



National Lottery  
Commission

**ensuring**  
a **fair** Lottery  
for the nation

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We will regulate the Lottery so as to ensure that players are treated fairly, protect the nation's interest in the Lottery and motivate the operator to **maximise** the **enjoyment** and benefits that the Lottery brings to the nation

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## The Commission's duties:

The Commission's responsibilities are governed by the National Lottery etc. Act 1993 as amended. Under Section 4 of that Act, we have a duty to:

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

## Major events for the year:

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# 2005

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**1 April** Robert Foster appointed as Chairman of the Project Board, which is set up to oversee the third licence competition and Anne Wright appointed as a Commissioner

**22 June** City briefing to make contact with potential bidders, provide information and gain further feedback on the competition process

**6 July** International Olympic Committee President Jacques Rogge announces that London will host the London 2012 Olympic and Paralympic Games

**25 July** Launch of National Lottery Fast Pay™ across all Tesco stores

**28 July** First Olympic scratchcard, Go for Gold, is launched to contribute towards the £750 million that will be raised from designated Olympic games

**29 July** The Commission publishes the *Summary of Responses, to A Lottery for the Future*

## The Commission's core values:

**Integrity** We will be fair, honest and open in our dealings and demonstrate integrity in all our decisions and actions.

**Communication** We will communicate transparently and in a trustworthy manner with each other and our stakeholders.

**Accountability** We will take ownership of our responsibilities, working effectively, efficiently and with professionalism, to achieve the Commission's goals.

**Teamwork** We will respect and support each other, encourage each other to develop and make the organisation an enjoyable and rewarding place to work.

# 2006

**17 September** Sarah Thane CBE is appointed as Commissioner succeeding Baroness Jo Valentine

**16 October** Dr Anne Wright CBE becomes Chair of the National Lottery Commission, taking over from Timothy Hornsby

**8 November** The *Statement of Main Principles* is published to mark the formal start of the competition

**8 November** Launch of Lotto HotPicks 1 and 5

**1 February** Robert Foster, Mark Harris and Timothy Hornsby attend the World Lottery Association conference in Mexico

**14 February** Launch of the online public engagement questionnaire

# this year has challenge but also and **successful**

## Chair's foreword

**To the Rt Hon Tessa Jowell MP, Secretary of State for Culture, Media and Sport**

With the competition gathering momentum alongside our existing regulatory activities, we have had a challenging year, but also a productive and successful one.

Robert Foster officially started his role as Chairman of the Project Board on 1 April 2005 and he has overseen some major milestones in the competition to find an operator for the third licence. The National Lottery continues to excite the UK public, 70% of whom continue to engage with its games, and the operator reported strong sales figures at the end of this year. We are delighted to report that at the end of this year the overall returns to good causes stand at over £18.5 billion since the Lottery began in 1994.

### **Progress of the National Lottery Bill**

We have watched the progression of the National Lottery Bill through Parliament with interest and hope that it will be passed before we select the operator for the Third Licence.

Of most significance to us are the proposals that would; enable the Secretary of State to appoint a fixed term Chair for the Commission; set a maximum licence term of 15 years; and introduce a reserve power that would offer a competition for a small number of licences instead of running a competition for a single licence. We are confident we are running a strong competition to award a single licence, however, and that we are doing all we can to make sure that this provision will not need to be called upon.

### **Working with the Gambling Commission**

The Gambling Commission was formally established in October to take over and expand on the role previously played by the Gaming Board for Great Britain. We realise the importance of developing strong relationships with the Gambling Commission and have worked hard to do this, so we are able to share knowledge on a range of regulatory and gaming issues now and in the future.

In October we responded to a consultation paper the Gambling Commission published on society lotteries and the review of prize limits, and we organise regular meetings between our Commissioners and officials, and various members of the Gambling Commission. We will continue to seek opportunities to work with them as the landscape of the environment in which we each regulate evolves.

# been a productive



### Setting a climate for better regulation

As a flexible regulator, we welcome progress and seek to respond to a fast-developing industry. We are taking on board the comments made in other previous regulatory reviews and remain determined to regulate efficiently and effectively.

We have published a review of our approach to regulation, which reflects current thinking on how our regulatory strategy could develop and examines the benefits of a more risk-based approach, which would help to encourage innovation by the operator. Equally importantly, the Review of the National Lottery Commission's Approach to Regulation will give potential bidders a sound understanding of the environment in which the next Licensee will operate. The paper was made available on our website at the end of April 2006 and we have contacted the relevant stakeholders to request their views in order to help shape our thinking further. The outcome of the review will be published later this year.

### Honours

I am delighted to congratulate Commissioner Brian Pomeroy and Director of Compliance Marta Philips on the honours presented to them by the Queen in January this year. Brian collected a CBE for his work with the homeless charity Centrepont, and Marta was awarded an OBE for her services to social housing as Chair of the Servite Houses Board.

### Colleagues and staff

On behalf of all the Commissioners I would like to welcome Sarah Thane who joined us in September to succeed Jo Valentine, whose term ended in the same month. I would like to thank Jo warmly for her contribution to the Commission and wish her well in her future.

Sarah Thane is currently an independent consultant on broadcasting regulation advising the BBC Governors on regulatory and compliance matters, and has brought her considerable knowledge and experience to bear on the significant decisions we have taken this year.

I would also like to thank Timothy Hornsby, who continues as a Commissioner, for his hard work and commitment to the Commission during his time as Chairman.

It is without doubt that the success of both the competition to date and the ongoing regulatory duties of the Commission is down to the hard work and commitment of the staff and Chief Executive, Mark Harris. The knowledge and enthusiasm of my colleagues have been key drivers behind the achievements of the last year and we look forward to the challenges ahead.

Anne Wright  
July 2006

we have continued  
meet or **improve**  
our targets in

## Chief Executive's report

**This year has centred around intensive preparation for the next licence and our commitment to encourage strong and credible competition.**

We have delivered against our strategic priorities for the year and can look ahead with confidence to the continued successful operation of the National Lottery and the fact that we have created a sound and attractive foundation for consortia to begin considering and preparing their bids.

### The strategic context

The Commission's activity is driven by our statutory duties and our strategic objectives, which include running an open and transparent process for the competition and securing optimal performance from the operator.

Alongside our strategic objectives, the key drivers for this financial year were to: prepare for and run the next competition as we enter its most intense phase; review our regulatory framework; and monitor the performance of the operator, encouraging it to grow sales and, most importantly, returns to good causes.

### The third licence competition

The competition has progressed from the earlier consultative stage into a more formal and structured process over the past year, following the publication of the *Statement of Main Principles* in November. This year represents the most demanding stage in the competition process so far and the increase in our annual budget has been made to reflect this.

The competition budget for this year was £4.1 million and, as our accounts show, there was additional spend that reflects the external support necessary to undertake major work on finalising the draft and final invitation to apply and licence within our set timescales. This has been offset to a degree by an underspend in our *business as usual* budget, and we intend to reduce our planned expenditure in 2006/7 to counteract these additional costs over the two year period.

# to upon key areas



As a small organisation of fewer than 50 people it has been essential, while running such a major project, to augment in-house experience with specialist consultancy skills. It is important to note that the objective of the competition is to maximise returns to good causes and in relation to the £1.4 billion that has been raised for good causes this year alone, we consider the investment in this competition is justified.

We have worked hard to establish sound internal management systems to support the competition and deliver well-managed and high quality outputs. A new project office has been established to manage the process and we have finalised the appointment of our advisory team of consultants, including lead advisers Rothschild. The process is open to independent scrutiny in the form of external assessors and regular Gateway reviews undertaken by the Office of Government Commerce.

We have reviewed our financial scrutiny, security and risk management procedures to ensure the absolute integrity of the process. Risk action plans have been developed across the business to allow us to manage issues confidently and ensure the timely progress of the competition.

We are firmly on track against our indicative timetable and I am pleased to report we have met each milestone set out in the *Statement of Main Principles*. Extensive efforts have been made to engage with the market and our stakeholders to ensure that we offer the most attractive bidding opportunity possible and one that will take place on a level playing field. We will maintain ongoing communication with all our key stakeholders throughout the competition. The strong and positive feedback about the process to date underlines our firm commitment to succeed in creating an attractive and fair competition. It is now up to those with an interest in bidding to translate this positive initial response into firm and credible bids. We await their response with anticipation.

# commitment to improvement strengthen our

## Monitoring performance and supporting the development of the National Lottery

Alongside this demanding phase of the competition process, we have continued to ensure the successful day-to-day operation and performance of the National Lottery. We have been encouraged that the operator has managed to return sales to above the £5 billion level and have seen returns to good causes rise, with an increase of £50.5 million on the previous year.

We will continue to monitor this performance closely over the coming year and assess what impact significant events, such as the record breaking EuroMillions rollover series, may have had on sales. We will work with the operator to encourage it to continue to grow sales across every channel to ensure continued growth in returns to good causes, including the 2012 Games. This will be even more important as changes to the sales portfolio are introduced, for example the replacement of Lotto Extra with Dream Number in July 2006. Dream Number is the first draw-based game to generate funds for the National Lottery Distribution Fund (NLDF).

We have also continued our essential role to protect players and ensure new games are stringently assessed to prevent excessive or underage play. Players can continue to be confident that the Commission will do its utmost to ensure the integrity of the National Lottery and protect their interests.

A priority of both our performance monitoring and regulatory work has been in reviewing the resilience of the operator's IT systems. This has been of particular importance with the development of new sales channels. Protecting player interests is our primary concern and this year we recorded a significant breach following problems with the implementation of an online subscriptions system.

After a full investigation, taking into account representations from Camelot, we issued two financial penalties; £75,000 for failing to operate an adequate system of internal control in implementation and initial operation of the system, and a further £15,000 penalty for not reporting the incidents to the Commission immediately. We are satisfied that all players affected were identified and compensated accordingly.

# continuous and work to internal capacity

We will continue to monitor the technical capacity of the operator as it introduces new platforms to respond to market changes and we have established new performance standards this year to achieve this. In addition, we will also continue to require that rigorous testing takes place prior to the implementation of any new games.

## Quality and continuous improvement

Underpinning this successful year has been our commitment to continuous improvement and work to strengthen our internal capacity. In preparation for review of our Investors in People (IiP) accreditation we considered how we manage staff and what we offer in terms of development and I am pleased to report that we received full accreditation of the standard in May 2006.

Alongside this we have conducted an evaluation of our own performance management system. This will ensure we have the right management tools in place to assess our own performance and contribution to the National Lottery and continue to provide value for money and a cost-effective operation for the public.

## Performance measures

This year, we have continued to meet or improve upon our targets in key areas. We have improved on paying invoices on time, sickness absence has decreased over the past year and we have exceeded our standards to respond to written correspondence within 10 working days.

Staff turnover has risen slightly from last year to 22%. We have conducted 100% of the fit and proper vetting checks for all new staff.

