

Big Lottery Fund



Community Fund Financial Report and Accounts
for the eight months 1 April 2006 to 30 November 2006

Title Community Fund Financial Report and Accounts for the eight months 1 April 2006 to 30 November 2006

Code

Further copies available from:

Email enquiries@biglotteryfund.org.uk

Phone 0845 410 20 30

Textphone 0845 039 02 04

Our website www.biglotteryfund.org.uk

Accessibility

Also available upon request in other formats including large print.

Our equality principles

Promoting accessibility; valuing cultural diversity; promoting participation; promoting equality of opportunity; promoting inclusive communities; reducing disadvantage and exclusion. Please visit our website for more information.

We care about the environment

The Big Lottery seeks to minimise its negative environmental impact and only uses proper sustainable resources.

Our mission

We are committed to bringing real improvements to communities and the lives of people most in need.

Our values

We have identified seven values that underpin our work: fairness; accessibility; strategic focus; involving people; innovation; enabling; additional to government.

The Big Lottery Fund is committed to valuing diversity and promoting equality of opportunity, both as a grantmaker and employer. The Big Lottery Fund will aim to adopt an inclusive approach to ensure grant applicants and recipients, stakeholders, job applicants and employees are treated fairly.

©Big Lottery Fund, July 2007

Community Fund

FINANCIAL REPORT AND ACCOUNTS

for the eight months 1 April 2006 to
30 November 2006

Annual Report presented in compliance with section 34(3) of the National Lottery etc Act 1993 by the Secretary of State for the Department of Culture, Media and Sport.

Accounts prepared pursuant to Section 39(1) of the National Lottery etc Act 1993 and presented by the Comptroller and Auditor General.

Ordered by the House of Commons to be printed on 19 July 2007.

Laid before the Scottish Parliament by the Scottish Ministers on 19 July 2007.

© Crown Copyright 2007

The text in this document (excluding any Royal Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any queries relating to the copyright in this document should be addressed to

The Licensing Division, HMSO, St Clements House, 2-16 Colegate, Norwich NR3 1BQ.

Fax: 01603 723000 or email: licensing@cabint-office.x.gsi.gov.uk

Community Fund

Financial Report and Accounts for the eight months 1 April 2006 to 30 November 2006

Contents

Management commentary	2
Remuneration report	4
Statement of Accounting Officer's responsibilities	8
Statement on internal control	10
The certificate and report of the Comptroller and Auditor General to the Houses of Parliament and the Scottish Parliament	16
Income and expenditure account	18
Balance sheet	19
Cash flow statement	20
Notes to the accounts	21

Management commentary

The Community Fund was established in 1994 to distribute funds from the National Lottery to philanthropic, benevolent and charitable organisations. In 2003 the Secretary of State for Culture, Media and Sport asked the Community Fund and the New Opportunities Fund to work more closely together and from 1 June 2004 the two organisations entered into an administrative merger; both organisations operating together as the Big Lottery Fund. With the enactment of the National Lottery Act 2006 the Community Fund was dissolved at 30 November 2006. Its remaining assets, liabilities and activities were formally transferred to the Big Lottery Fund from that date. Responsibility for the preparation of these financial statements rests with the Big Lottery Fund.

The Community Fund was a UK-wide non-departmental public body, regulated in accordance with the Management Statement, Financial and Policy Directions issued by the Secretary of State for Culture, Media and Sport.

The composition of its Board was defined by the National Lottery etc Act 1993. The Board comprises a Chair, three representatives from each of Scotland, Wales and Northern Ireland and up to seven other members. The Board Members are appointed by the Secretary of State for Culture, Media and Sport. Details of the members of the Board are contained within the remuneration report.

Results for the period

The Community Fund made a surplus for the year of £94 million (2005/2006 a deficit of £121 million). All grants awarded under the new Big Lottery Fund grant programmes were made using the New Opportunities Fund's powers. The Community Fund has a deficit on retained reserves of £174 million (2005/2006 £269 million). This deficit will be transferred to the Big Lottery Fund from 1 December 2006.

Review of activities

During the eight months to 30 November 2006 the Community Fund continued to pay out previously committed grants and monitor grant recipient's compliance with terms and conditions of grant.

During this financial period the Board members and staff of the Community Fund worked with the New Opportunities Fund to launch the remaining Big Lottery Fund programmes to receive and assess applications under these programmes and to make awards. Big Lottery Fund programmes have been established using New Opportunities Fund powers. Full details of this activity will be presented within the Big Lottery Fund's annual report to be published after the financial year end 31 March 2007.

The restructuring of the organisation which was started last year to make it fit for purpose for the activities of the Big Lottery Fund continued. Office accommodation in Nottingham, Guildford and Leeds was identified for downsizing. The Birmingham centre, Apex House, was prepared for occupation; the move happened on 5 December 2006. The transfer of grant management and corporate support posts from London and other regional offices to Birmingham and Newcastle continued.

Fixed assets

Details of the movement in fixed assets is set out in note 8 to the accounts. The additions largely reflect the investment in leasehold improvements to Apex House in Birmingham.

Post balance sheet events

The Community Fund was dissolved on the balance sheet date. Residual activities, assets and liabilities were transferred to the Big Lottery Fund.

Employees, equal opportunities and consultation

As an employer, the Community Fund complied with all legal requirements in respect of its policies towards equal opportunities and disabled people.

To encourage communication and good relations between the Board, management and staff at all levels, the Prospect and Amicus trade unions were recognised jointly for the purpose of collective bargaining for all employees, excluding Directors. During the last year the formal joint recognition agreement was formed. Relations with the Joint Union Group were extremely positive and formal meetings took place monthly.

Statement of payment policy and practice

The Community Fund aimed to pay all its creditors within 30 days of receipt of an invoice, unless alternative terms and conditions were negotiated. This was in accordance with the Better Payment Practice Guide. In the year under review 87 per cent (2005/2006 89 per cent) of all creditors were paid within 30 days of receipt of an invoice.

Auditors

Under the National Lottery etc Act 1993, the Community Fund was required to have its financial accounts examined and certified by the Comptroller and Auditor General. Hence the National Audit Office undertook the external audit of the Fund.

Stephen Dunmore
Chief Executive of
the Big Lottery Fund

Sir Clive Booth
Chair of
the Big Lottery Fund

9 July 2007

Remuneration report

This report sets out the Fund's policy on the remuneration of Board members and the Directors of the Fund. Only the section of the remuneration report dealing with remuneration received is subject to audit.

Remuneration Committee

The Remuneration Committee was chaired by the Chair of the Board, Sir Clive Booth, and also comprised the Vice Chair of the Board, Valerie Strachan, the Chair of the Resources Committee, Dugald Mackie, and a country Board member, David Campbell.

