HM Treasury, in accordance with Schedule 2A section 11(2) of the National Lottery etc Act 1993 (as amended). The financial statements are prepared in accordance with the Government Financial Reporting manual (FReM) and the Companies Act requirements, the disclosure and accounting requirements contained in *HM Treasury's Fees and Charges Guide*, and the accounting requirements contained in Managing Public Money, insofar as these are appropriate to the Commission and are in force for the financial year for which the statements are prepared. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate of the particular circumstances of the Commission for the purpose of giving a true and fair value has been selected.

The particular policies adopted by the Commission are described below. They have been applied consistently in dealing with items that are considered material to the accounts. The financial statements are prepared under the modified historical cost convention by the inclusion of property, plant and equipment and intangible assets at their fair value to the business.

### Grants receivable

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

Grant-in-aid received for 2011/2012 was £5,100,000 (£5,220,000 in 2010/2011).

### Property, plant and equipment

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

### Intangible non current assets

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

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

### National Lottery intellectual property asset

The Commission owns the core IP rights for the National Lottery, including the crossed fingers logo, and safeguards them on behalf of the nation.

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

**Depreciation and amortisation**

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

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

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

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

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

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

**Operating leases**

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

**Pension policy**

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

**Licence fees**

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

In January 2010 a revised fee regime was introduced under the National Lottery Act 2006 (Commencement No. 5) Order 2010. Fees of £45,900 have been collected against this and paid over to the Department for Culture, Media and Sport accordingly in the year. The fees collected are not reflected in the Statement of Comprehensive Net Expenditure as the National Lottery Commission acts as an agent in the transaction.

**Going concern**

The financial statements have been prepared on a going concern basis. In October 2010, the Government announced a proposal that the National Lottery Commission will merge with the Gambling Commission. The timetable for this has yet to be decided and, at the time of writing is subject to secondary legislation under the Public Bodies Act 2011. In the event of a merger, it is likely that the National Lottery Commission in its current legal form will be abolished from the end March 2013. Consultation will take place over the Summer, with the decision on if and how any abolition or merger will take place not expected until November 2012. IAS 1 requires management to disclose that the potential abolition of the NLC creates material uncertainty over the NLC's ability as an entity to continue in its current form. Having considered this and from discussion with the Department for Culture, Media and Sport, management's expectation is that the National Lottery Commission will continue to operate in its current form for at least the next twelve months (April 2013 will be the earliest any changes will be implemented). As a result, management considers it appropriate to continue to adopt the going concern basis in preparing the annual report and financial statements.

## 1: Accounting policies continued

### Accounting estimates

The valuation of the Olympic IP asset and corresponding liability are based on an estimate of the future usage of Olympic IP on National Lottery games, and consequently the value derived by and the cost to the National Lottery Commission. The NLC has carried out an in-year impairment review of the Olympic IP valuation as this current year is the last before the Olympics takes place. Using information provided by Camelot to determine expected royalties between now and the Games, the level of uncertainty surrounding the future usage of the IP by the operator has now diminished, and the valuation of the Olympic IP has been impaired accordingly.

### Accounting standards that have been issued but have not yet been adopted

The following standards and interpretations have been adopted by the European Union but are not required to be followed until 2012/2013. The change in standard is not expected to impact upon the Commission's financial statements:

- IFRS 9 Financial instruments (2012/2013).

## 2: Other operating income

Other income of £490 (£1,340 in 2010/2011) collected during the year related to the sale of assets to staff.

| | **2011/2012** | 2010/2011 |
|---|---|---|
| | **£'000** | £'000 |
| Sundry receipts | **0** | 1 |
| Total other income | **0** | 1 |

## 3: Employee costs

### a) Analysis of Commissioners' and employee costs

| | **2011/2012** | | | | 2010/2011 |
|---|---|---|---|---|---|
| | **Total** | **Permanent** | **Others** | **Commissioners** | Total |
| | **£'000** | | **£'000** | | £'000 |
| Salaries and wages | **2,314** | **2,209** | **13** | **92** | 1,621 |
| Employer's NIC | **145** | **134** | **1** | **10** | 147 |
| **Pension Costs:** | | | | | |
| Included within operating deficit | **225** | **224** | **1** | **–** | 259 |
| Included as other finance costs | **12** | **12** | **–** | **–** | 11 |
| Recognised in Other Comprehensive Expenditure | **7** | **7** | **–** | **–** | (11) |
| Total pension costs | **244** | **243** | **1** | **–** | 259 |
| **Total Commissioners' and staff costs** | **2,703** | **2,586** | **15** | **102** | 2,027 |