## Thanks to staff

Finally, I would like to thank Commissioners, staff and our expert professional teams of advisers who have worked hard and with determination this year to deliver against our strategic priorities.



**Mark Harris**  
Chief Executive

# we maintain resolve to deliver open competition

## Introduction from the Chairman of the Project Board

**Over the past year the competition has progressed at a real pace and despite a challenging timetable we remain very much on track to deliver what we promised we would.**

We are looking forward to the year ahead and maintain our resolve to deliver a fair, open and transparent competition that will secure high quality bids. The point of this competition is to allow us to select an operator for the third licence that will ensure the best possible return to good causes, and that is what we continue to focus on as we move forward.

### Challenges and successes

The discussion paper, *A Lottery for the Future*, that we published last year generated stimulating debates with a broad range of interested parties, and as a result we have been working hard to incorporate our learning into the design and structure of the competition.

We have succeeded in clarifying a range of issues around encouraging competition, levelling the playing field and aligning incentives, to make certain the competition is as attractive to the market as it can be. Critical decisions have been made on the length of the licence, management of the transition period, retention rates and the impact of bidder investment costs, consortia arrangements and requirements for new gaming systems.

In November we published the *Statement of Main Principles*, which sets out the framework and timetable for the competition. We are encouraged by how well this document has been received and the positive input we have gained from a variety of stakeholders.

### Communicating with stakeholders

Alongside the dialogue with potential bidders we have endeavoured to reach out and speak to a wider audience who are concerned with the progress of the competition and who will be affected by our choice of preferred bidder. I have met with representatives from the retail sector and spoken to the public and Parliamentarians over the course of the year and have welcomed their views.

# our a fair and



Earlier in the year Mark Harris, Timothy Hornsby and I attended the World Lottery Association conference in Merida, Mexico, where I gave a presentation on the competition taking place in the UK. This gave us an opportunity to network with interested parties and gain useful insight into competitions that have been run abroad. The feedback we received from overseas operators further underlines that we are running a tight competition based on the principles of fairness and transparency.

### Reviewing our progress

We have opted to have the competition subject to Gateway reviews carried out by the Office of Government Commerce (OGC) and I am delighted to report that our first three reviews have proven the strength of this process, receiving only constructive recommendations at each stage.

### Looking forward

The *Draft Invitation to Apply* (ITA) was published on 28 April 2006 and clearly set out what bidders need to provide in order to put in a successful bid. In May 2006 we held a conference for potential bidders to give them further information on the areas that are fundamental to the Commission and to encourage networking between interested parties, which came at an important time once interested parties had read the Draft ITA.

There has been a period of time, during which we have continued to meet with and listen to potential bidders' feedback on the Draft ITA, and any necessary amendments were made to the Final ITA, which was published on 29 June 2006. We have facilitated discussion between parties and remain encouraged by the level of interest in the competition but, ultimately, it is now down to potential bidders to submit their bids on 15 December.

We will persist with our determined efforts to deliver a strong competition and ensure a smooth transition period so that the National Lottery remains a success.

**Robert Foster**  
Chairman of the Project Board

**maximise** returns  
causes and build  
**excitement** of

to good  
on the  
the Lottery

**The competition**

# we are meticulous in ensuring there is process in

## Preparing the Foundation

### The Project Board

We are determined to find the best operator for the third licence and have been meticulous in ensuring there is a robust process in place for generating high quality bids, and for evaluating and selecting the winning bidder.

In order to meet the specific needs of the competition, a Project Board has been established by the Commission, which comprises an executive committee with decision-making powers. Making up the executive committee are two members of the Commission, Robert Foster and Brian Pomeroy, and the Chief Executive, Mark Harris. On 1 April 2005 Robert Foster was appointed by the Secretary of State as a Commissioner and he is Chairman of the Project Board.

The main objective for the Commission is to award the Licence to an operator that will maximise returns to good causes and build on the excitement of the Lottery and its games, while meeting the high standards of propriety and player protection on which we insist.

To do this we are focused on running a single-stage competition. We remain firm on our commitment to make transparent decisions that will be communicated to the relevant parties and believe this is important if we are to generate a number of high quality bids.

The full Project Board Terms of Reference for Commissioners and Senior Management is available to read on our website.

### The Project Office

On 14 February 2005 Colin Perry joined the Commission as Programme Director for the competition, bringing with him a wealth of experience as the previous Head of National Lottery Licensing at the Department of Culture Media and Sport. Since then we have recruited an experienced project team to work with the Programme Director and oversee the project from an administrative, financial and management perspective.

### Expert consultancy

The Commission has always understood that to run an effective and strong competition that is attractive to bidders, we would need to complement our in-house experience and skills with expert advice from a range of consultants. The consultants include Rothschild, as lead advisers, plus NERA Economic Consulting, Hedra, Freshfields, April Strategy, Hill & Knowlton and Mazars. They work closely with the Project Board and members of the Project Office tackling the technical and practical issues that arise as the competition progresses.

# a robust place

## Reviewing our progress

The progress of the competition is subject to regular Gateway reviews conducted by the Office of Government Commerce. Further to this, we have enlisted Cornwell Management Consultants to provide independent scrutiny of the process.

The first OGC Gateway review took place between May and June 2005 and looked at the outcomes and objectives for the programme. January 2006 saw the second review, the purpose of which is to confirm the business case is robust and that it is affordable, achievable and likely to achieve value for money, and a third review took place in May 2006 to examine the business case and how robust and appropriate our procurement strategy is. All three reviews received an amber rating, which means the project is approved to go forward with actions and recommendations to be carried out before the next OGC review.

## Designing a Strong Competition

### Consulting with the market

Consulting with key individuals and organisations within the lottery environment has been a fundamental activity for the Commission. It allows us to gain useful feedback from other organisations on the competition process and learn from similar experiences abroad.

During the course of the year the Chief Executive and Chairman of the Project Board have presented and been available for questions at key gaming and lottery events, including the European Lotteries Association in Rome, La Fleur's in New York and the World Lottery Association conference in Mexico, among others. Through this process we have gained invaluable knowledge of how previous overseas competitions have been run and have received positive feedback on the way we are handling the competition in the UK.

Not only have we been meeting with people face-to-face to discuss the competition, we have put out formal consultation papers to allow stakeholders and potential bidders to provide views on what they feel is important to the process. In July, we published the *Summary of Responses* to follow the discussion paper *A Lottery for the Future*, which was published in January 2005.

The *Statement of Main Principles* was published in November and marked the formal start to the competition. It clearly set out the basis for the competition to award the next licence to run the National Lottery and was founded on the essential feedback we have had from interested parties across the world as well as from our formal discussion papers. As with all our efforts during this process, the *Statement of Main Principles* underlined our commitment to running a fair, open and transparent competition.

# we are confident that right approach high quality, credible

The fact we have a sound competition process in place was reinforced by how positively the document was received by interested parties. We are also encouraged by comments we have received from overseas operators.

## Formalising the Opportunity

A great deal of work has been carried out drafting a licence to see the operation of the National Lottery through to 2019. We have looked at the way we regulate the current operator and are moving towards a more risk-based approach where we will focus on desired outputs rather than specifying inputs from the next operator.

The Draft Licence was published alongside the Draft Invitation to Apply (ITA) at the end of April and the final versions of the ITA and licence were published at the end of June, as timetabled in the *Statement of Main Principles*. The ITA clearly sets out exactly what is required of bidders. It is a substantial document, but for an opportunity of this size it is imperative to give sufficient detail so consortia have the capability to put together targeted bids and to ensure we have the information to fully assess the capability and competence of bidders. We are being very clear about what we want and are confident this is the right approach to attract high quality, credible bids to run one of the most successful lotteries in the world.

In order to enable each party to evaluate fully the Lottery opportunity we have made further information available in a secure virtual data room accessed via the internet.

## Communicating to the Wider Audience

The National Lottery has a huge reach across the UK and as part of the competition process we have been concerned with seeking the views of key stakeholders. In meeting with these groups we have been able to inform them of the competition progress and tell them what they can expect from us. More importantly we have listened to their views on a broad range of issues, which has helped us shape the competition and ensure we attract the best operator for the next Lottery licence.

## Meeting Parliamentarians

We have met with key Parliamentarians including individuals from the three main parties and those who work closely on Lottery related issues and received valued feedback.

On 15 February the Chair, Chief Executive and Chairman of the Project Board were invited to make a presentation about the competition at a meeting of the All Party Olympic and Paralympic Group in the House of Commons.

We will continue to seek opportunities to brief Parliamentarians throughout the competition.

# this is the to attract bids

## Listening to retailers

Retailers play an important role in the National Lottery, accounting for the majority of sales across all channels and are the face of the Lottery, advising consumers on the portfolio of games and actively preventing underage play. We have set out to engage with retailers and through this dialogue we are aware of their hopes and concerns around the process of selecting an operator for the next Licence.

In November we began a retailer engagement programme to visit and speak directly with key organisations from the independent retail sector. We have also been making contact with multiple retailers as part of the programme. The feedback we have received is positive and we plan to continue talking to and listening to this important group as the competition develops.

In March we carried out in-depth research with retailers into their views on the competition, and any particular concerns they had about transition or the future of the Lottery.

## Engaging with the public

As part of the process to ensure the competition is open, fair and transparent, we have been active in taking on board the views of one of our most important stakeholder groups - the public. Over 70% of the UK population play the National Lottery and we wanted to hear from players and other members of the general public who may not participate but have practical views on the way the Lottery is run.

On 14 February we began seeking views from the public on which aspects of the National Lottery are important to them, by way of an online questionnaire. The questionnaire was available until 31 May 2006 and we will publish the summary of findings later in the summer. The questionnaire was publicised with regional radio debates with Chairman of the Project Board Robert Foster and ex-Olympic athlete Roger Black to further engage the public. We also wrote to MPs to enable them to discuss the topic further in their constituencies.

## Media briefings

Through a series of individual briefings with national and trade press we have been able to inform the public, business community and other stakeholders about the competition process, its key stages and what we have done to ensure it is a fair and open competition taking place on a level playing field.

we **continue** to  
forward and regulate  
and **effectively**

look

positively

**Regulating the National Lottery**

# we ensure the Lottery **trusted** and the UK population

## Licensing

Outside of the competition our usual and essential business activities have continued over the past year. We work hard to ensure the lottery remains trusted and enjoyed by the UK population.

## Reviewing the way we regulate

The National Lottery has proved to be remarkably successful in generating significant returns to good causes. At the Commission we are determined to regulate in a way that will enhance the development of the National Lottery, without imposing unnecessary burdens that could constrain or restrict its potential.

For this reason, over the past year we undertook a review of our regulatory model, in order to ensure we continue to regulate effectively. In terms of the competition, it is important for potential bidders for the next licence to understand the regulatory regime that the operator will work within. We also want to ensure that we continue to look forward and regulate effectively and positively and learn from best practice in other fields.

