



**National Lottery
Commission**

Regulating the National Lottery

Annual Report & Accounts 2006/2007

**Securing high
quality bids...**

**Delivering the
best possible
outcome...**

**Maintaining
the long-term
reputation...**

**Developing
our internal
capability...**

01	Mission statement
02	Major events of the year
04	Chair's foreword
08	Chief Executive's report
12	Securing high quality bids...
20	Delivering the best possible outcome...
26	Maintaining the long-term reputation...
34	Developing our internal capacity...
40	Commissioners' biographies
41	Organisational structure
42	Appendices
46	Management Commentary
50	Remuneration report
54	Accounts

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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.

Annual Report prepared in compliance with Section 14(1) of the National Lottery etc. Act 1993 (as amended) by the Secretary of State for the Department of Culture, Media and Sport.

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Major events for the year

2006/2007

19 April

BBC Radio debate on the future of the Lottery supported by Roger Black

28 April

Draft Invitation to Apply (ITA) published

8 May

Forum held for independent retailers

15 May

Virtual data room launched for the competition

15 May

Briefing event held for parties interested in the third licence opportunity

20 June

National Lottery Commission launched its new website

29 June

Final ITA published

5 July

Dream Number launched

11 July

National Lottery Bill received Royal Assent

12 July

Robert Foster addressed the Westminster Media Forum

25 July

The Commission reveals latest findings about underage play

31 July

First public report of proceeds to good causes published on the National Lottery Commission's website

9 October

Dr Anne Wright CBE appointed as fixed-term Chair of the Commission by the Secretary of State

10 October

Dr Anne Wright CBE spoke at the Annual GamCare conference

17 October

Lords' Briefing on the progress of the competition

2 February

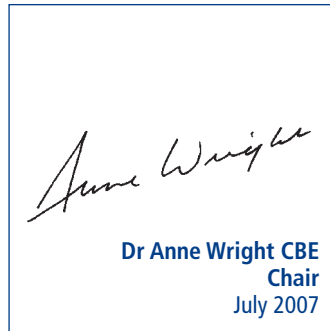
Total National Lottery funds raised for London 2012 reached £100m

9 February

Bids received for the third Lottery licence

12 February

Evaluation begins for next Lottery operator



Making significant progress

I am delighted to introduce the 2006/2007 Annual Report. This has been an important year for the National Lottery Commission, with growing commitments to good causes through new games, publication of major research, and significant progress towards the award of the third licence which will run from 2009 to 2019.

This year has seen the funding for the London 2012 Olympic Games and Paralympic Games and gambling-related issues take centre stage on the public agenda, further underlining the importance of a fair and independent regulator for an institution of such national significance as the National Lottery.

Building a strong foundation for the future

The Lottery has been part of our national fabric for more than 12 years and over £20 billion has been raised for good causes. It exists, however, in a

Our challenge is to sustain an innovative, exciting and safe Lottery that is run with integrity...

fiercely competitive environment. Our challenge is to sustain an innovative, exciting and safe Lottery that is run with integrity and where every effort is placed upon protecting players, winners and those who are underage or liable to play excessively.

Following amendments to the National Lottery etc. Act, I am delighted to have been appointed as the first fixed-term Chair of the Commission, which will allow for greater continuity and execution of our vision and strategies. We have created a robust Corporate Plan to take the organisation through to 2010.

Our strategic objectives are to regulate with excellence while energetically playing our part in maintaining the reputation of The National Lottery and shaping the policy environment. The effective running of the licence competition remains a core activity and we are focused on successfully awarding the next licence and preparing for a smooth transition to ensure a fully functional and exciting new Lottery in 2009.

I have taken the opportunity to discuss with my fellow Commissioners how we can work together to strengthen the governance arrangements of the

Commission and ensure each of us has the opportunity to use our knowledge and skills to maximise our contribution. Together we identified four key themes: developing the role of Commissioners; reviewing the decisions we make and the value we add and tracking the outcomes of those decisions; developing relationships with stakeholders; and ensuring effective communication and knowledge-sharing both between Commissioners and the executive.