The Committee's main responsibilities were to:

- agree the terms and conditions of employment of the Chief Executive
- decide on the Chief Executive's performance appraisal and related pay
- approve the performance appraisals and related pay for Directors
- decide on severance terms for the Chief Executive and Directors, subject to any necessary clearances by DCMS and the Treasury.

Senior staff remuneration policies

The remuneration policy for the Senior Management Team tried to offer remuneration that enabled it to attract, retain and motivate high calibre individuals with the skills and abilities to manage the Fund. In doing so the remuneration policy sought to:

- remunerate fairly for individual responsibility and contribution, while providing an element of performance related pay
- comply with the annual pay guidance issued by HM Treasury.

Biennially a review of relevant market data was undertaken to assess the relevance of senior staff salary ranges.

Remuneration of the Senior Management Team

From 1 December 2003 the Chief Executive took on the role of joint Chief Executive of the Community Fund and the New Opportunities Fund. His remuneration for the part of his service contract with the New Opportunities Fund was charged to that organisation's accounts. The Chief Executive's contract expired one day after appointment of a new Chief Executive of the Big Lottery Fund, following the implementation of the legislation.

Directors were appointed to the Senior Management Team of the Big Lottery Fund, the joint management team for the Community Fund and the New Opportunities Fund. The Chief Executive and Directors were subject to the Big Lottery Fund's standard terms and conditions of employment.

The Directors of Scotland, Operations and Planning and Performance were employed by the Community Fund on permanent employment contracts that allowed for them to provide services to the New Opportunities Fund.

The Directors of Finance and Corporate Services, Wales, Policy and External Relations and Northern Ireland were employed by the New Opportunities Fund on permanent employment contracts, which allowed for them to provide services to the Community Fund.

The basis of senior staff remuneration is set out in their individual contracts of employment. The Chief Executive receives a performance bonus up to 20 per cent of his annual salary. Up to five per cent of this bonus is consolidated, the balance of the award is paid as a non-consolidated bonus. Directors receive a consolidated annual pay award as negotiated by staff and a non-consolidated performance bonus of up to eight per cent of their annual salary.

In addition to salary and bonus the Senior Management Team are entitled to access benefits provided by BIG in common with all staff including contributions to the Civil Service Pension scheme. The total salary and pension entitlement of the senior management of the Big Lottery Fund was as set out in the table below. These costs are charged to the New Opportunities Fund and Community Fund based on the appropriate apportionment criteria (see note 1.10 in the accounts). There were no compensation payments or non-cash benefits paid in the period.

	Salary, including performance bonus, for the 8 months 30 November 2006	Real increase in pension at 60	Total accrued pension at 60 as at 30 November 2006	Cash equivalent transfer value (CETV)	Real increase in CETV funded by employer
	£'000	£'000	£'000	£'000	£'000
<i>2006 comparatives shown in brackets</i>					
Stephen Dunmore (Chief Executive)	85-90 (140-145)	0-2.5 plus 5-7.5 lump sum	55-60 plus 165-170 lump sum	1,231 (1,140)	42
Mark Cooke (Director of Finance and Corporate Services)	60-65 (85-90)	0-2.5 n/a	0-5 n/a	52 (34)	14
Ceri Doyle (Director, Wales)	50-55 (80-85)	0-2.5 plus 0-2.5 lump sum	10-15 plus 0-5 lump sum	152 (135)	9
Dharmendra Kanani (Director, Scotland)	50-55 (80-85)	0-2.5 plus 0-2.5 lump sum	5-10 plus 20-25 lump sum	97 (86)	8
Adrienne Kelbie (Director of Operations)	60-65 (95-100)	0-2.5 plus 2.5-5.0 lump sum	10-15 plus 40-45 lump sum	164 (143)	15
Gerald Oppenheim (Director, Planning and Performance)	60-65 (95-100)	0-2.5 plus 0-2.5 lump sum	35-40 plus 105-110 lump sum	725 (693)	15
Vanessa Potter (Director, Policy and External Relations)	60-65 (95-100)	0-2.5 plus 0-2.5 lump sum	10-15 plus 35-40 lump sum	162 (148)	9
Walter Rader (Director, Northern Ireland)	50-55 (80-85)	0-2.5 plus 2.5-5.0 lump sum	5-10 plus 25-30 lump sum	193 (166)	19

Remuneration report

Pension benefits are provided through the Principal Civil Service Pension Scheme. Further pension disclosures are made in note 19. Column 4 of the above table shows the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column 5 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.

A 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 the 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 other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to 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 prescribed by the Institute and Faculty of Actuaries.

Board members remuneration policy

The Chair of the Big Lottery Fund, the joint working name of the Community Fund and New Opportunities Fund, is a part-time appointment, two days per week. The Chair is appointed, and his remuneration determined by the Secretary of State for Culture, Media and Sport. The remuneration received by the Chair is set out below. He receives no contributions to pension.

	1/4/06 to 30/11/06 £	1/4/05 to 31/3/06 £
Sir Clive Booth	12,519	18,504

All Board Members for the Big Lottery Fund are appointed by the Secretary of State for a time defined period. Board Members are entitled to receive remuneration for their time spent on the activities of BIG. For Board Members appointed to BIG prior to formal merger 50 per cent of their time was deemed to be spent on each of Community Fund and New Opportunities Fund activities. These activities, for which Board members can claim a daily rate fee of £208 (2005/06 £204), mainly consist of meetings in BIG's offices. No Board member received contributions to pension.

Total emoluments paid to Board members to 30 November 2006 was £55,496 (2005/06 £73,067), analysed as follows:

	1/4/06 to 30/11/06 £'000	1/4/05 to 31/3/06 £'000
Dr Samuel Burnside	3.4	6.0
David Campbell	3.9	5.6
Paul Cavanagh	3.2	6.0
Tom Davies	1.7	4.2
Roland Doven*	2.1	3.4
Professor Briedge Gadd*	4.8	5.1
John Gartside*	5.3	4.6
Douglas Graham	2.2	3.0
Taha Idris	4.6	5.0
Dugald Mackie	5.2	2.1
John Naylor to 31 March 2006	–	6.8
Esther O'Callaghan*	1.0	0.8
Anna Southall*	1.9	4.4
Dame Valerie Strachan (Deputy Chair)	6.0	8.8
Huw Vaughan Thomas*	2.8	3.8
Diana Whitworth*	5.7	3.5

All Board members resigned from the Board of the Community Fund as at 30 November 2006. Those members shown with a* were appointed to the Board of Big Lottery Fund from 1 December 2006.