The paper on our evolving approach to regulation was published on the website in April 2006 before the Draft ITA was launched and we have invited key contacts in the regulatory environment to comment on this review.

## Evidence-based regulation

To ensure the regulatory decisions we make are based on sound knowledge, we carry out a diverse range of work as part of an annual research programme.

Over the past year we have gathered information on the prevalence of underage play and have investigated retailers' views on the competition. We also commissioned research on 4,000 participants to find out more about how the Lottery player population is segmented. The findings have been put into a virtual data room to assist potential bidders in compiling bids.

We have gathered qualitative evidence on lapsed players and the role syndicate managers play in contributing towards player participation, the results of which also feature in the data room. We have recently commissioned research into female participation of the National Lottery, which is a topical area of work within the wider gambling field.

## Licence Renewals

Since the start of the second licence in January 2002 we have renewed class licences on an annual basis. We are confident that the process works well and benefits the operator and saves on our resources internally, and to reflect this we decided to grant renewals up until the end of the licence period in 2009.

# remains enjoyed by

Total sales £ million



Class licences allow the operator to launch new scratchcards that meet set requirements for that particular class without applying to the Commission for approval, the benefit of which is that it enables the operator to quickly respond to market demands and popular themes that are likely to generate high sales.

Across June and July 2005 we undertook the major task of renewing the licences for key portfolio games for the first time during this second licence period. The renewals will last until the end of the licence and include Lotto, Lotto Extra, Daily Play, Thunderball, Midweek Thunderball, EuroMillions and Lotto HotPicks 2, 3 and 4.

## Monitoring performance

### Analysis of sales and returns to good causes

A fundamental part of our regulatory role is to motivate the operator to ensure sales remain high so the maximum return to good causes is generated, while also protecting the interests of players by considering the type of new games launched and subsequent promotion to generate participation.

We are pleased to report that sales have continued to rise this year, with an increase in ticket sales of more than £246 million. We are encouraged that the public continue to engage with the National Lottery – around 70% of the UK population take part and players have contributed towards the £1.5 billion raised for good causes in 2005/6 so that the total amount raised stands at over £18.5 billion.

The largest ever EuroMillions jackpot in February was a contributing factor to these increased sales figures. With a final prize of £125 million after 12 rollovers this was an extremely rare occurrence.

The operator is responsible for looking at its portfolio of games and making decisions about where to concentrate its efforts. Our priority is to ensure that no matter how the portfolio changes, the level of sales and amounts raised for National Lottery Distribution Fund (NLDF) and Olympic Lottery Distribution Fund (OLDF) are maximised.

Ongoing evaluation of promotions where NLDF is used is also crucial to the Commission as we must be able to justify that the use of money on free ticket promotions and Superdraws will ultimately increase returns to good causes.

### London Olympic and Paralympic Games

The operator is committed to raise £750million to contribute towards the staging of the London 2012 Olympic Games and Paralympic Games. We will support the operator in raising these funds and are confident it will continue to maximise sales so it meets this target.

# the National Lottery excitement for across the

We have taken the decision to request an updated sales reporting system from the operator to show both contributions to the OLDF and the NLDF, which will allow us to accurately assess the merit of ongoing game sales plans up until 2012. We have the option, if required, to use sanctions available to us under the terms of the licence to address poor performance.

To date £16.3 million has been raised for OLDF, which is £2.3 million ahead of the operator's £14 million target for the year.

## EuroMillions

We approved a change to the Lottery Operator Agreement in December, before the record EuroMillions jackpot, to allow for the jackpot to roll-down after 12 successive rollovers, so that ticket holders with lower tiers of numbers enjoy larger prizes.

We also oversaw the updates to game procedures and player guides that are produced by the operator so that consumers have access to all the information they need to play EuroMillions confidently.

In February, we approved a new trademark licence, consisting of a specific EuroMillions logo. The Commission is responsible for preserving the intellectual property rights of the National Lottery and gives permission for them to be used, but it is the role of the operator to monitor the use of intellectual property and to inform us if and when this happens illegitimately.

## Maximising good causes

The National Lottery provides entertainment and excitement for players across the UK, with the main purpose of generating funds for a variety of causes and projects.

## Increasing access to the Lottery

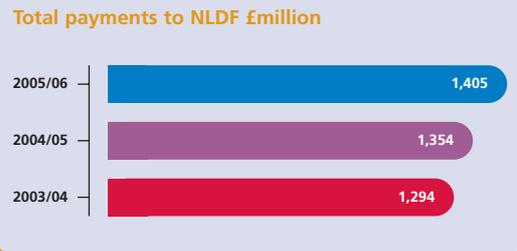
In July we worked closely with the operator to ensure the smooth roll-out of National Lottery Fast Pay™ across all Tesco stores. National Lottery Fast Pay™ allows consumers to purchase lottery tickets through Electronic Point of Sale (EPOS) at Tesco stores giving consumers greater access to Lottery products.

The software used at Tesco till-points was brand new and a pilot in April gave us satisfaction that the systems in place worked appropriately before the full launch.

To ensure players were aware of this new opportunity to buy tickets and understood how it worked, we oversaw and approved player documentation that informs players how they can buy tickets at Tesco stores and where they are able to claim prizes.

With any new scheme we approve, prevention of underage play is an important factor to bear in mind and we ensured that the operator oversaw the training of Tesco staff both to educate the public on the new initiative and be vigilant to under 16s attempting to purchase tickets.

# provides players UK



In addition, software exists to prompt sellers to check the age of a customer, plus posters and under 16s stickers were produced as point of sale materials to remind customers and staff of the legal playing age.

### Free tickets and Superdraws

We have continued to monitor the benefit of free tickets and Superdraws, which are funded by the NLDF. This year we approved five Superdraws, each with a £15 million guaranteed jackpot, and four free ticket promotions took place in August, October, November and February. The purpose of these promotions is to encourage new players or to re-ignite the interest of lapsed players, with the ultimate outcome of better returns to good causes.

### New games

We granted the operator a licence for Lotto HotPicks 1 and 5 this year to complement the existing Lotto HotPicks 2, 3 and 4. The games were launched in November and made available interactively. We made a decision not to accept an initial proposal for Lotto HotPicks 5, as the £100,000 prize level was not considered good value for players. The application was revised to offer a prize of £130,000, which we approved.

We oversaw the relevant system function proving (SFP) testing by the operator to ensure that the addition of new software would not impact adversely on the current systems.

### Olympic Lottery games

Since London was announced as the host city for the 2012 Games we have worked with the operator to meet our mutual aim of raising funds to contribute to the staging of the Olympic and Paralympic Games.

Shortly after the announcement in July, we made a variation to the Section 5 licence to allow funds to be paid to the Olympic Lottery Distribution Fund (OLDF). We worked quickly and effectively with the operator so that the first 2012 Games designated scratchcard Go for Gold was ready to launch on 25 July.

Since then we have approved a total of seven scratchcards designated as OLDF games, plus the good causes proceeds from all Interactive Instant Win Games (IIWGs) have been contributing towards the staging of the 2012 Games, since 1 April 2006.

January saw an agreement in principle to license a new game called Dream Number, sales from which will contribute towards raising money for the 2012 Games. The game was launched on 5 July 2006 and prizes range from £2 to £500,000.

we consider how  
game will **impact**  
and the general

every  
on players  
public

**Maintaining the integrity  
of the Lottery**

# we are pleased that the operator its best results

## Protecting consumers

We take our statutory duties very seriously and with every game that is licensed we consider how it will impact on players and members of the general public who do not play but may still be affected by the lottery, such as under 16s and people who are vulnerable to gambling.

## Responding to the public

Our ability to respond to players and the general public is of great importance to us. We have continued to monitor the number of queries we receive over the past year and have seen a sharp rise, mainly due to the growing number of lottery scams.

## Supporting our colleagues

We are aware that members of the public are frequently targeted as the victims of lottery scams, and in February we actively supported the scams awareness campaign carried out by the Office of Fair Trading (OFT) by offering spokespeople from the Commission for interviews and contributing to press materials. Internally, we briefed staff on the rising occurrence of Lottery scams and how best to deal with consumers who regularly call our office having received a fraudulent email or letter. We also displayed the OFT's scams logo on our website during the month-long campaign to help generate awareness.

## Preventing excessive and underage play

In May, Commissioners reviewed our policy on the issues of excessive and underage play to ensure the consumer protection measures we adopt are appropriate and up to date. As part of our ongoing commitment to consumer protection, we requested that the operator refine its preventative strategy to ensure that games and promotional activity do not encourage excessive play or participation by under 16s.

## Operation Child

We continue to monitor results from Operation Child, which is an ongoing programme designed to assess the occurrence of underage Lottery sales through retail outlets using test purchasers who look under 16 years old. At the end of this year, we were pleased that the operator was able to announce its best results to date. From 10,386 Operation Child visits, a total of 9,360 retailers refused to sell a ticket to a test purchaser on a first visit, which is a first refusal rate of 92.7 per cent.

## Research into underage play

In June we appointed MORI Social Research Institute and the International Gaming Research Unit at Nottingham Trent University to conduct a study of under 16s and gambling focussing specifically on the play of National Lottery games. From September to February over 8,000 young people were involved in a survey to measure these levels.

# announced to date

We will be publishing the results this summer and encouraging debate among our peers.

## Monitoring performance standards

As part of our regulatory duty we monitor the operator's performance standards over the course of the year to ensure, for example, it is responding swiftly and effectively to players who may have queries or complaints. This year we introduced new performance standards for subscriptions-related matters and we will monitor these continuously.

## The Draw

This year we have continued our regular visits to draws to include a Saturday, Wednesday and a Daily Play each month, and we also attended a EuroMillions draw in Paris.

We have overseen the introduction of draw arrangements and the testing of equipment for Dream Number, as well as testing arrangements for existing draws and in January we set the operator an assignment to set out exactly how draws are carried out and how winners are determined as part of our ongoing review and regulation of player protection.

We require the presence of an independent adjudicator at every Lottery draw to validate it has been carried out in accordance with the procedures, which are approved by us.

## Enforcing

### Breaches

Our role as regulator allows us to take enforcement action and impose a range of sanctions, including financial penalties, if the operator fails to comply with its licence obligations.

In March we issued the operator with two financial penalties totalling £90,000, following problems with the implementation of an online subscriptions system in September and October 2004. We investigated the matter in full and found that the operator had failed to operate an adequate system of internal control and did not report certain incidents to the Commission immediately. It is important to note that players and good causes were not adversely affected by the incident.

In the interests of fairness and transparency we published full details on our website along with a press release.

Across the year, we also recorded breaches around performance standards, a Superdraw announcement and the secure areas register. A summary of all breaches can be found in Appendix C.