The analysis on page 44 comprises the following figures from the Statement of Comprehensive Net Expenditure and Statement of Changes in Taxpayers Equity.

| | 2011/2012 | 2010/2011 |
|---|---|---|
| | £'000 | £'000 |
| Employee costs | 2,684 | 2,027 |
| Interest costs on pension scheme liability | 12 | 11 |
| Actuarial adjustments to pension scheme liability | 7 | (11) |
| **Total** | 2,703 | 2,027 |

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

| | 2011/2012 | | | 2010/2011 |
|---|---|---|---|---|
| | Total FTE | Permanent FTE | Others FTE | Total FTE |
| Chief Executive/Directors | 3.5 | 3.5 | | 4.2 |
| Chief Executive's Office | 1.6 | 1.6 | | 2.4 |
| Resources | 7.2 | 7.1 | 0.1 | 7.2 |
| Compliance | 7.4 | 7.3 | 0.1 | 7.8 |
| Licensing | 7.5 | 7.2 | 0.3 | 8.7 |
| Communications | 1.9 | 1.9 | | 2.5 |
| Insight | 1.9 | 1.9 | | 2.0 |
| | 31.0 | 30.5 | 0.5 | 34.8 |

Remuneration paid to the Chief Executive, Directors and Commissioners during the year is contained in the remuneration report on pages 22 to 26.

**b) Exit packages agreed in 2011/2012**

| | 2011/2012 | | | 2010/2011 | | |
|---|---|---|---|---|---|---|
| Exit package cost band (including any special payment element) | Compulsory redundancies | Other departures agreed | Total exit packages by cost band | Compulsory redundancies | Other departures agreed | Total exit packages by cost band |
| | Number | Number | Number | Number | Number | Number |
| Less than £10,000 | – | 3 | 3 | – | – | – |
| £10,001-£25,000 | – | 9 | 9 | – | – | – |
| £25,001-£50,000 | – | 7 | 7 | – | – | – |
| £50,001-£100,000 | – | 5 | 5 | – | – | – |
| £100,001-£150,000 | – | – | – | – | – | – |
| £150,001-£200,000 | – | – | – | – | – | – |
| >£200,000 | – | – | – | – | – | – |
| **Total number of exit packages** | – | 24 | 24 | – | – | – |
| **Total cost** | – | 801,364 | 801,364 | – | – | – |

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

## 4: Pension disclosures

The Commission provides pension benefits for permanent staff under the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme but the Commission is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007.

You can find details in the resource accounts of the Cabinet Office: Civil Superannuation www.civilservice.gov.uk/pensions

For 2011/2012, employer contributions of £216k were payable to the PCSPS (2010/2011 £313k) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands.

In addition to this an amount of £331 was invoiced directly from the Gambling Commission for employees on secondment at the NLC. The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2011/2012, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2011/2012 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £7,188 (£0 in 2010/2011) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £485 (£0 in 2010/2011) 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill-health retirement of these employees. A further £551 was invoiced directly from the Gambling Commission for employees on secondment at the NLC.

Contributions due to the partnership pension providers at the Statement of Financial Position date were £514. No contributions were prepaid. There is no additional accrued pension liabilities payable by the PCSPS arrangements to individuals who retired early on health grounds during the year.

Detailed schedules relating to the pension entitlements of the Directors are contained in the remuneration report on pages 22 to 26.

### IAS 19 disclosures

On its creation, the Commission inherited a pension liability for a former Director General of OFLOT from 1993 to 1998. This pension is an unfunded defined benefit scheme which has benefits by analogy to the PCSPS (for details see www.civilservice.gov.uk/pensions) and is paid directly from the Commission's own funds. In 2001, upon the recipient reaching retirement age, pension payments commenced. In 2011/2012, pension payments of £13k were made (2010/2011 £13k). Under IAS 19 the Commission is required to show the present value of the liability on its Statement of Financial Position.