We have created a robust Corporate Plan to take the organisation through to 2010.

A further amendment to the National Lottery etc. Act means that we are able to appoint a sixth Commissioner. We are delighted to welcome Deep Sagar who will join us on 1 September 2007, and who we are confident will bring new experience and expertise to the work we do regulating a national institution.

We are delighted to welcome Deep Sagar who will join us on 1 September 2007



Credit: George Mahoney

Regulating responsibly

The National Lottery Commission plays a fundamental role in preventing underage play by ensuring that the operator has effective controls in place. Last year saw the publication of our research into Under 16s and the Lottery, which reassures us that underage play has continued to decrease since our last study in this area. We insist on strict measures to prevent Under 16s from accessing the Lottery and, in an ideal world, the total number that manage to play would be zero. However, we are realistic and aware that a determined minority will persist until they are successful. With this in mind, we will equally persist in motivating the operator to make it more difficult for Under 16s to play. This is something that will become even more important as the Lottery develops over the course of the third licence and evolving technology allows for new ways to access games.

Informed and informative

Our next major piece of research, due to be published in the Autumn, is a study exploring female participation in the National Lottery. We are leading the way with this research which is the first

of its kind in the UK. We will share our findings with colleagues at the Department for Culture, Media and Sport (DCMS) and the Gambling Commission, with whom we continue to build strong relationships, as well as with all other key stakeholders.

The National Lottery is ahead of target to meet the £750 million that will be generated from designated games.

Maximising returns for all good causes

We continue our efforts to maximise contributions towards good causes, including the London 2012 Olympic Games and Paralympic Games. The National Lottery is ahead of target to meet the £750 million that will be generated from designated games. Whether it is a national event like London 2012 or the building of a local swimming pool, without the money raised from the National Lottery, many of the 240,000 projects that receive funding up and down the country would not exist.



Westburn Nursery, Westburn, Glasgow – recipients of National Lottery funding.

The Wallace Collection has received £7.5 million in National Lottery funding.



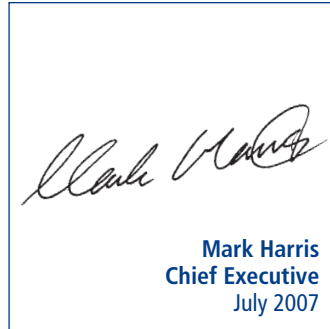
2007/2008 will be the year of the second licence and we want to see the operator do all it can to strengthen sales. We will be studying the Lottery's performance carefully to monitor the effects of the Gambling Act when it is brought into force on 1 September 2007. We will continue to use light-touch regulation wherever possible to

We continue our efforts to maximise contributions towards good causes...

enable the commercial operator to respond quickly to the market while never taking our eye off propriety and consumer protection, which are paramount in everything we do.

Forward-thinking and expert

Finally, I would like to extend my sincere gratitude to Commissioners, Mark Harris and all the staff at the Commission who have made our achievements over the past year possible. I very much enjoy working with such a forward-thinking organisation and look forward to meeting more of the people who are interested in our work over the year ahead. Being at the heart of an organisation responsible for regulating such a unique institution is stimulating and challenging and our vision is to tackle any obstacles that lie ahead to meet our objective of a fair Lottery that benefits the nation.



Commitment to a fair and transparent process

I am pleased to report that we have made excellent progress against our corporate objectives in this financial year and have successfully managed to balance the demands of an intensive competition process with the requirements of our core business activities.

Competition for the next licence

I am proud of the past year's work on the third licence competition and we were pleased to receive two bids in February 2007. We have been absolutely committed to running a fair and transparent process and this is what we have achieved. The licence will be awarded this summer and the evaluation team is currently assessing bids and undertaking extensive preparation both

to manage the transition process and to ensure overall operation of the Lottery will not be disrupted.

The licence will be awarded this summer and the evaluation team is currently assessing bids...