The Community Fund reimbursed the travel and subsistence expenses of Board members and met the tax liability on these expenses.

Stephen Dunmore

Chief Executive of the Big Lottery Fund

9 July 2007

Statement of Accounting Officer's responsibilities

Under Section 35(3) of the National Lottery Act etc 1993 the Community Fund is required to prepare a statement of accounts for the financial period in the form and on the basis directed by the Secretary of State for the Department for Culture, Media and Sport.

The statement of accounts are prepared on an accruals basis and must show a true and fair view of the Community Fund's state of affairs at the period end and of its income and expenditure and cash flows for the accounting period.

In preparing the accounts the Board Members are required to:

- observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the annual accounts
- prepare the statement of accounts on the going concern basis, unless it is inappropriate to presume that the Community Fund will continue in operation. The National Lottery Act 2006 provided for the residual assets, liabilities and activities of the Community Fund to be transferred to the Big Lottery Fund on the dissolution of the Community Fund.

The Accounting Officer for the Department for Culture, Media and Sport has designated the Chief Executive of the Community Fund as the Accounting Officer for the Community Fund. The Chief Executive's relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' memorandum issued by the Treasury and published in Government Accounting, and in the Financial Directions issued by the Secretary of State for Culture, Media and Sport under Section 26(3) of the National Lottery etc Act 1993.

As Accounting Officer, as far as I am aware, there is no relevant audit information of which the Community Fund's auditors are unaware. I have taken all reasonable steps as Accounting Officer to make myself aware of any relevant audit information and to establish that the Community Fund's auditors are aware of that information.

Delegated responsibilities

The Community Fund, where appropriate, used the powers of delegation and solicitation provided by the National Lottery Act 1998. As a result of this other parties may be accountable for specific elements of programmes.

The Community Fund entered into joint schemes, as defined in the National Lottery Act 1998, to provide funding alongside other bodies to achieve the outcomes defined by the relevant Joint Scheme Order. In these Schemes the Community Fund's Accounting Officer was responsible for: ensuring that Lottery funds allocated by the Community Fund were applied in accordance with the Community Fund's legal powers; the economic, efficient and effective use of Lottery funding allocated by the Community Fund to the programme; satisfying himself that the systems used for operating the programme were robust and fit for purpose and agreeing the mechanism for allocating the administrative costs of the programme between the participating Lottery bodies.

The Community Fund participated in the following joint schemes.

- ▶ Awards for All, England. A scheme administered by the Community Fund on behalf of Community Fund, Arts Council of England, Heritage Lottery Fund, New Opportunities Fund and Sport England.
- ▶ Home Front Recall, part of the veterans programmes. A scheme administered by the Community Fund on behalf of Community Fund, Heritage Lottery Fund and New Opportunities Fund.

- ▶ Living Landmarks, part of the Transformational Grants initiative. A scheme administered by the Community Fund on behalf of Community Fund and the New Opportunities Fund.

The Community Fund has used the powers provided by the National Lottery Act 1998 to delegate to the Carnegie Institute a grant scheme as an award partner. The grant offer between the Community Fund and the Carnegie Institute sets out the responsibility of the Chief Executive of the award partner to ensure that the systems implemented to administer Lottery applications and process and monitor Lottery grants are acceptable and fit for purpose and that Lottery funds are distributed with due regularity and propriety. I retain responsibility for the overall safeguarding of the public funds provided to the Community Fund and for ensuring that award partners operate within our agreed terms and in line with the financial and policy directions provided to me.

Stephen Dunmore

Chief Executive of the Big Lottery Fund

9 July 2007

Statement on internal control

Scope of responsibility

As Accounting Officer, I had responsibility for maintaining a sound system of internal control that supports the achievement of the Community Fund's aims and objectives while;

- safeguarding the public funds and assets for which I am personally responsible in accordance with the responsibilities assigned through Government Accounting
- ensuring compliance with the requirements of the Community Fund's Management Statement, Policy Directions, Financial Directions and Statement of Financial Requirements.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Community Fund'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 throughout the period ended 30 November 2006 and up to the date of the approval of these accounts and accords with Treasury guidance.

The main elements of the Community Fund's control framework are set out below.

Control environment

- ▶ The Department of Culture, Media and Sport had designated me, the Chief Executive of the Community Fund, as Accounting Officer. I had a separate letter of engagement to this effect that clearly set out my responsibility and accountability for maintaining a sound system of internal control within the Fund. I was also the Chief Executive and Accounting Officer of the New Opportunities Fund.
- ▶ Following the Secretary of State for Culture, Media and Sport's announcement to integrate the Community Fund and the New Opportunities Fund to form the Big Lottery Fund, a co-terminus Board was appointed with responsibility for both Community Fund and New Opportunities Fund matters.
- ▶ A Senior Management Team, with clear terms of reference and defined membership, which met at least every month to consider the plans and operations of the Community Fund and compliance with the Management Statement.
- ▶ A Board which met every two months to consider the strategic direction of the Community Fund. The Board comprised a Chair and up to 16 non-executive members and was attended by members of the Senior Management Team.

- ▶ The Audit and Risk Committee, whose terms of reference require the Committee to approve the internal audit programme, to endorse the risk register and to scrutinise the outcome of reports by internal and external audit. The Chair of the Committee reports to the Board on the matters discussed by the Committee.
- ▶ The Remuneration Committee, whose terms of reference provide for oversight and approval of remuneration and performance for senior staff members including myself. Further details are in the remuneration report.
- ▶ The Resources Committee, whose terms of reference require the Committee to approve the annual budget and to receive regular financial reports to challenge and oversee expenditure.
- ▶ A published corporate plan that sets out our objectives and performance measures. The eight months to 30 November was a continuation of the transition towards which the Community Fund and New Opportunities Fund were working as one administrative body to lay the foundations for the Big Lottery Fund.
- ▶ Quarterly performance management reports to the Senior Management Team reporting progress in achieving corporate objectives, performance and service delivery targets. These targets will be reported on at the end of the financial year as part of the Big Lottery Fund's annual report. Where targets have not been met, action will be identified to improve efficiency and effectiveness.
- ▶ Monthly financial summary reports to the Senior Management Team and quarterly reports to the Resources Committee, reporting progress against financial targets, including grant commitment budgets, NLDF balance targets and operating cost budgets.
- ▶ A fraud policy, whereby suspected frauds are reported to DCMS and dealt with by liaison with Police and other agencies where appropriate. A number of cases are currently under investigation. Throughout the investigation, whether or not fraud is proven, we review procedures and processes to learn lessons and improve systems of internal control, fraud prevention and detection where necessary.
- ▶ A wide range of policies dealing with control issues for corporate governance, financial management, project management, health and safety, training and development, information technology and risk management.
- ▶ A wide range of controls to ensure grant assessment and monitoring activity is adequately managed and that losses of Lottery funds were minimised. These controls include written procedures for grant assessment and grant management tasks, defined management supervisory tasks, clear delegations for decision making and a training programme including fraud awareness training.
- ▶ A project management framework, with defined responsibilities including project sponsor, for developing new programmes.