# prevention of excessive play is importance

## Engaging with the wider industry

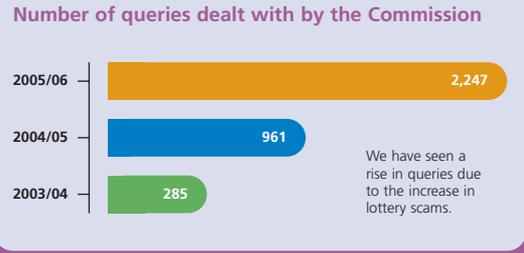
In October, we responded to a consultation by the Gaming Board of Great Britain, offering our views on the Review of Monetary Limits for Society and Local Authority Lotteries.

The Gambling Commission replaced the Gaming Board in October and since it has been established, Mark Harris has had regular meetings with Chief Executive Jenny Williams. Our Commissioners and staff attend regular meetings with key members of the Gambling Commission and our Head of Research and Analysis sits on the Prevalence Study Steering Group, which is a nationally representative study of gambling in Great Britain.

As prevention of excessive play is of great importance to us, we have forged strong relationships with the Responsibility in Gambling Trust (RiGT), which aims to reduce the chance of people becoming problem gamblers by raising awareness and education of how and where people can seek help.

The Commission's Head of Research and Analysis sits on the RiGT research panel, so there is an ongoing relationship on that aspect of their work and the Performance Director sits on the research steering panel. In September, we invited the Director of RiGT to make a presentation about the organisation to our staff at a lunch break briefing.

of great  
to us



we sponsor  
support staff  
for qualifications

and  
to study

**Improving our capability**

# results show that feel the work worthwhile

## Investing in staff

### Training and investment

Over the last year we have spent an average of over £2,000 per head on staff training and development activities. We actively encourage staff to study for professional qualifications, which we sponsor and support by being flexible in staff working patterns. We have provided in-house training on diversity, report writing and leadership.

In March, we gave all staff the opportunity to attend in-house appraisal training so they are able to prepare for appraisals and get the most out of their career at the Commission.

Further to formal training, we also encourage staff to represent the Commission at conferences and seminars that are relevant to the National Lottery.

### Voluntary work

As part of our employee package, we offer staff two days per year to dedicate to voluntary work. In October, Commission staff volunteered their services for a day at The Edith Kerrison Nursery School working in the nursery garden. It was both an opportunity to help a small and worthwhile cause and an excellent and enjoyable way of team building.

## Increasing flexibility

Over the course of this year we have made improvements to our IT systems so that staff and Commissioners are able to connect to the network remotely in a secure environment, which has been essential more than ever during the competition. These changes further support staff with flexible working arrangements, which we believe is important. It also allows for greater communication when staff and Commissioners are working away from office locations or out at meetings, as they are also able to access the system from wireless devices.

## Developing the workplace

### Office environment

We have invested considerable time in moving to a completely open plan office both to allow desk-space for the additional members of staff working on the competition and because we felt it was important to further encourage openness and team working between directorates.

### Staff survey

In November, we distributed a survey to staff asking for their views on a range of issues important to their working environment. We were pleased that results of the survey show that staff feel the work they do is worthwhile and that they are encouraged to take responsibility for the quality of their work and personal performance.

# staff they do is

Areas we intend to focus on and develop over the next year are how responsive the Commission is to the need for change and the necessity of internal meetings that take place. We are already putting plans in place to improve the areas highlighted by the survey.

## Investors in People

In May 2006 our Investors in People (IIP) accreditation was reviewed and we have spent time in the second half of this year reviewing our people management practices and gathering evidence for the assessment. We were pleased to be informed in May 2006 that we have retained full accreditation.

## Management changes to the Commission

### Risk management

As an ongoing process throughout the year our Audit Committee, made up of three Commissioners, has been establishing the potential risks that could impact on the broad activities we carry out.

Each directorate has developed a risk action plan and implemented controls to reduce potential issues attached to their areas of work. The Audit Committee received presentations about how risks would be managed and carried out a review of the strategic risk register and made necessary amendments to align with the corporate plan.

## Review of Governance

Between January and May we commissioned a review of governance effectiveness, which was undertaken by an independent organisation. The three-phase review included in-depth interviews with our Commissioners, directors and key stakeholders as well as an observation of a Commission meeting and an action-planning workshop.

We were pleased to receive the report, which was positive overall and concludes our governance arrangements are sound and have shown development and improvement over recent years.

## Biographies



**Dr Anne Wright CBE** was appointed as Chair of the Commission in October 2005 and her term will end in October 2006. She is also Director of AWA Ltd, an educational consultancy which advises Government and academia. One of her current assignments is as the e-learning consultant to the Department for Education and Skills. She holds a number of non-executive roles including Member of the Armed Forces Pay Review Body and Board Member, English Partnerships. Former posts include Chief Executive of the University for Industry and Vice-chancellor of the University of Sunderland.



**Timothy Hornsby** chaired the Commission from October 2004 to October 2005. He also currently chairs the Horniman Museum, the Public Fundraising Regulatory Association, and the Harkness Fellows Association. He is a Director of the Charles Darwin Trust, and the International Institute for Environment and Development. He is an independent member of the Consumer Council for Water. He was, from 1995 until his retirement in 2001, Chief Executive of the National Lottery Charities Board (NLCB). Prior to this he was Chief Executive of the Royal Borough of Kingston upon Thames (1991–1995). He has held senior appointments at HM Treasury and the Department of the Environment in a civil service career spanning from 1965 to 1991. He was also Director General of the Nature Conservancy Council (1988–1991).



**Robert Foster** is Chairman of the Project Board which is responsible for overseeing the process for the next competition. He was, until September 2004, Chief Executive of the Competition Commission. He has also held a number of senior posts in Whitehall including responsibility for the Department of Trade and Industry's innovation expenditure and Director of Aerospace and Defence Industries. He has handled major projects including the planning and setting up of the Office of Science and Technology, and chairing the Project Board of the PFI Project to rebuild the National Physical Laboratory. Prior to this he was an engineering manager in the telecommunications and electronics industries. He holds a number of Non-Executive Director appointments including the board of King's College Hospital NHS Trust, the Jersey Competition Regulatory Authority, and is a member of the Advisory Council of Oxford Capital Partners.



**Brian Pomeroy CBE** is Deputy Chairman of the Project Board, and he chaired the Commission from October 2002 to October 2003 and also during its first year (1999–2000). He was Senior Partner at Deloitte Consulting and now holds a number of public and non-executive appointments. He is an independent member of the Council of Lloyd's and a member of the Pensions Protection & Investments Accreditation Board. He chaired Centrepoint, a charity working for homeless young people from 1993 to 2001 and now chairs Homeless Link, the new national body for the homelessness sector.

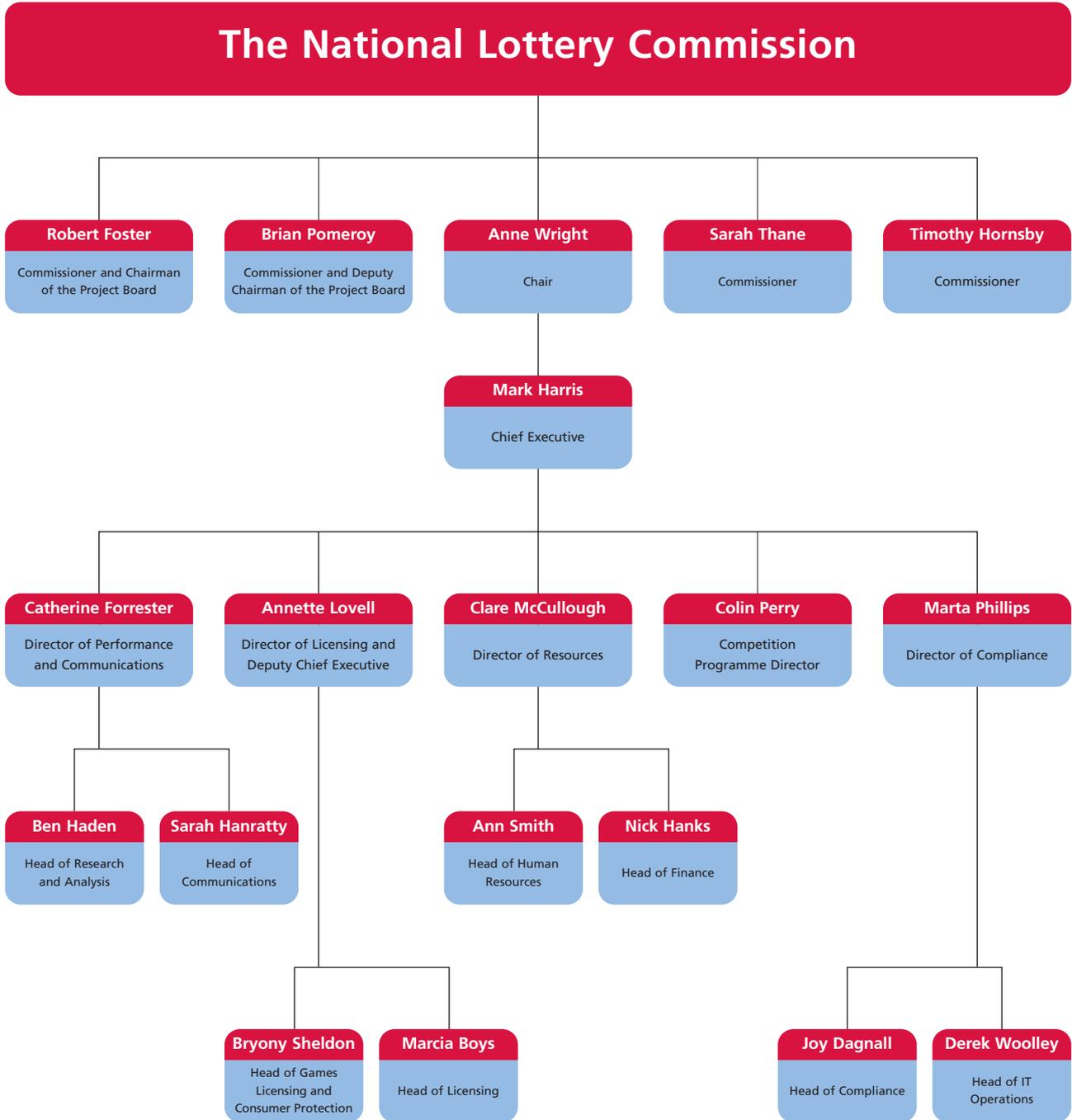


**Sarah Thane CBE** was appointed as a National Lottery Commissioner in October. She is an independent consultant on broadcasting regulation and is currently advising the BBC Governors on regulatory and compliance matters. Prior to joining the Commission, Sarah was Advisor, Content and Standards at Ofcom,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



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

# Organisational structure



## Appendix A – Financial performance

Primary contribution based on amount payable to NLDF in respect of ticket sales of £4,766			
Sales £m	2005-06	2004-05	Since launch
Lotto	3,021	3,225	43,239
Thunderball	356	343	1,994
Lotto Extra	57	77	495
Christmas Millionaire Maker	0	0	183
Scratchcards (inc. Interactive Instant Win Games since launch Feb 03)	865	738	8,284
Lotto HotPicks	225	219	898
Daily Play	54	60	165
EuroMillions	435	104	223
Easy Play	0	0	24
<b>Total</b>	<b>5,013</b>	<b>4,766</b>	<b>50,739</b> Based on actual sales receipts (unadjusted sales figures)
<b>Prizes won by players</b> (including unclaimed prizes)	<b>2,528</b>	<b>2,386</b>	<b>24,566</b>

Payments to the NLDF	2005-06	2004-05	Since launch
Primary contribution (Note 1)	1,297	1,249	15,102 Amount payable in respect of sales
Unclaimed Prizes	102	100	820
Prize Target Shortfall	0	0	667
Ancillary activity income	0.3	0	6 Rounded up
Interest from trust accounts	4.8	4	50
Other miscellaneous payments	0.2	0	5 Rounded up
<b>Total</b>	<b>1,405</b>	<b>1,354</b>	<b>15,298<sup>2</sup></b>

Other payments	2005-06	2004-05	Since launch
Lottery Duty	601	572	6,661
Retailers' commission	253	246	527
<b>Retentions by licensees</b> (Note 3)	<b>331</b>	<b>312</b>	<b>2,957</b>

Note 1  
Amount payable on sales figure less adjustments for New media sales adjustment (NMSA) and the National Lottery Promotions Unit (NLPU).