Our project management remains subject to Office of Government Commerce (OGC) Gateway Reviews and we continue to enlist the skills of independent assessors from Cornwell Management Consultants. This independent scrutiny will provide the Commission with assurance that the process has been properly conducted when it comes to make its final decision regarding the preferred bidder.

We have invested in other external expertise to assist us with the smooth running of the Lottery competition, part of which has included hard work to engage the public, Parliament, retailers and other stakeholders throughout key phases. We believe that making a timely investment in this competition is the responsible way to deliver an innovative National Lottery, run by the best possible operator and which will maximise enjoyment for the public and returns to good causes well into the future.

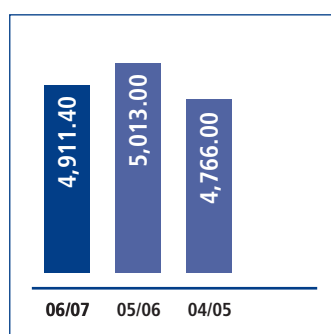
Scrutinising the operator's performance

The work on the competition is critical, but at the same time, we have remained focused on our day-to-day regulatory role. To secure the optimum performance from the operator we continue to monitor closely its sales, marketing activities and, in particular, returns to good causes. Detailed analysis is regularly provided to our Commissioners so they are able to

evaluate performance and assess whether improvements need to be made by the operator.

In 2006/2007, we saw National Lottery sales reach £4,911.4 million, which is 2 per cent lower than the previous year. Total returns to good causes as a result of primary contributions from ticket sales this year was £1,249 million, a 3.8 per cent decrease on 2005/2006. Sales levels and good cause proceeds decline at different rates due to the varying prize payouts across the game portfolio where some games contribute more to prizes and less to good causes than others. The purpose of different prize payouts is to ensure that the Lottery has a varied and exciting portfolio that in the long-term will continue to engage players and appeal to as many people as possible. In turn, this will ensure the long-term health of the National Lottery Distribution Fund (NLDF) and Olympic Lottery Distribution Fund (OLDF) across the licence period.

We have worked hard to engage the public, Parliament, retailers and other stakeholders throughout key phases...



Total NL sales (£ million)



Of course, we are disappointed by the fall in proceeds and will be scrutinising the operator's performance rigorously over the coming year through comprehensive in-house analysis of performance data. Where we have concerns we will seek remedial action. In addition, we will need to be satisfied the operator deploys sufficient resources to maximise sales as we enter the final stretch of the second licence.

We are on track to raise the £750 million through designated games for the Olympic Lottery Distribution Fund (OLDF) and last year there was a higher than expected contribution of £113.1 million. Our priority remains to see returns to good causes maximised across the board.

Evidence-based regulation

At the beginning of last year, Commissioners agreed a research programme that saw the publication of the Under 16s work, the commissioning of our female participation study along with studies on remote gambling on the Lottery. Our research will be shared with a wide audience, which enables us to form new relationships and build on existing ones.

We have attended relevant events over the course of the year in order to contribute to the wider gambling debate. I spoke at the Gaming Investor conference in April 2006 and, in March 2007, I addressed the Gaming Regulators European Forum about preventing problem gambling and responsible regulation of gambling activity. We will work hard to remain at the cutting edge of policy and Lottery matters to ensure we take appropriate measures which represent international best practice.

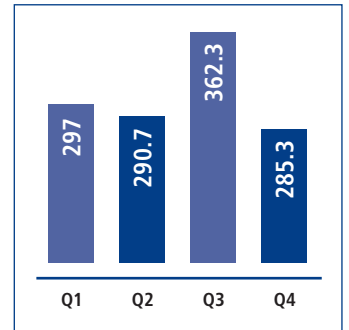
Our research will be shared with a wide audience, which enables us to form new relationships...

Approach to regulation

Early in the year under review, the Commission published a paper setting out proposals for the evolution of its approach to regulation. This reflected our recognition of the changing regulatory landscape and a commitment to reflect emerging best practice. The Commission has



We have attended relevant events over the course of the year in order to contribute to the wider gambling debate.