For the IAS 19 disclosure, a valuation has been provided by the Government Actuary's Department, which has assessed the liabilities of the scheme as at 31 March 2012 and at 31 March 2011. Scheme liabilities and the expected rate of return are:

**Main assumptions**
**A. Percentages**

| | **At 31 March 2012** | At 31 March 2011 | At 31 March 2010 | At 31 March 2009 | At 31 March 2008 | At 31 March 2007 |
|---|---|---|---|---|---|---|
| | **% per annum** | % per annum | % per annum | % per annum | % per annum | % per annum |
| Rate on increase in salaries | **4.3** | 4.9 | 4.3 | 4.3 | 4.3 | 4.3 |
| Rate of increase in pension payment | **2.0** | 2.7 | 2.8 | 2.8 | 2.8 | 2.8 |
| Discount rate for scheme liabilities | **4.9** | 5.6 | 4.6 | 6.0 | 5.3 | 4.6 |
| Inflation assumption | **2.0** | 2.7 | 2.8 | 2.8 | 2.8 | 2.8 |

**B. Present value of scheme liabilities**

| | **At 31 March 2012** | At 31 March 2011 | At 31 March 2010 | At 31 March 2009 | At 31 March 2008 | At 31 March 2007 |
|---|---|---|---|---|---|---|
| | **£'000** | £'000 | £'000 | £'000 | £'000 | £'000 |
| Present value of scheme liabilities attributable to the Commission | **227** | 221 | 255 | 208 | 222 | 224 |
| Total value of liabilities | **227** | 221 | 255 | 208 | 222 | 224 |
| **Net pension liability attributable to the Commission** | **(227)** | (221) | (255) | (208) | (222) | (224) |

**C. Amounts included as other finance costs**

| | **At 31 March 2012** | At 31 March 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Interest cost on pension scheme liabilities | **12** | 11 |
| **Net finance (charge)** | **12** | 11 |

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

| | **At 31 March 2012** | At 31 March 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Experience loss arising in the scheme | **(6)** | (1) |
| Changes in assumptions inderlying the present value of the scheme liabilities | **(1)** | 12 |
| **Statement of Changes in Taxpayers Equity** | **(7)** | 11 |

## 4: Pension disclosures continued

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

| | At 31 March 2012 £'000 | At 31 March 2011 £'000 |
|---|---|---|
| Surplus/(deficit) at 1 April | **(221)** | (255) |
| Increase in liabilities due to change in investment return | **–** | – |
| Finance costs | **(12)** | (11) |
| Actuarial gains/(losses) | **(7)** | 11 |
| Benefits paid | **13** | 13 |
| Past service cost | **–** | 21 |
| **Surplus/(deficit) at 31 March** | **(227)** | (221) |

### F. History of experience gains and losses

| | At 31 March 2012 £'000 | At 31 March 2011 £'000 | At 31 March 2010 £'000 | At 31 March 2009 £'000 | At 31 March 2008 £'000 | At 31 March 2007 £'000 |
|---|---|---|---|---|---|---|
| Actuarial gains/(losses) on liabilities | **6** | (1) | (5) | (5) | (2) | – |
| Present value of liabilities | **227** | 221 | 255 | 208 | 222 | 224 |
| **Percentage of the present value of liabilities** | **2.6%** | 0.5% | 2.0% | 2.4% | 0.9% | 0% |

## 5: Administrative expenses

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Legal advice* | **45** | 1,333 |
| Other consultancy costs** | **955** | 305 |
| External auditor's remuneration | **22** | 22 |
| Other administrative costs | **380** | 295 |
| Past service costs | **–** | (21) |
| | **1,402** | 1,934 |

* Legal advice in 2010/2011 included legal charges of £1,063,000 in respect of the review of commercial service proposals put forward by the operator. No associated legal charges arose in 2011/2012.

** The increase in other consultancy costs are due to costs arising from:
Professional advice on the Camelot Licence Investment Proposal (£568,000);
Research into the Health Lottery (£151,000);
Insight research (£150,000);
Shared services provided by the Gambling Commission following relocation (£82,000).

## 6: Other expenditure

| | 2012 | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Accomodation costs* | **707** | 718 |
| Dilapidation costs** | **(24)** | 156 |
| Personnel costs | **56** | 63 |
| Depreciation and amortisation | **61** | 146 |
| Travel and subsistence*** | **76** | 8 |
| | **876** | 1,091 |

* includes operating lease costs of £422,000.