Note 2  
The figures shown here do not include interest raised from NLDF balances.

Note 3 (from Camelot's P&L)

Terminal and data communication costs	112.80
Gross profit	218.10
	<b>330.90</b>

## Appendix B – Section 5 licence variations made between 1 April 2005 and 31 March 2006

Section 5 Operating Licence		
Condition, etc	Effect of variation	Date effective
Interpretation, 9, 17, 18, 30, Schedules 1, 2 and 3	The changes were made to take account of legislation that allowed lotteries to be designated as Olympic lotteries.	25 July 2005

## Appendix C – Breaches of the Section 5 and 6 Licence recorded between 1 April 2005 and 31 March 2006

Section 5 Licence	
Condition/Schedule	Description
2(8)	<p>The Section 5 licence requires Camelot to comply with procedures that have been approved by the National Lottery Commission. The procedures approved by the Commission cover the core elements of the National Lottery, such as the lottery draws.</p> <p>A compliance review by the Commission found that Camelot had implemented a revised procedure that enabled retailers to undertake manual ticket cancellations without seeking authorisation. This did not accord with the approved procedure.</p> <p>Furthermore, Camelot was unable to demonstrate compliance with a requirement that retailers should retain a record for 210 days following a cancellation, confirming that it had been authorised. The review found that Camelot did not record or monitor compliance with this requirement.</p>
6(3)	<p>Camelot is required to maintain a list of secure areas together with a description of each one. A secure area is any area that needs to be kept secure for the purpose of maintaining the security of the National Lottery.</p> <p>A review by the National Lottery Commission's Compliance team looking at Physical and Environmental security between 1 October 2004 and 20 April 2005 found that the then current version of the secure areas list had not been updated and maintained.</p>
6(4)(b)	<p>The licensee is required to ensure that no person enters or leaves a secure area unless his/her name is included on the register of persons allowed access to secure areas or he/she is supervised by a person who is allowed such access.</p> <p>A member of staff employed at Camelot's warehouse was not listed on the secure areas register despite having access to a secure area.</p>
9(31)	<p>The Section 5 licence requires that information designed to enable players to play is accurate.</p> <p>The Section 6 licence for Lotto allows Camelot to offer enhanced jackpots from time to time provided that they have National Lottery Commission approval. Approval was given for a Lotto Superdraw on 24 December 2004.</p> <p>Camelot understated the size of the Christmas 2004 Superdraw as £2.9m, rather than the correct figure of £15m, on internet advertising for approximately four hours on 22 December 2004.</p>
11(1)	<p>The National Lottery Commission establishes standards of performance to be met by Camelot over the course of each financial year.</p> <p>Camelot failed to meet two of the performance standards, as follows:</p> <p>(a) Camelot is required to make the interactive system available to play games 99% of the time during the Interactive service hours (8am until 2am the following morning). During 2004/05 Camelot achieved 97.52% availability.</p> <p>(b) Camelot must respond to retailer requests within 10 working days on 95% of occasions. Camelot achieved 92.69% during 2004/05.</p>
21(1) and 29(2) <sup>1</sup>	<p>The Section 5 licence requires Camelot to establish and operate an adequate system of internal control to the satisfaction of the National Lottery Commission over financial and other areas. Additionally, the Section 5 licence requires Camelot to notify the National Lottery Commission immediately on becoming aware of any incident that might reasonably be expected to adversely affect the proper running, reputation or image of the National Lottery.</p> <p>On 10 September 2004 Camelot launched its subscription service on the interactive platform, this enabled the management of all subscriptions interactively, and meant that players were able to subscribe to the National Lottery using the Internet.</p> <p>There were some significant incidents arising from the launch and initial implementation of the new service. Corrective action taken by Camelot led to further problems.</p> <p>This resulted in:</p> <ul style="list-style-type: none"> <li>• some instances where direct debit charges were made incorrectly;</li> <li>• some instances where sums were incorrectly credited to players' accounts;</li> <li>• some duplicate wagers being entered on to the gaming system and;</li> <li>• some subscribers not being entered into draws.</li> </ul> <p>After a full investigation of the facts, the Commission concluded that Camelot had failed to meet the requirement to operate an adequate system of internal control in the implementation and initial operation of the on-line subscriptions system, and decided to impose a penalty of £75,000. It also concluded that Camelot had failed to meet the requirements of Condition 29, to inform the Commission immediately of certain incidents and in some cases to provide written reports of incidents. The Commission imposed a penalty of £15,000 for this failure. Camelot paid both penalties in full.</p>
29(2)	<p>Camelot is required to notify the National Lottery Commission immediately on becoming aware of any incident that might reasonably be expected to adversely affect the proper running, reputation or image of the National Lottery.</p> <p>On 19 November 2005, a player presented a match 5 plus the bonus ball winning ticket to a retailer to check whether it was a winning ticket. The player was mistakenly told that the ticket was not a winner. The player left the ticket with the retailer. The retailer upon realising their error contacted Camelot. Camelot was able to work with the retailer and identified the player with their winning ticket on 5 December 2005.</p> <p>Camelot did not notify National Lottery Commission of this incident until 29 November 2005.</p>

Section 6 Licence	
Condition/Schedule	Description of breach
Schedule 2, Part 2, Condition 13(2) of various Scratchcard Licences	<p>Camelot failed to pay monies due to the NLDF in respect of lost and stolen scratchcards as required by various scratchcard licences within 14 days of the end of quarters 2 and 3 of 2003/04. Camelot has made the required payments.</p>
Paragraph 5(2) of Schedule 4 of the Lotto Section 6 Licence	<p>The Section 6 licence for Lotto prohibits the Licensee from publicising information about a Superdraw until it has secured approval from the Commission as to the timing and funding of the Superdraw.</p> <p>An article in 'Retailer Newsagent' featured an interview with Camelot's Commercial and Operations Director, Phil Smith. Notwithstanding that the original interview provided to the magazine contained the caveat that the Superdraws were "subject to the usual NLC approval", the published article contained a statement that "coming up" are "£15m guaranteed jackpot Superdraws on 25 June, 9 July and 23 July leading to the 1000th draw."</p> <p>At the time the article was printed the Commission had not approved the timing or funding of Lotto Superdraws for the relevant financial year.</p>

## Appendix D – Camelot performance standards

Camelot performance standards		
Description of standard	Standard	Year end actual
<b>1. General matters</b>		
Payments to Secretary of State	100%	99.89%
<b>2. Computer systems</b>		
Terminal available to sell tickets from 6.00-23.00 excluding Christmas day and draw break	99.5%	99.99%
Terminal available to validate tickets	99%	100%
<b>3. Retailer management</b>		
Retailer selection requests answered within 10 working days	95%	99.23%
Resolution of issues raised in retailer correspondence within 10 working days	95%	99.19%
<b>4. Player service</b>		
Response to correspondence by National Lottery Line (NLL) within five working days	95%	99.89%
Resolution of general complaints by players within 10 working days	95%	99.61%
Calls answered by NLL Voice Response System (VRS) Wednesday between 20.00 and 23.00	90%	99.96%
Calls answered by NLL VRS Saturday between 20.00 and 23.00	85%	99.94%
Calls answered by NLL VRS at all other times	97%	98.69%
Access to NLL Representative Saturday between 20.00 and 23.00 (calls answered within 5 seconds)	80%	90.81%
Access to NLL Representative Friday between 20.00 and 23.00 (calls answered within 5 seconds)	80%	89.63%
Access to NLL Representative at all other times (calls answered within 5 seconds)	90%	91.60%
Failure to select an option on VRS	< 8%	6.51%
Abandoned calls to NLL call centre	< 5%	0.65%
<b>5. Prize payment</b>		
<b>5.1 Normal claims</b>		
Prize claims made in person within one hour	92.5%	98.78%
Prize claims made by post within five working days	95%	98.45%
<b>5.2 Claims requiring investigation</b>		
<b>5.2.1 Draw based</b>		
Resolution of claims in respect of damaged tickets within 20 working days	95%	98.06%
Resolution of claims in respect of previously validated tickets within 20 working days	90%	97.98%
Resolution of claims in respect of missing multi-draw exchange tickets within 20 working days	90%	99.17%
Resolution of claims in respect of lost, stolen or destroyed tickets within 20 working days	75%	97.14%
<b>5.2.2 Scratchcards</b>		
Resolution of claims in respect of damaged tickets within 20 working days	95%	99.74%
Resolution of claims in respect of stolen tickets/packs within 20 working days	92.5%	99.55%
Resolution of claims in respect of previously validated tickets within 20 working days	95%	98.74%
Resolution of any other claims for both draw based and scratchcard games within 20 working days	75%	99.57%
<b>6. Subscriptions</b>		
Written correspondence answered within 5 working days	95%	97.94%
Resolution of player complaints within 10 working days	95%	98.98%
Voice contact with Subscriptions Department (calls answered within 20 seconds following the recorded message)	80%	83.37%
Abandoned calls to Subscriptions Department	< 5%	2.12%
<b>7. Interactive</b>		
<b>Customer contact</b>		
Voice contact with customer call centre (calls answered within 20 seconds of the end of the recorded message)	80%	77%
Abandoned call to customer call centre	5%	6.35%
Resolution of complaints within 10 working days	95%	93%
Customer emails answered within eight working hours of receipt	80%	81.11%
Mail server performance (emails bounced by the email server due to system unavailability)	1%	0%
Response to letters within 5 working days	95%	100%
Resolution of enquiries on first attempt	80%	99.3%
Complaint resolution within 10 working days	95%	92.86%