Statement on internal control

- ▶ An internal communications process that ensures that all staff are informed about key decisions on a timely basis through appropriate media, including the use of emails from the Chief Executive, cascaded briefings by line managers and presentations by the Chief Executive and Directors.
- ▶ An external communications strategy that ensures that stakeholders, Parliamentarians, press and members of the public receive appropriate and reliable information.
- ▶ An Internal Audit Unit operating to standards defined in the Government Internal Audit manual. The work of internal audit was informed by the corporate risk register and an analysis of the risk to which the Community Fund was exposed. The annual internal audit plans were based on this analysis and were approved by me and endorsed by the Audit and Risk Committee. The Head of Internal Audit met regularly with me, and on an annual basis met with the Audit and Risk Committee with no officers present. The Head of Internal Audit provided me with periodic progress reports building to an annual report on internal audit activity, including the findings of follow up reviews, in the Community Fund. This annual report includes his opinion on the adequacy and effectiveness of the systems that they have reviewed. This has been reviewed by the Audit and Risk Committee.

Risk management

Capacity to handle risk

At the start of the year and during 2006 the Senior Management Team formally considered and updated their documentation of the risks faced by the organisation. The outcome of these reviews were discussed with the Audit and Risk Committee to validate the contents of the corporate risk register. These reviews ensure that the risk register and our responses are relevant.

Risk management principles, including consideration of risk and recommendation for appropriate mitigation, were also integral to our grant assessment, grant management, new programme development and project management procedures.

Following an internal audit of risk management, our approach to risk management continues to develop. We now integrate corporate planning and risk more closely. At a corporate level we have considered our appetite for each risk identified and we have clear actions and responsibilities. We now plan to roll out this approach across the Big Lottery Fund.

Risk and control framework

The risk register agreed by the Audit and Risk Committee in July 2006 highlighted 12 corporate risks. The potential impact of each risk and the likelihood of it being realised have been assessed and appropriate controls to mitigate these risks have been determined. This has been recorded in the corporate risk register. As detailed above, this is reviewed and updated.

In addition risk management is built into our business planning processes in the following ways:

- the programme development framework which supports the development of all new grant programmes requires an assessment of the key risks for each new programme, which in turn are reported to the Grant Programme Board. On a monthly basis, a summary of the key risks associated with the portfolio of new grant programmes is reported to the Senior Management Team
- a similar process is followed with regard to business development projects
- grant assessment and grant management procedures set out the requirement for each grant to be allocated a risk rating, which informs the level of intervention in grant management.

During this year the risk priorities have included:

- governance risk, recognising the planned changes in Board membership
- people risks, particularly the ability to recruit, train and retain new staff in our new centres
- legal and regulatory risk, including compliance with our new legislation and general compliance with existing legislation
- grant-making risk, including failure to deliver outcomes, achievement of targets, monitoring of third party service providers
- political risk, and in particular Government actions effecting our funding or providing excessive direction
- fraud risk, including loss of confidence in our systems
- reputational risk, including the risks associated with Ministerial and public perception of high NLDF balances, while ensuring that the reasons for large undistributed NLDF balances are understood. Also perceptions about our funding decisions
- communications risks, around the failure to communicate our context and constraints effectively and a failure to manage demand expectations
- financial risk, delivery of administrative savings and effects of cost cuts.

Statement on internal control

Review of effectiveness of internal control

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors, the executive managers within BIG 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 the review of the effectiveness of the system of internal control by the Board and Audit and Risk Committee.

The written assurance report on internal controls that I received from the Head of Internal Audit identified inadequate general computer systems controls and some significant control weaknesses in a number of other systems. As a result the assurance provided to me on the design, adequacy and effectiveness of the system of internal control was limited. The Head of Internal Audit, Audit and Risk Committee and I have reviewed these reports and management's response and will continue to monitor the plans plan to address weaknesses and to ensure continuous improvement of the system is in place. Details of the inadequate internal control issues are set out below.

General computer systems controls

During 2006 internal audit have carried out reviews of our IT systems including the general control environment and the integration of our two grant management systems. Internal audit identified that controls were inadequate and made a number of recommendations to enhance controls over:

- the risk assessment of BIG's key data sets
- unauthorised access, timely deletion of users and continuing assessment of users accessing the database and operating system
- access rights to grant management systems and system embedded management controls to enforce segregation of duties
- review of audit trails for the Oracle database
- improvements over change control processes
- assessment of operational resilience within Merlin.

A number of these control weaknesses have already been addressed and there is a plan and timetable in place to address the remaining issues.

Compliance

The Community Fund has implemented procedures throughout the organisation to ensure that the requirements of the Financial Directions are followed.

The Community Fund maintains a Register of Interests for all Board and Committee Members and all Fund staff that is open to public inspection. A process to deal with conflicts of interest is in place for decision making committee meetings and procedures exist to prevent any member of staff from assessing a grant application from an organisation with which they are connected.

Losses of Lottery funds have been appropriately handled and where necessary notified to the Department.

It is my opinion that the Community Fund has made sufficient arrangements to ensure compliance with the requirements of our Management Statement, Policy and Financial Directions. I am also satisfied that we have in place arrangements for detecting and responding to inefficiency, conflict of interest and fraud to minimise losses of Lottery funding.

Stephen Dunmore

Chief Executive of the Big Lottery Fund

9 July 2007

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 Community Fund for the period ended 30 November 2006 under the National Lottery etc Act 1993 (as amended). These comprise the income and expenditure account, the balance sheet, the cashflow statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the remuneration report that is described in that report as having been audited.

Respective responsibilities of the Board, Chief Executive and auditor

The Board and Chief Executive as Accounting Officer are responsible for preparing the management commentary, 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 Board and Chief Executive's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the National Lottery etc Act 1993 (as amended) and directions made thereunder. I report to you if, in my opinion, certain information given in the management commentary and the unaudited part of the remuneration report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Community Fund has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

I read the other information contained in the management commentary and consider whether it is consistent with the audited financial statements. 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 Board and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Community Fund's circumstances, consistently applied and adequately disclosed.