Quarterly payments to NLDF (£ million)

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considered the feedback it received and has incorporated this into our Corporate Plan for 2007/2010 to ensure all our work is in line with better regulation principles. As an initial step, we are conducting a full review of our licensing, compliance and enforcement functions. We remain determined to ensure that the National Lottery is free from unnecessary restrictions, while retaining the necessary controls to enable us to fulfil our statutory responsibilities. We are grateful for the input of our stakeholders and look forward to continuing the dialogue and contributing to the wider debate.

Managing a smooth transition

Looking ahead, we are ensuring everything is in place for a smooth transition so there is a state-of-the-art and efficient Lottery in place from day one of the third licence. As the

National Lottery evolves over the next ten years, our regulatory approach will develop with it to ensure the Lottery's continued success. Protecting players and ensuring the Lottery is run with propriety are always at the forefront of our thinking and once we have fulfilled those duties we will do all we can to ensure as much money as possible is raised for good causes.

...we are conducting a full review of our licensing, compliance and enforcement functions.

I would like to thank all our staff and advisers for the absolute commitment they have given over the past year and look forward to another successful and productive year at the National Lottery Commission.

“To run an open and transparent process for the competition for the third licence, in order to secure high quality bids and so secure the best returns to good causes”

John Shanahan
Project Manager for the
third licence competition

“On 9 February, we received bids for the third National Lottery licence. For everyone at the Commission it was a momentous day and there had been substantial planning prior to the day itself. It was a good example of the expertise we have in-house to plan and manage big projects.

“Security was of utmost importance in receiving the bids and this needed to be balanced with allowing for a public and symbolic handover, to which we



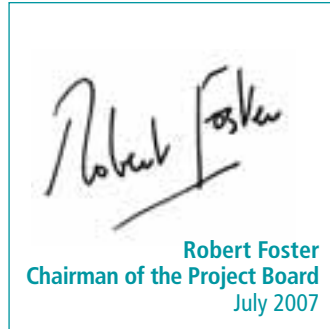
could invite journalists and broadcasters. We had teams on site at two venues throughout the day; the evaluation offices to physically receive the confidential bid documents, so that evaluation could commence without delay the following Monday, and the National Gallery – a Lottery-funded and iconic venue.

“Ensuring that the first bid was cleared and properly filed and accounted for before the second bid was delivered took a great

deal of logistical planning and a dedicated team of eight volunteers from the Commission, plus two security guards. Recording the proceedings, to ensure an auditable process, was an independent observer from Cornwell Management Consultants.

“While the team at the evaluation suite had a physically tough job of moving many boxes packed with bid documentation, the team at the National Gallery and back at

our main offices was busy dealing with media enquiries. All in all the day went very smoothly and we accomplished everything we had wanted to.”



Behind-the-scenes work underpins our success

The past year has seen us meet demanding milestones in the competition process to find the operator for the third Lottery licence. Our vigorous efforts to run a fair competition were brought to fruition in February 2007 when we received two bids, prepared under competitive conditions, from Camelot Group plc and Sugal and Damani UK Limited.

Earlier in the year we published, to schedule, the Draft Invitation to Apply (ITA) in April and the Final ITA and Draft Licence in June, providing an essential period of time in between to enable interested parties to comment on the structure.

The important behind-the-scenes work that underpins a successful process continued apace this year. We provided a secure Virtual Data Room that held

We oversaw the smooth transition of the evaluation team to a separate secure office...

Lottery-specific information, formally dealt with 57 bidder queries and published 12 *Bid Notes* and 28 ITA clarifications on our website. We oversaw the smooth transition of the evaluation team to a separate secure office, whilst ensuring that evaluation processes were in place so that our staff and advisers were sufficiently equipped to work seamlessly together during this critical stage.

We are committed to running a transparent competition and much of the work we do is made available on our website. For example, where the Commission received requests for clarification on matters related to the ITA, we published our responses so they were accessible to all potentially interested parties, the media, public and other interested stakeholders. We have also maintained dialogue with our key stakeholders, one of the biggest being the public and we reached out to over 3.6 million people through regional radio debates with the support of Olympian Roger Black in April 2006.