## Appendix E – NLC performance standards

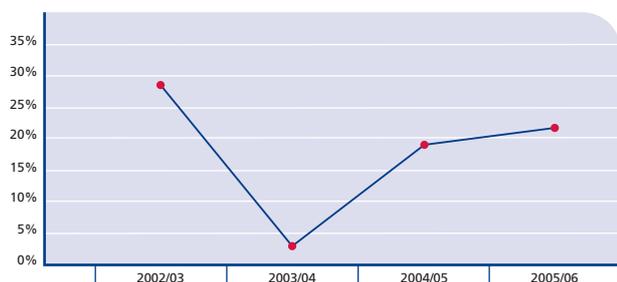
Correspondance		
Performance measure	Target	Achieved
Substantive response or acknowledgement to correspondence within 10 working days	95%	99%
Substantive response or acknowledgement to simple complaint within 10 working days	95%	96%
Substantive response or acknowledgement to emails within 10 working days	95%	99%
Response to complaints which require investigation within 20 working days	95%	97%

Equal opportunities analysis					
Position	Applicants selected for interview			Successful candidate	
	Total	Ethnic Minority	Female	Gender	Ethnic Origin
Comms Officer Internal	7	3	6	F	White
Resources Admin Temp (1)	5	2	5	F	White
Resources Admin Temp (2)	2	1	2	F	White
Programme Directorate Amin	3	1	3	F	White
Head of Finance and Resources	6	3	1	M	White
Performance Analyst	5	0	5	F	White
Head of Programme Office	4	0	3	M	White
Licence Directorate Amin	5	2	4	F	White
Comms Officer External	6	1	5	F	White
Head of HR	5	2	5	F	White
<b>Total</b>	<b>46</b>	<b>15 (33%)</b>	<b>39 (85%)</b>	<b>8 (80%)</b>	

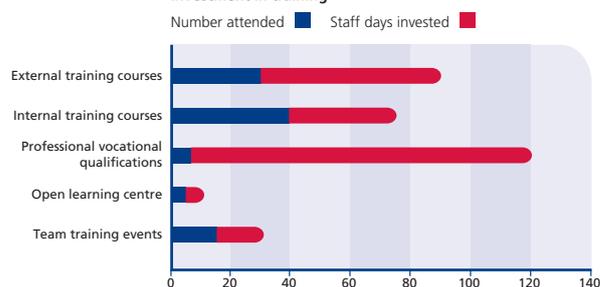
Other		
Performance measure	Target	Achieved
Payment of undisputed invoices within 30 working days of receipt	95%	96%
Payment of remaining undisputed invoices within 40 working days of receipt	100%	97%
Return to work interview held within 5 working days	95%	95%
Sickness absence (Civil service average = 9.8 days per year)	7	6.77
Staff appointed by the operator or key suppliers to posts liable for fit and proper vetting to have vetting checks conducted	100%	100%

## Appendix F – Investing in our people

Staff turnover



Investment in training



**accounts**

**2005**

# 2006

## Commission Information

### Commissioners

Dr Anne Wright CBE (appointed 1 May 2005,  
Chair from 16 October 2005)  
Timothy Hornsby (Chairman to 15 October 2005)  
Brian Pomeroy CBE  
Harriet Spicer (term of office expired 30 April 2005)  
Jo Valentine (term of office expired 30 September 2005)  
Robert Foster (appointed 1 April 2005, and Chairman  
of the Project Board)  
Sarah Thane CBE (appointed 17 September 2005)

### Chief Executive

Mark Harris

### Registered Address

101 Wigmore Street  
London W1U 1QU

### External Auditors

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

The Comptroller and Auditor General was appointed as the statutory auditor under the National Lottery etc Act 1993 (as amended).  
Note 7: Notes to the Accounts provides details of the cost of audit services provided by the Comptroller and Auditor General. No services were provided outside those required as part of the statutory audit.

### Internal Auditors

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

### Bankers

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

National Westminster Bank  
PO Box 3038  
Victoria Street  
London SW1H 0HN

### Solicitors

Freshfields Bruckhaus Deringer  
65 Fleet St  
London EC4Y 1HS

Lawrence Graham  
190 Strand  
London WC2R 1JN

## Background, functions, duties and powers

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

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

### (a) Functions

- by licence to authorise a body corporate to run the National Lottery (section 5)
- by licence to authorise a body corporate to promote lotteries as part of the National Lottery (section 6).

### (b) Duties

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

### (c) Powers

- to vary any condition granted under section 5 or 6 with the licensee's consent where required
- to seek an injunction against the section 5 or 6 licensee if it has, or is likely to, contravene a condition of its licence
- to revoke a licence granted under section 5 or 6 if the Commission is satisfied that the licensee no longer is, or never was, a fit and proper body to run the National Lottery
- 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 five Commissioners, all of whom are appointed by the Secretary of State for Culture, Media and Sport, who also determines their remuneration. Commissioners have corporate responsibility for ensuring that the National Lottery Commission fulfils the aim and objectives set out in legislation and complies with any statutory or administrative requirements for the use of public funds.

See Note 5, and the Remuneration Report on pages 45 to 48.

### Chief Executive

The Chief Executive 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.

See Note 5, and the Remuneration Report on pages 45 to 48.

### Register of Interests

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

## Management Commentary

### Results for the year

The accounts have been prepared in accordance with the Accounts Direction given by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury in accordance with the National Lottery etc Act 1993 (as amended). The deficit for the year was £590,000 (£98,000 surplus, 2004-05), with Net Liabilities at 31 March 2006 of £198,000 (31 March 2005, Net Assets of £438,000).

The deficit is primarily the result of higher expenditure than originally budgeted arising from the competition for the next Lottery licence, the project for which began in earnest in 2005-06. The next Lottery Licence will be awarded in 2007. An analysis of the next Licence project costs is disclosed in Note 7.

The balance sheet shows net current liabilities of £190,000. The Commission nonetheless has sufficient funds, in the form of cash carried forward and funding from the DCMS in 2006-07, to meet all of its short-term liabilities. Overall, the balance sheet shows net liabilities of £198,000, however, this includes £192,000 of pension liabilities (relating to a former Director General of OFLOT) which represent a long term liability to the Commission, and which will not be required to be met in full in the short term.

### Review of activities

The review of activities is included within the main annual report narrative on pages 4 to 40.

The Commission recorded nine licence breaches during 2005-06, resulting in two financial penalties totalling £90,000 being incurred by Camelot. Full details about the breaches incurred by Camelot in 2005-06 can be viewed on the Commission's website ([www.natlotcomm.gov.uk](http://www.natlotcomm.gov.uk)).

### 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 charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole. For new entrants from 1 October 2002 the pension options include a money purchase stakeholder scheme.

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

### Equal opportunities

The Commission is committed to a policy of equal opportunities for all job applicants and employees. It does not discriminate against staff or eligible applicants for posts on the grounds of gender, marital status, race, colour, nationality, ethnic origin, religion, disability, age or sexual orientation. The Commission ensures that staff are treated equally and fairly and that decisions on recruitment, selection, training, promotion and career management are based solely on objective and job related criteria. It does not tolerate any form of discrimination, harassment or victimisation. All staff are required to co-operate in making this policy work effectively.

### Investors in People (IiP)

The Commission achieved IiP accreditation in May 2003, and will be re-assessed in 2006-07.

## Background, functions, duties and powers

### 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 bi-monthly staff newsletter.

### Audit Committee

The Commission has an Audit Committee comprising three Commissioners meeting at least three times a year. During 2005-06 the Committee comprised Harriet Spicer (chair to 30 April 2005), Jo Valentine (to 30 September 2005), Brian Pomeroy, Sarah Thane (from 17 September 2005). From 1 May 2005 Dr Anne Wright was appointed Chair of the Audit Committee. She stepped down as Chair of the Committee on 16 October 2005 and the Chair was taken by Timothy Hornsby.

### Payment Performance

The National Lottery Commission adheres to the Government's "Better Payment Practice Code", which is to settle all valid bills within 30 days of the invoice date, or any other specified terms. In the financial year to 31 March 2006 the Commission settled 96 per cent of invoices within 30 days (95 per cent in 2004-05). Interest of £379 (nil in 2004-05) was paid during 2005-06 under the Late Payment of Commercial Debts (Interest) Act 1998.

### Disclosure of Information to Auditors

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

### Post Balance Sheet Events

#### *Publication of Invitation to Apply*

The draft and final Invitation to Apply (ITA) were published April and June 2006 respectively, in accordance with the timetable laid down in the Statement of Main Principles, which was itself published in November 2005. The ITAs set out the details of the ten-year Lottery licence opportunity, as well as guidance on the competition process, its requirements and the evaluation criteria. The bidding process will close on 15 December 2006, by which time all prospective bids should have been received. The Draft Licence was also published with the ITAs, detailing the conditions under which the licence will be regulated.

#### *Next licence Bidders' 'virtual data room'*

Access to a virtual data room was provided in May 2006 to prospective bidders for the next Lottery licence. The data room provides access to key business statistics and other more general guidance and information to assist bidders in compiling their bids and creating their business models.

#### *Redesign of the Commission's website*

The Commission's new website was launched in June 2006. The project to redesign it began in the final quarter of 2005-06. The old website was created in 2002 and the redesign was necessary in order to enhance the website's facilities, to refresh the appearance and improve its user friendliness.

#### *liP re-accreditation*

The Commission achieved liP re-accreditation in May 2006.

## Remuneration Report

### Remuneration Policy

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

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

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

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

### Service Contracts

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

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

Remuneration paid to the Chief Executive, Directors and Commissioners during the year was as follows.

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

## Remuneration Report

Name and designation	Salary	Pension contributions	Bonus	Benefits in kind
	£	£	£	£
Mark Harris (Chief Executive)	96,473 (85,111)	23,301	11,640	0
Annette Lovell (Director)	70,071 (16,232)	16,803	3,338	0
Marta Phillips (Director)	74,773 (73,104)	16,804	2,003	0
Catherine Forrester (Director)	65,871 (62,799)	15,843	2,003	0
Clare McCullough (Director)	63,882 (60,380)	15,365	2,003	0
Colin Perry (Director)	45,037 (9,228)	9,709	2,003	0
Timothy Hornsby (Chairman) (Note i)	30,204 (23,969)	N/A	N/A	0
Anne Wright (Chairman) (Note i)	28,250	N/A	N/A	0
Brian Pomeroy (Commissioner)	8,244 (6,819)	N/A	N/A	0
Robert Foster (Commissioner) (Note ii)	27,076	N/A	N/A	0
Jo Valentine (Commissioner) (Note iii)	1,366 (6,819)	N/A	N/A	0
Harriet Spicer (Commissioner) (Note iv)	568 (6,819)	N/A	N/A	0
Sarah Thane (Commissioner) (Note iii)	7,363	N/A	N/A	0

### Notes

- i) Timothy Hornsby was Chairman of the Commission until 15 October 2005. Anne Wright was appointed on 1 May 2005 and took over as Chairman on 16 October 2005.
- ii) Robert Foster was appointed as a Commissioner on 1 April 2005. He is also the Chairman of the New Licence Project Board.
- iii) Jo Valentine retired as a Commissioner on 30 September 2005, and was replaced by Sarah Thane, who was appointed as a Commissioner on 17 September 2005.
- iv) Harriet Spicer retired as a Commissioner on 30 April 2005.