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

Opinions Audit 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 Community Fund's affairs as at 30 November 2006 and of its surplus for the period 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
- information given in the management commentary and the unaudited part of the remuneration report is consistent with the financial statements.

Audit opinion on regularity

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

Report

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria, London SW1W 9SP

16 July 2007

Income and Expenditure Account for the eight months ended 30 November 2006

	Note	8 months to 30/11/06 £'000	Year ended 31/3/06 £'000
Income			
Proceeds from the National Lottery	10	134,602	230,419
Investment income from the National Lottery Distribution Fund	10	4,112	8,207
(Increase) on loss on revaluation of investment		(320)	(521)
Bank interest receivable		192	272
Recoveries of grant		1,488	2,343
Other income		2,912	6,688
Total Income		142,986	247,408
Grant expenditure			
Grant commitments made	13	38,775	350,314
Less lapsed or revoked commitments	13	(8,460)	(13,877)
		30,315	336,437
Administration costs			
Employee remuneration costs	2	7,482	15,457
Board member remuneration costs		74	100
Other operating charges	3	6,107	9,107
Structural review	5	4,220	6,890
Depreciation	8	350	330
Total administration costs	4	18,233	31,884
Total expenditure		48,548	368,321
Surplus/(deficit) before taxation		94,438	(120,913)
Taxation	7	(34)	(52)
Surplus/(deficit) for the period		94,404	(120,965)
Retained deficit			
Brought forward at 1 April 2006		(268,905)	(147,940)
Surplus/(deficit) for the period		94,404	(120,965)
Retained (deficit) at 30 November 2006		(174,501)	(268,905)

The Community Fund has no recognised gains and losses other than those above and consequently no separate statement of total recognised gains and losses has been presented. All activities will discontinue from 30 November 2006 and be transferred to the Big Lottery Fund.

The notes on pages 21 to 34 form part of these accounts.

Balance Sheet as at 30 November 2006

	Note	30 November 2006 £'000	31 March 2006 £'000
Fixed assets			
Tangible fixed assets	8	2,813	1,751
Current assets			
Debtors and prepayments	9	2,683	2,561
Cash at bank and in hand		3,723	4,510
Investment balance in National Lottery Distribution Fund	10	128,119	171,950
		<u>134,525</u>	<u>179,021</u>
Creditors: amounts falling due within one year			
Creditors	11	(2,883)	(5,651)
Grants committed for payment	13	(62,831)	(239,060)
		<u>(65,714)</u>	<u>(244,711)</u>
Net current assets/liabilities		<u>68,811</u>	<u>(65,690)</u>
Total assets less current liabilities		<u>71,624</u>	<u>(63,939)</u>
Creditors: amounts falling due after one year			
Creditors	11	(205)	(2)
Grants committed for payment	13	(240,938)	(199,262)
Provisions for liabilities and charges	12	<u>(4,982)</u>	<u>(5,702)</u>
Total net (liabilities)		<u><u>(174,501)</u></u>	<u><u>(268,905)</u></u>
Represented by:			
Retained deficit		<u><u>(174,501)</u></u>	<u><u>(268,905)</u></u>

Signed on behalf of the Big Lottery Fund Board on 9 July 2007.

Stephen Dunmore
Chief Executive of
the Big Lottery Fund

Sir Clive Booth
Chair of
the Big Lottery Fund

These accounts were authorised for issue on 17 July 2007.

The notes on pages 21 to 34 form part of these accounts.

Cash Flow Statement to 30 November 2006

	Note	1/4/06 to 30/11/06 £'000	1/4/05 to 31/3/06 £'000
Operating activities			
Funds drawn down from the National Lottery Distribution Fund	10	182,225	240,615
Other income		3,600	7,020
Recoveries of grant and cash from other sources		1,488	2,343
Payments to suppliers		(13,532)	(16,262)
Payments to and on behalf of employees		(9,286)	(11,011)
Payments to grant recipients		(164,868)	(226,791)
Net cash flow from operating activities	16	(373)	(4,086)
Returns on investments and servicing of finance			
Bank interest received		192	272
Capital expenditure			
Payments to acquire tangible fixed assets		(606)	(1,417)
Taxation			
Tax paid on interest received		–	(125)
(Decrease) in cash		(787)	(5,356)
Change in funds resulting from cashflow			
Cash balances carried forward at 30 November		3,723	4,510
Less cash balances brought forward at 1 April		(4,510)	(9,866)
Movement		(787)	(5,356)

The notes on pages 21 to 34 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current cost. The accounts have been prepared in a form directed by the Secretary of State for Culture, Media and Sport with the consent of Treasury in accordance with Section 39(2) of the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998).*

While the Community Fund's Accounts Directions require the inclusion of fixed assets at their value to the business by reference to current costs, for this accounting period the Community Fund does not believe that these values are materially different to the historic costs shown in the balance sheet. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act and Accounting Standards issued by the Accounting Standards Board insofar as they are appropriate.

1.2 Going concern

The annual accounts have been prepared on a going concern basis. The National Lottery Act 2006 provides for the asset and liabilities of Community Fund to be transferred to Big Lottery Fund.

The grant commitments for future years have been entered into after consideration of the cash requirements of grant recipients (these can extend over three to five years) and after taking account of income forecasts provided by the Department of Culture, Media and Sport. In taking this view of future income the Board assume as a matter of public policy, the continued operation of the Lottery and the maintenance of Community Fund's percentage of the National Lottery Distribution Fund.

1.3 National Lottery Distribution Fund

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

The Community Fund's balances in the NLDF will transfer to the Big Lottery Fund from 1 December 2006.

* A copy of the Accounts Directions issued by the Department of Culture, Media and Sport on 10 June 2002 are available on written request to the Big Lottery Fund, 1 Plough Place, London EC4A 1DE.

Notes to the accounts

1.4 Fixed assets

Fixed assets are capitalised in the balance sheet at their historic cost value rather than by reference to current costs, as these are not considered to be materially different. Items costing less than £2,000 are written off to the income and expenditure account in the year of purchase. The Community Fund does not capitalise software development costs.

Depreciation is provided at rates calculated to write off the valuation of the assets on a straight line basis over their estimated useful lives as follows:

Fixture and fittings	The lower of 4 years or the remaining life of the lease where appropriate
Office equipment	4 years
IT equipment	3 years

1.5 Pension fund

Employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme. Although the Scheme is a defined benefit scheme, liability for payment of future benefits is a charge on the PCSPS. The Community Fund pays a charge for each employee calculated on an accruing basis. Pension benefits are provided through the PCSPS. From 1 October 2002, staff who are members of the scheme can be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between membership of the premium scheme or can join a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account). The differences between the schemes can be found on the www.civilservice-pensions.gov.uk website.