** An estimate of £156,000 re.dilapidation costs arising from the office relocation was provided in 2010/2011. Following a competitive tendering process for the works, this estimate was found to have been overstated by £24,000.

*** Travel and subsistence costs have risen during the year as a result of an increase in staff travel and accomodation following the office relocation to Birmingham.

## 7: New Licence costs

Costs associated with the issue of the New Licence project were £0 in 2011/2012 (£45,000 in 2010/2011).

## 8: Property, plant and equipment

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

## 8: Property, plant and equipment continued

| | Fitting out costs £'000 | Furniture £'000 | Computer equipment £'000 | Telecoms £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost/Valuation** | | | | | |
| Cost as at 1 April 2011 | **37** | **85** | **211** | **9** | **342** |
| Additions | **–** | **–** | **4** | **–** | **4** |
| Disposals | **(37)** | **(84)** | **(26)** | **(9)** | **(156)** |
| At 31 March 2012 | **–** | **1** | **189** | **–** | **190** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2011 | **23** | **74** | **150** | **8** | **255** |
| Provided in year | **8** | **7** | **23** | **1** | **39** |
| Disposals | **(31)** | **(80)** | **(21)** | **(9)** | **(141)** |
| At 31 March 2012 | **–** | **1** | **152** | **–** | **153** |
| **Net book value** | | | | | |
| At 31 March 2012 | **–** | **–** | **37** | **–** | **37** |
| At 31 March 2011 | 14 | 11 | 61 | 1 | 87 |

## 9: Intangible assets

| | Software Licences £'000 | London 2012 Olympic and Paralympic Games IP £'000 | Total £'000 |
|---|---|---|---|
| **Cost/Valuation** | | | |
| Cost as at 1 April 2010 | 22 | 1,625 | 1,647 |
| Additions | 17 | – | 17 |
| (Impairment)/Revaluation | – | (157) | (157) |
| Disposals | (17) | – | (17) |
| **At 31 March 2011** | 22 | 1,468 | 1,490 |
| **Accumulated depreciation** | | | |
| At 1 April 2010 | 21 | 996 | 1,017 |
| Provided in year | 1 | 94 | 95 |
| Disposals | (17) | – | (17) |
| **At 31 March 2011** | 5 | 1,090 | 1,095 |
| **Net book value** | | | |
| At 31 March 2011 | 17 | 378 | 395 |
| At 31 March 2010 | 1 | 629 | 630 |

| | Software licences | London 2012 Olympic and Paralympic Games IP | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Cost/Valuation** | | | |
| Cost as at 1 April 2011 | **22** | **1,468** | **1,490** |
| Additions | **15** | **–** | **15** |
| (Impairment)/Revaluation | **–** | **(334)** | **(334)** |
| Disposals | **–** | **–** | **–** |
| **At 31 March 2012** | **37** | **1,134** | **1,171** |
| **Accumulated amortisation** | | | |
| At 1 April 2011 | **5** | **1,090** | **1,095** |
| Provided in year | **4** | **18** | **22** |
| Disposals | **–** | **–** | **–** |
| **At 31 March 2012** | **9** | **1,108** | **1,117** |
| **Net book value** | | | |
| At 31 March 2012 | **28** | **26** | **54** |
| At 31 March 2011 | 17 | 378 | 395 |

## 10: Trade receivables and other current assets

| | **2012** | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Trade receivables | **–** | – |
| Deposits and advances | **11** | 45 |
| Prepayments and accrued income | **23** | 163 |
| | **34** | 208 |

All of the Commission's receivables are due from bodies external to government.

## 11: Cash and cash equivalents

The Government Banking Service (GBS) provides a current account banking service.

| | **2012** | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Balance at 1 April | **554** | 396 |
| Net change in cash and cash equivalent balances | **922** | 158 |
| Balance at 31 March | **1,476** | 554 |

## 12: Trade payables and other current liabilities

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Trade payables | **143** | 60 |
| Staff cost payables | **521** | 71 |
| Other payables | **1** | 1 |
| Accruals and deferred income | **298** | 108 |
| | **963** | 240 |

The Commission held the following balances with other government bodies as at 31 March 2012:

**Trade payables**

Gambling Commission – £138,222 in respect of shared service arrangements

**Staff cost payables**

Gambling Commission – £7,766 in respect of seconded staff

HMRC – £40,154 in respect of employee tax & NI contributions due

Cabinet Office – £17,038 in respect of PCSPS pension contributions due

**Other payables**

LOCOG – £946 in respect of estimated royalties due

**Accruals and deferred income**

Gambling Commission – £9,245 in respect of shared service costs not yet invoiced

The remaining balances are held with bodies external to government.