### Salary

'Salary' includes basic salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; and any other allowance to the extent that it is subject to UK taxation. Bonuses have been disclosed separately. The Chief Executive's bonus is set by a Remuneration Committee consisting of three Commissioners, who review his performance against the objectives he was set at the start of the year. A proportion of the Chief Executive's bonus may be consolidated into his pensionable pay, and this too is at the discretion of the Remuneration Committee. In 2006-07, in addition to the bonus disclosed in the above table, the Chief Executive received a 5% consolidation on his salary.

Directors' bonuses are based on the outcomes of their annual appraisals and are set either at 3% of the market rate for their grade, if they have met all of their objectives in the year, or at 5% if those objectives have been exceeded.

### Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HMRC as a taxable emolument. No Commissioners or Directors incurred any benefits in kind in 2005-06, (none also in 2004-05).

Name and designation	Real increase in pension	Real increase in lump sum	Pension at end date	Lump sum at end date	Cash equivalent transfer value at 1 April 2005	Cash equivalent transfer value at 31 March 2006	Real pension increase in the year
	£k	£k	£k	£k	nearest £k	nearest £k	nearest £k
Mark Harris (Chief Executive)	2.5 – 5	7.5 – 10	25 – 30	80 – 85	240	369	46
Annette Lovell (Director)	0 – 2.5	5 – 7.5	0 – 5	10 – 15	35	58	16
Marta Phillips (Director) (i)	0 – 2.5	(0 – 2.5)	10 – 15	20 – 25	184	249	18
Catherine Forrester (Director) (i)	0 – 2.5	0	0 – 5	0	23	45	15
Clare McCullough (Director)	0 – 2.5	2.5 – 5	10 – 15	35 – 40	127	188	17
Colin Perry (Director)	2.5 – 5	10 – 12.5	15 – 20	45 – 50	133	236	55

The accrued pension rights of the Chief Executive and Directors are shown above.

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

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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement). None of the Directors has a partnership pension account.

Further details about the Civil Service pension arrangements can be found at the website ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk))

## Remuneration Report

### Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

**(Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006).**

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

### Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



**Mark Harris**  
Chief Executive  
11 July 2006

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

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

In preparing the accounts the Commission is required to:

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

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



**Mark Harris**  
Chief Executive  
11 July 2006

## Statement on Internal Control 2005-06

### Scope of Responsibility

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

### The purpose of the system of internal control

The system of internal control is based on an ongoing process designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Commission's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

### Capacity to handle risk and the risk and control framework

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

- leadership is given to the risk management process by the work of the Audit Committee
  - the Committee is responsible for reviewing, at each of its meetings, the risks identified and recorded in the strategic risk register, the strategy for, and any further action planned to further mitigate risk where the net risk remains higher than the appropriate risk appetite for that particular activity/objective. In addition, the Committee is informed of any new risks and changes to the assessment of existing risk at operational level where either the gross or net risk are classified as high.
- during the year The Audit Committee;
  - established the Commission's risk appetite, which they considered proportionate and appropriate to the statutory functions and the Corporate Plan objectives; and
  - received presentations on risk management from each Directorate and reviewed the strategy and action plan for mitigation of risk contained in the Directorate Risk Action Plans.
- the Chairman of the Audit Committee reports periodically, but at least three times per year, to all Commissioners on the work of the Audit Committee;
- on an operational level, managers are trained and equipped in a way appropriate to their duties and authority to identify risks which may impact on the aims and objectives of the Commission. Having identified risks by this process of self assessment, managers are required to evaluate the effects of these risks and to suggest a means for mitigating those effects. Guidance is provided by the management team who take collective decisions on the reporting of their findings by means of the organisation's Risk Register;

- operational level risk registers were prepared by managers within each Directorate during the year. Our Management Group, (consisting of the Chief Executive, Directors and Heads of Division), met and discussed the content of the registers at least three times in the year. As part of the review process, the Management Group ensured that risks identified across the organisation were treated consistently and Group members were apprised of any new risks that managers had added to the operational level registers;
- the strategic level risk register was also reviewed by the Management Group, to ensure that it continued to reflect the risks to the effective performance of the Commission's statutory functions and the successful delivery of the Corporate Plan objectives.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and managers within the Commission who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Commissioners and the Audit Committee and a plan to address weakness and ensure continuous improvement of the system is in place.

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

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



**Mark Harris**  
Chief Executive  
11 July 2006

## National Lottery Commission

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

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

#### **Respective responsibilities of the Commission, Chief Executive and auditor**

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

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

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

I review whether the statement on pages 50 to 51 reflects the Commission's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Commission's corporate governance procedures or its risk and control procedures.

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

#### **Basis of audit opinion**

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

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

### Opinion

In my opinion:

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

I have no observations to make on these financial statements.



**John Bourn**  
Comptroller and Auditor General

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

12 July 2006

## Income and Expenditure Account for the year ended 31 March 2006

	Note	2005-06 £'000	2004-05 £'000
<b>Income</b>			
Grant-in-Aid	3	8,225	4,194
Other operating income	4	–	–
Transfer from government grant reserve	15	96	169
		<b>8,321</b>	<b>4,363</b>
<b>Expenditure</b>			
Staff costs	5	2,283	1,960
Administrative expenses	7	5,585	1,304
Other operating costs	8	1,033	991
Notional cost of capital	9	(25)	9
		<b>8,876</b>	<b>4,264</b>
Operating surplus/(deficit) after notional costs		(555)	99
Other finance costs	6	(10)	(10)
Operating surplus/(deficit) after other finance costs		(565)	89
Reversal of notional cost of capital		(25)	9
Surplus/(deficit) for financial year	15	<b>(590)</b>	<b>98</b>

All activities were continuing in the year

The notes on pages 58 to 67 form part of these accounts

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2006

	Note	2005-06 £'000	2004-05 £'000
Surplus/(deficit) for the year		(590)	98
Actuarial Loss and increase in pension liabilities	6	(17)	(5)
<b>Total unrecognised gains and losses relating to the year</b>		<b>(607)</b>	<b>93</b>

The notes on pages 58 to 67 form part of these accounts

## Balance Sheet as at 31 March 2006

	Note	2005-06 £'000	2004-05 £'000
<b>Fixed Assets</b>			
Intangible Assets	10	56	96
Tangible Assets	11	128	117
		<b>184</b>	<b>213</b>
<b>Current Assets</b>			
Debtors and Prepayments	12	179	209
Cash at bank and in hand	13	1,273	437
		<b>1,452</b>	<b>646</b>
<b>Creditors</b>			
Amounts falling due within one year	14	(1,642)	(245)
Net Current Assets/Liabilities		(190)	401
<b>Total Assets less current liabilities (before pension liability)</b>		<b>(6)</b>	<b>614</b>
Pension liability	6	(192)	(176)
Net Assets/(Liabilities) including pension liability		<b>(198)</b>	<b>438</b>
Represented by:	15		
General Reserve		(375)	232
Government Grant Reserve		177	206
		<b>(198)</b>	<b>438</b>



**Mark Harris**  
Chief Executive  
11 July 2006

The notes on pages 58 to 67 form part of these accounts

## Cash Flow Statement for the year ended 31 March 2006

	Note	2005-06 £'000	2004-05 £'000
<b>Net cash inflow/(outflow) from operating activities</b>	16(i)	847	134
Capital expenditure			
Payments to acquire intangible fixed assets		(13)	(97)
Payments to acquire tangible fixed assets		(54)	(2)
<b>Financing</b>			
Grant-in-Aid applied towards purchase of fixed assets		67	99
<b>Other Payments</b>			
Payment of Pension Benefits		(11)	(11)
<b>Increase/(decrease) in cash</b>	16(ii)	<b>836</b>	<b>123</b>

The notes on pages 58 to 67 form part of these accounts

## Notes to the financial statements for the year ended 31 March 2006

### 1 Accounting policies

#### Basis of accounting

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

#### Grants receivable

Grant-in-Aid receivable of a revenue nature is credited to the Income and Expenditure Account in the period in which it is due.

Grant-in-Aid relating to capital expenditure is credited to a government grant reserve account and is released to expenditure over the expected useful life of the asset it has been used to purchase.

#### Fixed assets

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

An inventory of all assets is maintained.

#### Depreciation and amortisation

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

Computer equipment	3 years
Fitting out costs	7 years
Furniture	3 years
Office equipment	3 years
Telephone equipment	7 years

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

Software licences	3 years
-------------------	---------

#### Operating leases

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

### Pension policy

A liability relating to the retirement benefit of a former Director General of OFLOT was inherited by the NLC on its creation. This benefit is provided for under a scheme which is fully analogous to Principal Civil Service Pension Scheme (PCSPS). The retirement benefits of all other eligible staff of the Commission are provided for under the PCSPS, which are described in Note 6.

## 2 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period, in creating or changing the risks the commission faces in undertaking its role.

### Liquidity risks

In 2005-06, £8.23 million (100%) of the National Lottery Commission's income derived from Grant-in-Aid from the Department for Culture, Media and Sport (2004-05 £4.29 million, 100%). The Commission is satisfied that there are sufficient liquid resources in the form of cash of £1,273,000 and the draw down of funds available in the financial year 2006-07 to cover all current contracted commitments of £1,642,000 and that the National Lottery Commission is not exposed to significant liquidity risks.

### Interest rate risks

Cash balances, which are drawn down from the Department for Culture, Media and Sport to pay administration and other operating costs, are held in an account with the Office of HM Paymaster General, an Executive Agency sponsored by the Treasury. The account is non-interest bearing. The year-end cash balance held by the Commission in the Office of HM Paymaster General Account was £1,258,000. The Commission considers that there is no exposure to interest rate risks.

### Foreign currency risk

The Commission is not exposed to any foreign exchange risks.