For a small number of staff the Community Fund makes contributions of 15 per cent of salary in respect of the private and personal pension scheme of their choice. From 1996/97, following Treasury advice the contribution rate for new personal pension schemes was reduced to 3 per cent.

1.6 Operating leases

The costs of operating leases held by the Community Fund are charged to the income and expenditure account in the period to which they relate on a straight-line basis. The benefits of rent-free periods on all new leaseholds entered into are apportioned over the period to the first rent review on a straight-line basis.

1.7 Grant commitments

The Accounts Direction issued by the Department for Culture, Media and Sport requires a distinction to be made between soft commitments and hard commitments.

Hard commitments are defined as the grant sum payable over the life of a scheme on which the Community Fund has a written contractual agreement with the applicant. Hard commitments are charged to the income and expenditure in the year that the contracts are signed. Hard commitments are shown on the balance sheet as a creditor, the balance being reduced as payments to grant recipients are released.

Soft commitments are defined as an agreement in principle by the Community Fund to fund a scheme and an offer of grant made to the applicant, which the applicant has yet to formally accept. These are shown as a note to the accounts but are not treated as part of the income and expenditure account.

Grants repaid and recovered

The Community Fund's conditions of grant permit the recovery and repayment of grants paid. This can arise when the grant holder fails to comply with the terms and conditions or where the actual expenditure by a grantee falls below a grant that has been paid based on estimated costs.

Grant transfers

Grant transfers are required when existing grant recipients change their constitution during the year. As the new organisation is a new legal entity this requires the old grant to be revoked and a new grant to be applied for and awarded.

1.8 Third party assets

The Community Fund holds as custodian certain assets belonging to third parties. These assets represent bank balances of £1.1 million held on behalf of other Lottery distributors to fund awards made under the Awards for All schemes and the Home Front Recall grant programme administered by the Community Fund. These are not recognised in the accounts since the Community Fund has no direct beneficial interest in them.

1.9 Grant management – joint schemes

Where the Community Fund has entered into a joint scheme, as defined in the National Lottery Act 1998, hard commitments made through the joint scheme are accounted for on the basis of the Community Fund's share in the scheme. Administration costs are included in the income and expenditure account at the amount incurred by the Community Fund.

1.10 Allocation of income and costs

Income and costs incurred by the Big Lottery Fund are allocated between the New Opportunities Fund and Community Fund. Income and costs attributable to a specific Fund are allocated directly. Joint costs are apportioned to each Fund based on an appropriate allocation methodology for example based on income share; staff numbers.

1.11 Notional cost of capital

From 1 April 2002 HM Treasury removed the requirement for a notional cost of capital charge to be calculated on assets funded by the Lottery.

Notes to the accounts

2. Staff numbers and cost

Staff are employed by either the New Opportunities Fund or Community Fund under contracts that allow them to provide services to the other Fund. Employee costs and numbers are allocated to each organisation based on an apportionment methodology described in note 1.10. During the 8 months to 30 November 2006 the balance of activity was assessment and award of applications to Big Lottery Fund programmes which are made under New Opportunities Fund powers.

Employee costs, excluding Board members, were as follows:

	1/4/06 to 30/11/06 £'000	1/4/05 to 31/3/06 £'000
Wages and salaries	5,420	11,321
Social security costs	439	945
Pension costs	989	1,911
Agency staff	634	1,280
	7,482	15,457

These costs include £26,956 for staff seconded out to other organisations. Recoveries of £36,895 are included in other income.

The salary and pension entitlement of the senior management of the Community Fund are included above, details are disclosed in the remuneration report.

The average number of full time equivalent employees and temporary staff working for the Community Fund during the year was made up as follows:

	1/4/06 to 30/11/06			1/4/05 to 31/3/06
	Average no. of temporary staff (FTEs)	Average no. of employees (FTEs)	Total average no. of staff (FTEs)	Total average no. of staff (FTEs)
Planning and Performance	2	21	23	25
Finance and Corporate Services	6	44	50	59
Policy and External Relations	1	47	48	50
Operations	3	87	90	191
Country offices	7	38	45	114
Other distributors *	7	93	100	132
	26	330	356	571

*The Community Fund employs staff to process applications and manage grants on behalf of other Lottery distributors under the Awards for All and Home Front Recall schemes and the New Opportunities Fund's Childcare programme.

3. Other operating costs

Included in other operating costs are:

	1/4/06 to 30/11/06		1/4/05 to 31/3/06	
	£'000		£'000	
Travel and expenses				
Staff	271		550	
Board members	47	318	99	649
Auditors remuneration for audit work		50		44
Operating lease payments		1,274		1,303
Other costs		4,465		7,111
		6,107		9,107

4. Total operating expenses

Analysis of operating expenditure

	1/4/06 to 30/11/06		1/4/05 to 31/3/06	
	£'000		£'000	
Effective grant-making	15,082	83%	27,026	85%
Governance and administration	2,299	12%	3,332	10%
Supporting the voluntary sector	852	5%	1,526	5%
Total administrative expenditure	18,233	100%	31,884	100%

Effective grant-making is the work required to run the Community Fund's grant programmes and decision making processes. Including costs of the regional and country offices, assessing applications, reviewing programme areas and priorities, managing and monitoring awards, the regional and country committees and IT systems needed to support grant-making.

Governance and administration is the work required to run the Community Fund as a legal entity. This includes the costs of the Board and non-grant-making Committees, Chief Executive's office, internal audit and some aspects of the corporate service departments.

Supporting the voluntary sector includes the work of initiatives linked to the strategic priorities aimed at developing stronger links between grant holders working in certain areas and increasing the impact of the Community Fund in ways such as fair share or outreach, and the work of development officers.

Notes to the accounts

5. Structural review costs

The structural review, a major change programme to restructure and relocate our England grant making activities and corporate service functions, has incurred the following costs since 1 April 2006:

	1/4/06 to 30/11/06 £'000	1/4/05 to 31/3/06 £'000
Termination payments	1,137	5,280
Professional fees	211	269
Property costs	2,782	1,211
Project management	80	122
Other	10	8
	<u>4,220</u>	<u>6,890</u>

6. Financial performance indicator

The Community Fund aims to keep operating costs below 10 per cent of income. This indicator is calculated on a net basis that is excluding income and expenses relating to activities recharged at full cost to other distributors. This target continues to be achieved over the lifetime of the Community Fund; net operating costs are 7.9 per cent of income (2005/06, 7.8 per cent). In previous years the Community Fund has also considered net operating expenses as a percentage of income received in the year. Using this basis the financial performance indicator is 10.7 per cent (2005/06, 10.5 per cent).