The evaluation period is the final stage following more than three years' preparation and work on the

competition, and we will award the Licence in the summer. Work will not stop there and we are rigorously preparing for the transition phase and ensuring a fully operational Lottery can

...we look forward to a third licence of innovative games...

move seamlessly into place on 1 February 2009. The National Lottery has an exciting future – we look forward to a third licence of innovative games based on state of the art technology and a Lottery that is fun and safe for the public to play and which raises money for a wide range of worthwhile projects.

...we reached out to over 3.6 million people through regional radio debates with the support of Olympian Roger Black in April 2006.



Ensuring a fair lottery for the nation

To ensure absolute security of bid documents and the evaluation process, a dedicated evaluation office was established for Commission staff and advisers involved in the evaluation.



Shaping the competition

We produced two major competition publications over the past year that required significant input from across the organisation and our team of advisers. Both were published in line with our timetable. The Draft ITA and Draft Licence were available on 28 April, work on which commenced in November 2005. On 29 June 2006, we published the Final ITA and Final Draft Licence, which incorporated feedback from interested parties ensuring the competition was fairly structured and would encourage competitive yet realistic bids.

On 15 May 2006, between publication of the draft and final tender documents, we held a briefing and invited all the potentially interested parties with whom we have had previous contact. Representatives from over 40 international organisations attended and there were presentations from Robert Foster, Mark Harris and

advisers from NERA Economic Consulting and Lawrence Graham LLP on topics including: propriety and player protection; trust accounts to protect prize money for winners; our approach to regulation; and retention structures. Parties were offered the opportunity to put questions to a panel of Commission staff and advisers throughout the day and we took key themes away with us that contributed to the shaping of the Final ITA, as we have done with our other consultations. The event also provided an opportunity for parties to meet in an informal setting allowing them to build relationships with potential partners.

Creating a level playing field

In May 2006, we set up a Virtual Data Room containing over 500 pages of Lottery research and data. The purpose of this was to allow parties to fully evaluate the opportunity and to provide all bidders with sufficient information on which to design a realistic bid.

Creating a level playing field has been of immense importance to us and this is a further example of what we have done to achieve that. On provision of a financial bond, bidders could access the data room 24 hours a day, seven days a week and access market segmentation research, information about retailers, marketing spend and customer contact data. A summary of key categories of information in the data room was listed in the Draft ITA.

...we employed the skills of an independent consultant to review our vetting procedures.

From July, after the publication of the final tender document, through to December 2006 the Project Office formally responded to queries from potentially interested parties. Responses required expert input from the Commission and our advisers to ensure responses were both prompt and comprehensive. These responses were published on our website as ITA Clarifications in direct response to queries and as *Bid Notes* where we felt additional information should be made available. Queries varied from the number of consortia an organisation

could be part of through to player protection and presentation of bids.

Ensuring a sound process

In preparation for the meticulous vetting of consortia members, we employed the skills of an independent consultant to review our vetting procedures. It was suggested that additional sources of information would be useful and subsequent to this we identified the need for, and successfully developed, an improved database to record the increased volume of sensitive information over the evaluation period.

Our project management capability within the Competition Project Team was strengthened in the year to ensure timetables and budgets were met during this critical period. We appointed a new Project Manager to oversee key elements of the competition process.

We have welcomed input from interested parties throughout the competition and the structure has been shaped around some of these contributions. The indicative timetable and deadline for bids is one of the areas that has been subject to change. Following consultation with interested parties and, in the interests of running



On 29 June, we published the Final ITA and Final Draft Licence, which incorporated feedback from interested parties...



To keep our stakeholders and bidders fully informed about the competition, we significantly revamped and modernised our website to ensure it meets Government standards on accessibility.

a strong competition and generating the maximum returns for good causes, we made amendments to the competition timetable accordingly.