## 3 Grant-in-Aid

	2005-06 £'000	2004-05 £'000
Total Grant-in-Aid received from Department for Culture, Media and Sport (Request for Resources 1)	8,292	4,293
Applied towards purchase of fixed assets	67	99
<b>Total Grant-in-Aid applied towards revenue expenditure</b>	<b>8,225</b>	<b>4,194</b>

## 4 Other operating income

	2005-06 £'000	2004-05 £'000
Sundry receipts	–	–
	–	–

## Notes to the financial statements for the year ended 31 March 2006

### 5 Staff costs

	Total £'000	2005-06		Commissioners £'000	2004-05
		Permanent Staff £'000	Others £'000		Total £'000
Salaries	1,804	1,413	293	98	1,590
Employer's NIC	144	133	–	11	137
Pension costs	294	294	–	–	209
Temporary Staff costs	41	–	41	–	24
	<b>2,283</b>	1,840	334	109	1,960

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

	Total	2005-06		2004-05
		Permanent Staff	Others	Total
Chief Executive/Directors	6	5	1	5
Chief Executive's Office	1	1	–	2
Resources	9	8.5	0.5	8
Compliance	11	11	–	12
Licensing	7	7	–	8
Performance and Communications	7	7	–	7
New Licence	1	–	1	–
	<b>42</b>	<b>39.5</b>	<b>2.5</b>	<b>42</b>

Remuneration paid to the Chief Executive, Directors and Commissioners during the year is contained in the Remuneration Report on pages 45-48. Staff costs relating to the New Licence project have been analysed separately in Note 7.

### 6 Pension Disclosures

The Principal Civil Service Pension Scheme (PCSPS) is a multi-employer defined benefit scheme. The National Lottery Commission is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)). For 2005-06, employers' contributions of £294,427 were payable to the PCSPS (2004-05 £208,530) at one off four rates in the range 16.2 to 24.6% of pensionable pay, based on salary bands (the rates in 2004-05 were between 12% and 18.5%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%. The contribution rates are set to meet the cost of the benefits accruing during 2005-06 to be paid when the member retires, and not the benefits paid during this period to existing pensioners. Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £1,783 (£1,000 in 2004-05) 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 £190 (under £1,000 in 2004-05), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these

employees. There were no contributions due or prepaid to the partnership pension providers at the balance sheet date. There are no additional accrued pension liabilities payable by CSP arrangements to individuals who retired early on health grounds during the year.

Detailed schedules relating to the pension entitlements of the Directors are contained in the Remuneration Report on pages 45-48.

#### FRS17 Disclosure

On its creation the National Lottery Commission inherited a pension liability for a former Director General of OFLOT from 1993 to 1998. This pension is an unfunded defined benefit scheme which has benefits by-analogy to the PCSPS (for details see [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)) and is paid directly from the Commission's own funds. In 2001, upon the recipient reaching retirement age, pension payments commenced. In 2005-06, pension payments of £11,414 were made (2004-05 £10,748). Under FRS17, the National Lottery Commission is required to show the present value of the liability on its Balance Sheet.

For the FRS 17 disclosure, a valuation has been provided by the Government Actuary's Department who have assessed the liabilities of the scheme as at 31 March 2006 and at 31 March 2005. Scheme liabilities and the expected rate of return are:

#### Main assumptions

	<b>At 31 March 2006 % per annum</b>	<b>At 31 March 2005 % per annum</b>	<b>At 31 March 2004 % per annum</b>	<b>At 31 March 2003 % per annum</b>
Rate of increase in salaries	4.0	4.0	3.9	4.0
Rate of increase in pension payment	2.5	2.5	2.4	2.5
Discount rate	5.4	6.1	6.0	6.1
Inflation assumption	2.5	2.5	2.4	2.5

	<b>At 31 March 2006 £000</b>	<b>At 31 March 2005 £000</b>	<b>At 31 March 2004 £000</b>	<b>At 31 March 2003 £000</b>
Present value of scheme liabilities attributable to the NLC	192	176	172	160
Total value of liabilities	192	176	172	160
<b>Net pension liability attributable to the NLC</b>	<b>(192)</b>	<b>(176)</b>	<b>(172)</b>	<b>(160)</b>

## Notes to the financial statements for the year ended 31 March 2006

### Amounts included as other finance costs

	31 March 2006 £000	31 March 2005 £000
Interest cost on pension scheme liabilities	10	10
<b>Net finance (charge)</b>	<b>(10)</b>	<b>(10)</b>

### Analysis of amount included in the Statement of Total Recognised Gains and Losses (STRGL)

	31 March 2006 £000	31 March 2005 £000
Actuarial losses arising on pension scheme liabilities	(2)	(5)
Increase in liabilities due to change in investment return	(15)	–
<b>Total actuarial loss recognised in STRGL</b>	<b>(17)</b>	<b>(5)</b>

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

	31 March 2006 £000	31 March 2005 £000
Surplus/(deficit) at 1 April	(176)	(172)
Increase in liabilities due to change in investment return	(15)	–
Finance Costs	(10)	(10)
Actuarial gains/(losses)	(2)	(5)
Benefits paid	11	11
Surplus/(deficit) at 31 March	<b>(192)</b>	<b>(176)</b>

### History of Experience gains and losses

	31 March 2006 £000	31 March 2005 £000	31 March 2004 £000	31 March 2003 £000
Actuarial losses on liabilities	2	5	13	0
Present value of liabilities	192	176	172	160
<b>Percentage of the present value of liabilities</b>	<b>1%</b>	<b>3%</b>	<b>8%</b>	<b>0%</b>

## 7 Administrative expenses

	2005-06 £'000	2004-05 £'000
Legal advice	2,163	463
Other consultancy costs	3,057	545
External auditor's remuneration	21	21
Other administrative costs	344	275
	<b>5,585</b>	<b>1,304</b>

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

	<b>2005-06 £'000</b>
Staff and Project Board costs	308
Travel & subsistence	101
Consultants	2,708
Legal advice	1,665
	<b>4,782</b>

## 8 Other operating costs

	<b>2005-06 £'000</b>	<b>2004-05 £'000</b>
Accommodation costs	609	570
Personnel costs	199	212
Depreciation and impairment of fixed assets	96	169
Travel and subsistence	129	40
	<b>1,033</b>	991

## 9 Notional costs

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

## 10 Intangible fixed assets

	<b>Software licences £'000</b>	<b>Total £'000</b>
<b>Fixed assets</b>		
Cost as at 1 April 2005	149	149
Additions	13	13
Disposals	–	–
Revaluation to current cost	(19)	(19)
At 31 March 2006	<b>143</b>	<b>143</b>
<b>Amortisation</b>		
At 1 April 2005	53	53
Charge in year	34	34
Disposal	–	–
At 31 March 2006	<b>87</b>	<b>87</b>
<b>Net book value</b>		
At 31 March 2006	56	56
At 31 March 2005	96	96

## Notes to the financial statements for the year ended 31 March 2006

### 11 Tangible fixed assets

	Fitting out costs £'000	Furniture £'000	Computer equipment £'000	Telecoms £'000	Total £'000
<b>Fixed assets</b>					
Cost as at 1 April 2005	163	41	374	16	594
Additions	18	9	27	–	54
Disposals	–	–	–	–	–
Revaluation to current cost	7	2	(48)	–	(39)
At 31 March 2006	188	52	353	16	609
<b>Depreciation</b>					
At 1 April 2005	70	38	354	15	477
Charge in year	28	3	12	1	44
Backlog Depreciation	–	2	(42)	–	(40)
Disposal	–	–	–	–	–
At 31 March 2006	98	43	324	16	481
<b>Net book value</b>					
At 31 March 2006	90	9	29	–	128
At 31 March 2005	93	3	20	1	117

### 12 Debtors

	2005-06 £'000	2004-05 £'000
Other debtors	14	24
Prepayments and accrued income	165	185
	<b>179</b>	<b>209</b>

All debts are payable within one year.

The Other debtors include a value of £14,000 of 9 staff with balances left on interest-free, annual season ticket loans (2004-05 £18,000 for 12 staff). This includes the following Directors:

	Balance of loan brought forward 1 April 2005 £	New loan £	Balance of loan carried forward 31 March 2006 £
Catherine Forrester (new advance made March 2006)	4,757	–	–
Clare McCullough (new advance made May 2005)	238	3,116	260
Annette Lovell (new advance made March 2006)	2,532	2,604	2,604

### 13 Cash at Bank and in Hand

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

	<b>2005-06</b> <b>£'000</b>	<b>2004-05</b> <b>£'000</b>
Balances at OPG	1,258	428
Commercial banks and cash in hand	15	9
	<b>1,273</b>	<b>437</b>

### 14 Creditors

	<b>2005-06</b> <b>£'000</b>	<b>2004-05</b> <b>£'000</b>
Creditors due within one year		
Trade creditors	495	31
Other creditors	7	1
Accruals	1,140	213
	<b>1,642</b>	<b>245</b>

There are no creditors falling due after one year.

### 15 Movement on reserves

	<b>General Reserve</b> <b>£'000</b>	<b>Government Grant Reserve</b> <b>£'000</b>	<b>Total</b> <b>£'000</b>
At 1 April 2005 as previously stated	232	206	438
Retained surplus for the year	(590)	–	(590)
Actuarial Loss	(17)	–	(17)
Grant-in-Aid received towards purchase of fixed assets	–	67	67
Transfer to Income and Expenditure Account	–	(96)	(96)
At 31 March 2006	<b>(375)</b>	177	(198)

The General Reserve includes an amount of £192,000 (£176,000 in 2004-05) in relation to Pension Liabilities, as explained in Note 6 Pension Disclosures.

## Notes to the financial statements for the year ended 31 March 2006

### 16 Notes to the cash flow statement

#### Note (i) Reconciliation of operating surplus/(deficit) to net inflow from operating activities

	2005-06	2004-05
Operating surplus/(deficit) after notional costs	(555)	99
Depreciation and impairment of fixed assets	96	169
Transfer from Government Grant Reserve	(96)	(169)
Decrease/(Increase) in debtors	30	69
(Decrease)/Increase in creditors	1,397	(43)
Reversal of notional costs	(25)	9
Net cash inflow/(outflow) from operating activities	<b>847</b>	134

#### Note (ii) Analysis of changes in net funds

	At 31/3/06 £'000	Cash flow £'000	At 31/3/05 £'000
Cash at bank and in hand	1,273	836	437

### 17 Operating leases

At 31 March 2006, the National Lottery Commission was committed to making the following payments during the next year in respect of operating leases.

	2005-06		2004-05	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases due to expire:				
Within one year	–	–	–	–
Between two and five years	–	15	–	22
After five years	423	–	423	–
	<b>423</b>	<b>15</b>	<b>423</b>	<b>22</b>

## 18 Related party transactions

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

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

These transactions consist of the following:

- i) Grant-in-Aid received from the Department for Culture, Media and Sport during the year – see Note 3, and
- ii) The surrender to the Department for Culture, Media and Sport of licence fees and fines in the sum of £461,000.

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

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

## 19 Key corporate financial targets

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

## 20 Intra-Government balances

As at 31 March 2006, the National Lottery Commission had no debtor balances with other government organisations, and a £5,000 creditor balance with the Home Office Pay and Pensions Service.

## 21 Losses and special payments

<b>Losses Statement</b>	<b>£000</b>
Total of 19 cases	17
Details of cases over £250,000:	Nil

The losses all related to non-exchangeable and non-refundable air tickets, predominantly caused by the late cancellation of a conference in the wake of hurricane Katrina.

## 22 Post balance sheet events

Post balance sheet events are mentioned in detail on page 44.



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