## 13: Amounts falling due after more than one year

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| Other payables (LOCOG – London 2012 Olympic and Paralympic Games IP) | **–** | 335 |
| | **–** | 335 |

All amounts falling due in relation to the London 2012 Olympic and Paralympic Games will be paid in 2012/2013.

## 14: Provision for liabilites and charges

The operating lease for the National Lottery Commission's office expired in January 2012. The lease was not renewed as the Commision has relocated to Birmingham. As per the terms of the lease the Commission was liable for the costs in relation to dilapidation works. A provision for the estimated costs of the works was included within the accounts for 2010/2011, and subsequently released as costs were incurred during 2011/2012.

| | **2012** | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Balance at 1 April | **156** | – |
| Arising in the year | **–** | 156 |
| Utilised in the year | **(132)** | – |
| Released unused | **(24)** | |
| **Balance at 31 March** | **–** | 156 |

## 15: Financing

| | **2012** | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Grant-in-aid and capital grant drawn from DCMS for operational purposes | | |
| – Resource | **5,081** | 5,175 |
| – Capital | **19** | 45 |
| **Total grant-in-aid financing** | **5,100** | 5,220 |

## 16: Capital commitments

There were no contracted capital commitments at 31 March 2012 for which no provision had been made (£0 in 2011).

## 17: Commitments under operating leases

At 31 March 2012 the Commission was committed to making the following payments in respect of operating leases.

| | **At 31 March 2012** | | At 31 March 11 | |
|---|---|---|---|---|
| | **Land and buildings** | **Other** | Land and buildings | Other |
| | **£'000** | **£'000** | £'000 | £'000 |
| Operating leases: | | | | |
| Within one year | **72** | **–** | 281 | 7 |
| In the second to fifth years inclusive | **–** | **–** | – | – |
| Over five years | **–** | **–** | – | – |
| | **72** | **–** | 281 | 7 |

## 18: Related party transactions

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

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

These transactions consist of the following:

- Grant-in-aid received from DCMS during the year of £5,100,000.
- The surrender to DCMS the sum of £45,900 in respect of licence fees where the National Lottery Commission acts as an agent to collect and surrender the fees accordingly.

The Gambling Commission is also regarded as a related party. Following co-location and the provision of shared services from 4 January 2012, the following transactions occurred in 2011/2012:

| | |
|---|---|
| Staff costs: in relation to seconded staff | £14,628 |
| Admin expenditure: in relation to the SSA and sundry costs | £110,777 |
| Other expenditure: in relation to the SSA and sundry costs | £37,576 |
| Cash payments: in relation to seconded staff and sunry costs incurred | (£7,747) |
| Other creditors: SSA charges due at 31 March 2012 | (£138,222) |
| Accruals: seconded staff and sundry costs incured to 31 March 2012 | (£17,011) |
| Commitments: under the SSA for 2012/2013 (this includes the £72,434 land and buildings commitment in Note 17). | £508,331 |

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

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

## 19: Contingent liabilities

There are no contingent liabilities to report as at 31 March 2012 (£0 2010/2011).

## 20: Financial Instruments

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

### Credit risks

Cash balances, which are drawn down from DCMS to pay administration and other operating costs, are held in an account with the Government Banking Service sponsored by HMRC. The Commission's maximum exposure to credit risk with respect to trade receivables is £0k (2010/2011 £0k).

### Liquidity risks

In 2011/2012 £5.1 million (100%) of the Commission's income derived from grant-in-aid from DCMS (2010/2011 £5.22 million 100%). The Commission is satisfied that there are sufficient liquid resources, both in the form of cash of £1.5million and the drawdown of funds available in the financial year 2012/2013, to cover all current contracted commitments as well as the Commission's activities planned for 2012/2013. The Commission is also satisfied that it is not exposed to significant liquidity risks.

### Market risk

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

## 21: Post balance sheet events

These accounts were authorised for issue by the Accounting Officer on the date shown on the audit certificate.

There are no post balance sheet events to report since 31 March 2012.

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