7. Corporation tax

The Community Fund pays corporation tax on bank interest received at an effective rate of 19 per cent (previous year 17.6 per cent). The tax payable is £33,873 (2005, £51,573). Monies held and invested by the National Lottery Distribution Fund on the Community Fund's behalf are not taxable.

8. Tangible fixed assets

	Office equipment £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
At cost				
At 1 April 2006	352	1,078	3,175	4,605
Additions	14	57	1,342	1,413
Disposals	(191)	(254)	(714)	(1,159)
At 30 November 2006	175	881	3,803	4,859
Depreciation				
At 1 April 2006	277	871	1,706	2,854
Charge for the year	20	78	252	350
Disposal	(191)	(254)	(713)	(1,158)
At 30 November 2006	106	695	1,245	2,046
Net book value				
At 30 November 2006	69	186	2,558	2,813
At 31 March 2006	75	207	1,469	1,751

All leasehold improvements are on short leasehold properties where the leases expire in less than 50 years.

9. Debtors and prepayments

	At 30 November 2006 £'000	At 31 March 2006 £'000
Debtors	705	1,673
Amounts owed by the New Opportunities Fund	1,055	–
Accrued income	332	297
Prepayments	591	591
	2,683	2,561

Included in the amounts above are the following balances payable by other Government bodies:

	At 30 November 2006 £'000	At 31 March 2006 £'000
Amounts due from other Government bodies	1,323	1,686
Amounts due from local authorities	139	11

Notes to the accounts

10. Balance held by the National Lottery Distribution Fund

	£'000	£'000
Cost as at 1 April 2006		173,128
Distribution from the National Lottery	134,602	
Investment income earned	4,112	
Cash drawn down	(182,225)	
Net decrease in balance		(43,511)
Cost at 30 November 2006		129,617
Unrealised loss on investment		(1,498)
Market value at 30 November 2006		128,119

At 30 November 2006 the market value of the Community Fund's balance held by the National Lottery Distribution Fund (NLDF) was £128.1 million (2005/06 £171.9 million).

The funds held in the National Lottery Distribution Fund are managed by the Commissioners for the Reduction of National Debt (formerly known as the National Debt Commissioners). The Community Fund received 16.7 per cent of the monies paid by Camelot Group plc to the National Lottery Distribution Fund after deduction of expenses payable to the consolidated fund for the costs of the Secretary of State for Culture, Media and Sport in exercising her functions under the Act, the costs of the regulator (the National Lottery Commission) and the costs of the investor (Commissioners for the Reduction of National Debt). The National Lottery Distribution Fund investment account is revalued before each transaction, either receipt or draw down, and interest apportioned according to a formula based on the balance held by the body as a ratio of the total balance.

11. Creditors: amounts falling due within one year

	At 30 November 2006 £'000	At 31 March 2006 £'000
Trade creditors	984	969
Other creditors	323	490
Amounts due to New Opportunities Fund	–	3,153
Accruals and deferred income	1,490	987
Corporation Tax	86	52
	<u>2,883</u>	<u>5,651</u>

Included in the amounts above are the following balances payable to other Government bodies:

	At 30 November 2006 £'000	At 31 March 2006 £'000
Amounts due to other Government bodies	215	3,272
Amounts due to local authorities	72	40

Creditors: amounts falling due in more than one year

	At 30 November 2006 £'000	At 31 March 2006 £'000
Deferred income	<u>205</u>	<u>2</u>

12. Provisions for liabilities and charges

	Unavoidable lease payments	Early retirement contributions	Redundancy provisions	Redundancy support	Total provisions
	£'000	£'000	£'000	£'000	£'000
Brought forward at 1 April 2006	442	1,332	3,525	403	5,702
Charged to expenditure in the year	955	334	713	61	2,063
Payments made	(276)	(259)	(2,059)	(189)	(2,783)
Carried forward at 30 November 2006	1,121	1,407	2,179	275	4,982

During the financial year the Community Fund took the decision to vacate its Nottingham property. In addition the decision to sublet floors in Leeds and Guildford were approved. The increase in provision reflects the cost of vacating these properties including any dilapidations and unavoidable lease costs. These provisions are expected to be realised in 2006/07 and 2007/08.

As part of structural review

- ▶ Certain eligible staff have agreed to take early retirement. As a result of these agreements the Community Fund is contracted to meet certain pension contributions until the statutory retirement date of these individuals. An estimate of future contributions has been provided for staff who had finalised early retirement agreements prior to 30 November 2006.

- ▶ Certain posts have been identified as no longer required. A provision has been made for the estimated redundancy costs of those staff which the Community Fund has entered into consultation with prior to 30 November 2006 but for which settlement was not paid by that date. Redundancy payments are made in accordance with contractual arrangements and terms set out in the Civil Service Pension (CSP) arrangements.

During 2006 payments against the provision for staff who took early retirement or redundancies as part of the administrative merger with the New Opportunities Fund have been charged to the provision made in earlier years. It is expected that the majority of this provision will be realised during 2007/08.

Notes to the accounts

13. Grant commitments

	At 30 November 2006 £'000	At 31 March 2006 £'000
Hard commitments		
Hard commitments brought forward	438,322	328,661
Hard commitments made	38,775	350,314
Lapsed and revoked hard commitments	(8,460)	(13,877)
Hard commitments met	(164,868)	(226,776)
Net movement in hard commitments	(134,553)	109,661
Hard commitments carried forward	303,769	438,322

Ageing of hard commitments

	At 30 November 2006 £'000	At 31 March 2006 £'000
Due for payment within one year	62,831	239,060
Due for payment during:		
2007/08 (2006/07)	144,424	131,831
2008/09 (2007/08)	79,545	59,560
2009/10 (2008/09)	14,226	7,453
2010/11 (2009/10)	2,629	418
2011/12 (2010/11)	114	–
Total commitments	303,769	438,322

14. Soft commitments

	At 30 November 2006 £'000	At 31 March 2006 £'000
Soft commitments		
Soft commitments brought forward	21,401	36,512
Soft commitments made	18,282	336,292
Lapsed and revoked soft commitments	(173)	(1,089)
Soft commitments transferred to hard commitments	(38,775)	(350,314)
Soft commitments carried forward	735	21,401

15. Joint schemes

Included within hard commitments £0.6 million (2005/06 £10.3 million) of new grant commitments and £7.8 million (2005/06 £1.5 million) of grant commitments carried forward at 31 March representing the Community Fund's contribution to the Awards for All, England joint scheme. Since 1 April 2006 the Community Fund contributed £9.1 million to the total funding of £43.7 million. This scheme is administered by the Community Fund on behalf of all parties to the agreement.