To ensure absolute security of bid documents and the evaluation process, a dedicated evaluation office was established for Commission staff and advisers involved in the evaluation. The separate premises allowed for increased security and separation from the Commission's day-to-day business. A great deal of planning went into ensuring the move went smoothly and evaluation could begin on 12 February 2007.

The evaluation process has been scrutinised throughout by the Office of Government Commerce (OGC) and Gateway reviews at key stages have helped us ensure the project remains on track and represents the best value for money.

Engaging with stakeholders

Part of the success of the competition is about engaging with everyone who has a key interest in the Lottery and whose livelihoods may depend on its continued success. Of particular importance to us are the views of retailers, players, the public and Members of Parliament and their constituents. To keep our stakeholders and bidders fully informed about the competition, we significantly revamped

...the success of the competition is about engaging with everyone who has a key interest in the Lottery...

and modernised our website to ensure it meets Government standards on accessibility. We provided hundreds of competition updates throughout the year via the website.

We implemented a retailer engagement programme to gain further understanding of the key issues for independent retailers with regard to the National Lottery licence competition. We held briefings for the trade press and opened up direct dialogue with independent retailer groups. We would

radio to stimulate live debate with over 3.6 million listeners. We would also like to thank the many MPs who helped to publicise the opportunity through their constituency offices.

In August 2006, we published a summary of the consultation. Areas of importance for the public include the ease with which games and results can be accessed, knowing how good cause funds are being spent, the integrity of the Lottery and what is done to protect players. Opinions varied on the topics of jackpot size, game variety and technology. When asked specifically about the third licence competition, almost half of the respondents stated they were interested in the process and two thirds were confident they could obtain information about the competition if they wanted to. We are indebted to the people who engaged with us and value their views, which have contributed towards shaping the competition.

In July 2006, we sponsored a Westminster Media Forum seminar, entitled *A Lottery for the Future*, designed to give Government and decision-makers in Parliament information on our regulatory work and to provide context for determining future Lottery policy. The forum focused on the third licence competition and what society wants from the National Lottery. Robert Foster addressed the audience, along with The Minister for Sport, Department for Culture, Media and Sport, Rt Hon Richard Caborn and Lord Clement-Jones provided the expert chairmanship.

Areas of importance for the public include the ease with which games and results can be accessed...

like to thank in particular the Neighbourhood Lottery Alliance, Independent Retail News, Association of Convenience Stores, Scottish Grocers' Federation, the National Federation of Retail Newsagents and the Rural Shops Alliance Public Affairs Group for the insightful and valuable contribution they made to the process.

We also launched a public consultation to allow people to have their say on the future of the National Lottery. From February through to May 2006 we encouraged the public to complete a questionnaire that asked them which aspects of the Lottery are most important to them. They told us how important various elements of its operation are to the future of the Lottery – such as new technology or the amount of money that goes to good causes – and what changes they would like to see over the next licence period. To raise awareness of the consultation the Commission's Robert Foster and Olympic medal winner Roger Black undertook phone-ins with BBC regional

Delivering the best possible outcome...

“To secure the optimum performance from the operator and so deliver the best possible outcome for the National Lottery”

Denise Paul
Compliance Auditor

“Being an observer at a prize winner’s presentation is something quite special. We are there in a regulatory capacity to make sure winners are treated fairly and given all the information and support they need. Our role is purely to observe the process – we require agreement in advance from the winner to sit in and cannot take anything in with us but we have a mental checklist that we need to tick off.

“We observe that the winner’s ticket has been checked to ensure their details have been completed on the reverse and



we want to see that adequate proof of identification has been presented. All winners who claim £50,000 or more have their photographs taken for security purposes only – we note whether efforts are made to inform the winner why the photograph is being taken and that it is filed with a completed claim form for future reference, if needed.

“Winners receive an advice pack, which includes Frequently Asked Questions, general information about the National Lottery and a booklet outlining what players can expect following their win.

A questionnaire is also included so they can leave comments about the service they received when claiming their prize. It sounds like a small detail, but we want to see that the winner’s pack is handed over in an unmarked plastic bag so it won’t indicate to the public when the person leaves Camelot’s premises that they might be a Lottery winner – this is very important for people who want to remain anonymous. We also observe whether any pressure is placed on winners to take publicity, which absolutely should not happen. If winners do want to publicise their win, it is explained

to them how the Camelot press office will support them through media activity.

“The final area we look at is the type of advice that’s provided – if winners are claiming £250,000 or more they are offered access to financial or legal advice, which should be impartial and independent guidance only. For claims of over £500,000, independent investment advice should be offered as well.”

“I have yet to observe a really big jackpot win but judging by the emotions of the people I’ve already witnessed, I expect it to be a moving experience!”

Maintaining confidence and trust in the Lottery

...we are dedicated to building our own knowledge independently of the operator...



Monitoring performance

Given the operator's additional focus on bid preparation, it was important that we continued to monitor sales performance throughout the year. Quarterly meetings were conducted at which specific aspects of game performance were discussed with the operator's senior management team.

Within the sales total of £4.911 million, Lotto sales stand at £2,857 million which is £163 million, and over 5 per cent, below the level achieved in 2005/2006. This result, while disappointing, highlights the continuing long-term decline of Lotto in a broader portfolio which now features EuroMillions.

EuroMillions sales in the UK, at just under £456 million, were £20m above the level achieved the previous year, when the jackpot reached a record level in February 2006. November 2006 saw another unprecedented series of rollovers where the jackpot reached around £120 million. On 9 February 2007, the first special event was held, which included a guaranteed jackpot

of £67 million. This has proved to be popular with National Lottery players and further such events are planned for this year.

The Commission was active in monitoring the effects of new player limits...

Scratchcards continued to be a strong contributor to portfolio sales last year at just under £850 million. This was almost £48 million higher than in 2005/2006, an increase of 5.9%, underpinned by a strong game plan and improvements to the supply arrangements at retail. Sales of interactive instant win games (IIWGs) recorded a further increase as the numbers of interactive channel players also increased. The Commission was active in monitoring the effects of new player limits on interactive game expenditure introduced in May 2006 in order that sales were maximised in a socially responsible manner.

Protecting the brand

We make sure the National Lottery is operated with total integrity so that players will continue to trust the brand and can take part safe in the knowledge that it is fairly and honestly run. We research the level of trustworthiness and recognition of the National Lottery brand each year to ensure the reputation of the Lottery is being upheld.

We research the level of trustworthiness and recognition of the National Lottery brand...

To ensure propriety we insist on a range of corporate governance arrangements for the operator, review draw procedures and ensure that the operator follows specific processes and carries out comprehensive checks. Beyond this, we are dedicated to building our own knowledge independently of the operator and our own staff undertake a range of visits so we are able to verify operations first-hand.

Over the past year, members of the Compliance team have visited retailers to check that they are aware of the controls to prevent sales to those under the age of 16 years-old and that sufficient information is available for players regarding draws, prizes and rules. Our staff attended 37 Lottery

draws in total this year and reviewed the arrangements for testing draw machines and ball sets so we can be confident that the draws continue to be carried out to the highest standard. Knowledge obtained from visiting draws enables us to confidently reassure members of the public who regularly get in touch with us querying how the National Lottery is run.

Last year we also visited the operator's call centres. We wanted to assess how well players' queries are being managed; to discuss trends in the complaints that are received; and to discuss some specific cases. The purpose of these visits is to see if there is any room for improvement and whether there is a need for changes to the current licence provisions. Over the year, we paid 13 visits to secure warehouses to oversee the delivery of Scratchcards and to look at the levels of stock remaining on games that had closed. We also visited the Leeds plant for Scientific Games, the company responsible for producing National Lottery Scratchcards, to gain a better understanding of the production for Scratchcards.