16. Reconciliation of income and expenditure to net cash inflow from operating activities

	1/4/06 to 30/11/06 £'000	1/4/05 to 31/3/06 £'000
Surplus/(deficit) before tax	94,438	(120,913)
Depreciation of fixed assets	350	330
Loss on disposal of fixed assets	1	–
Interest income	(192)	(272)
Net Surplus/(deficit) from operating activities	94,597	(120,855)
(Increase)/decrease in debtors	(122)	660
Decrease in NLDF balance	43,831	2,510
(Decrease) in creditors	(3,406)	(480)
(Decrease)/increase in provision	(720)	4,418
(Decrease)/increase in provision for grant commitments	(134,553)	109,661
Net cash (outflow) from operating activities	(373)	(4,086)

17. Financial risks

The Community Fund is required to disclose the effect of financial instruments during the period in creating or changing the risks the Community Fund faces in undertaking its role.

Liquidity risks

In the eight month period ended 30 November 2006, £134.6 million (94.1 per cent) of the Community Fund's income derived from the National Lottery. The remaining income derived from investment returns from the balance held with the National Lottery Distribution Fund £3.8 million (2.7 per cent), and from bank interest and other income £4.6 million (3.2 per cent).

At 30 November 2006 the Community Fund had net liabilities of £174.5 million and soft commitments of £0.7 million. Although the Community Fund has made commitments in excess of its assets, the Board does not consider that the Community Fund is exposed to significant liquidity risks as many of these commitments will not be paid until after the next financial year end. This is because the Community Fund will only allow grant holders to draw down monies once they have proved their need to receive the next tranche of grant funding allocated to them. Due to the timing differences between the date the grant holder accepts the Community Fund's grant offer, and the date the grant holder draws down these monies, the Community Fund is encouraged by the Department for Culture, Media and Sport to over-commit the available funds.

Notes to the accounts

From 1 December 2006 the Big Lottery Fund is responsible for the financial liabilities of the New Opportunities Fund, Community Fund and Millennium Commission. At 30 November the New Opportunities Fund had net liabilities of £110.5 million and the Millennium Commission had net assets of £20.4 million. The Board have taken these liabilities into their consideration of liquidity risk.

	£'000
Liquid assets at 30 November 2006	
Market value of NLDF investments	128,119
Cash	3,723
	<u>131,842</u>
Forecast cashflows 16 months to 31/3/08 for Big Lottery Fund	
Liquid assets from New Opportunities Fund and Millennium Commission	530,587
NLDF Investments	
Income from the National Lottery	892,500
Other income	20,000
Administration cost payments	(91,530)
Grant payments	(983,040)
Forecast liquid assets at 31 March 2008	<u><u>500,359</u></u>

The income forecast assumptions are based on guidance provided by the Department for Culture, Media and Sport. The forecast grant payments are based upon estimated grant draw down profiles submitted by grant recipients at the time of award.

Interest rate risks

The financial assets of the Community Fund are invested in the NLDF, which invests in a narrow band of low risk assets such as government bonds and cash. The Board has no control over the investment of funds in the NLDF. At the balance sheet date the market value of investment in the NLDF was £128.1 million. In the eight months to 30 November 2006 the average annualised return on these investments was 4.16 per cent.

Cash balances which are drawn down from the Community Fund to pay grant commitments and operating costs are held in instant access variable rate bank accounts which on average carried an interest rate of 4.14 per cent in the period. The cash balance at the year-end was £3.7 million. The Board considers that the Community Fund is not exposed to significant interest rate risks on its cash balances.

Foreign currency risk

The Community Fund is not exposed to any foreign exchange risks.

18. Financial commitments

Commitments under operating leases

At 30 November 2006, the Community Fund had the following annual commitments under operating leases, for land and buildings.

	As at 30 November 2006 £'000	As at 31 March 2006 £'000
Expiring in less than 1 year	214	515
Expiring in 1-5 years	519	840
Expiring in more than 5 years	2,910	1,774
	<u>3,643</u>	<u>3,129</u>

19. Pension scheme

Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants 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 from 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 per cent of pensionable earnings for classic and 3.5 per cent 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 as per classic.

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

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

For 2006, employers' contributions of £989,093 were payable to the PCSPS (2005/06 £1,911,472) at one of four rates in the range 17.1 - 25.5 per cent of pensionable pay, based on salary bands (as shown below). Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Bands	8 months ended 30 November 2006
£18,500 and under	17.1%
£18,501 - £38,000	19.5%
£38,001 - £65,000	23.2%
£66,001 and over	25.5%

Notes to the accounts

20. Special payments and losses

Special payments occur where a grant has been made inadvertently to an organisation that is ineligible under the law but where the grant is within the broad intention of statutory legislation. All these awards were spent on project objectives in accordance with the grant terms and conditions. In the eight month period to 30 November 2006 special payments totalled £nil (previous year £17,963).

Losses occur where there is no evidence that the project objectives were met. In the eight month period to 30 November 2006 losses totalled £184,177 (previous year £831,771). There were no losses over £100,000.

21. Related party transactions

The Community Fund was a non-departmental public body sponsored by the Department for Culture, Media and Sport (DCMS). The DCMS is considered to be a related party. During the year, the Community Fund has had various material transactions with the DCMS and other bodies for which the DCMS is regarded as the sponsor Department: the New Opportunities Fund, Heritage Lottery Fund, the Arts Councils of England, Sport England.

In addition, the Community Fund had a number of transactions with Government Departments and bodies that regard other Government departments as their sponsor department.

- ▶ The Sports Councils in Scotland, Wales and Northern Ireland.
- ▶ The Arts Councils in Scotland, Wales and Northern Ireland.

The Community Fund complied with the Cabinet Office code of practice for Board Members of public bodies. As a matter of policy and procedure, the Community Fund maintained a register of interests in grant applications made to the Community Fund and commercial and members of its Regional Awards Committees, and for all staff. Where any committee decisions were taken which would reasonably be seen as giving rise to a conflict of interest, principally over grants to voluntary bodies, the chair of the meeting ensured at the outset that disclosure is made and the committee member withdrew for the duration of any discussion of the relevant item. The Community Fund's procedures also ensured that grant officers are not engaged on processing applications in which they would have an interest.

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline Lo-call 0845 7 023474

Fax orders: 0870 600 5533

E-mail: customer.services@tso.co.uk

Textphone 0870 240 3701

TSO Shops

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax Orders 020 7219 3866

Email bookshop@Parliament.uk

Internet bookshop.Parliament.uk

TSO@Blackwell and other Accredited Agents