Reviewing the licence

As a result of the licence breach on subscriptions and subsequent financial penalty, which we imposed on the operator in March 2006, we made a change to the licence to further

Over the year, we paid 13 visits to secure warehouses to oversee the delivery of Scratchcards...



strengthen consumer protection measures. We believe it is essential that players can access clear instructions on subscriptions via the National Lottery website at any time and believed that the information pack that was sent to players in the past could be more comprehensive.

We have also specified that all the Game Rules, Game Specific Rules and Game Procedures for games available via retailers and subscription are published on the National Lottery website. Previously, only documents relevant to interactive play via the Internet, Interactive Digital TV and mobile phone were available in this way. We consider this is essential to ensure players can easily access the relevant information before entering into an agreement with the operator.

In addition, we now require the operator to record all telephone calls received by each of its player contact centres, whereas previously, it only had to record calls to the player hotline.

In December 2006, we consented to amendments to the Lottery Operators' Agreement and the Framework Agreement for EuroMillions. A jackpot rolldown system was introduced so that after 12 successive draws without winners, the jackpot must be shared between winners at the next highest prize winning tier. Another amendment saw an adjustment to the ratios allocated both to the jackpot and to the

Reserve Fund, which is in place to supplement future jackpot levels. As it stands, 50% from ticket sale proceeds is allocated to the Prize Fund. Previously, of that amount, 22% was channelled into the jackpot and 16% was allocated to the Reserve Fund. This figure has now been changed to 32% and 6% respectively, as around £200 million had built up in the Reserve Fund and we wanted to prevent this in the future.

...we made a change to the licence to further strengthen consumer protection measures.

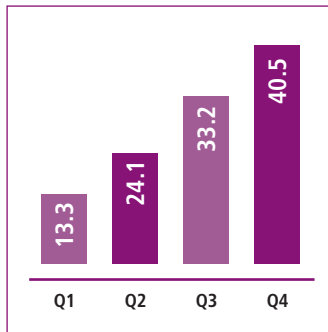
A final amendment reflected the terms of future Event Draws, which are funded by the surplus that has built up in the Reserve Fund. We gave consent to such a draw in February 2007 where there was a guaranteed jackpot of £66 million for players.

Developing opportunities

February 2007 saw the live EuroMillions draws being aired on UKTV, after the Commission reviewed and agreed the terms under the licence. In September 2006 we agreed to a new broadcasting agreement between Camelot and the BBC, including Daily Play draws being available to view on the BBC website. Part of regulating the Lottery means we assess any commercially attractive opportunity against the potential for

In September 2006 we agreed to a new broadcasting agreement between Camelot and the BBC, including Daily Play draws being available to view on the BBC website.





Quarterly payments to OLDF in 2006/2007 (£ million)

encouraging excessive or underage play – player protection is at the heart of all we do.

Other regulatory decisions over the past year include permission to pilot self-service machines selling Lottery products, which took place in a handful of retailers during July and August 2006. We are always open to new ways in which the public can access the Lottery but must also ensure channels will not lead to underage or excessive play and had to ensure this pilot scheme fully complied with Lottery regulations.

We approved the funding for two promotions to further boost player involvement. In August 2006, for every 50th pound spent on Lotto, the purchaser received a free Scrabble Scratchcard. In addition, to promote the new James Bond Scratchcard games, members of the public received a voucher for a free Scratchcard when they bought tickets for the film in Odeon cinemas. We continue to monitor the benefit of free ticket promotions, which are supported by the NLDF and will not approve funding if we are not satisfied of the overall benefits to good causes.

We believe it is vital that the public can see how much is being raised for all good causes...

London 2012 Olympic and Paralympic Games

The last Lotto Extra draw took place on 8 July, 2006 and the following week saw the launch and initial sales for

Dream Number, with the first draw taking place on 15 July. Dream Number is the first draw-based game to generate funds for the Olympic Lottery Distribution Fund (OLDF). Over the past year we have designated an additional 51 games for the OLDF in the form of 19 Scratchcards and 32 online Interactive Instant Win Games (IIWGs).

On 15 March 2007, a revised budget for the Olympics was announced by the Secretary of State, which requires additional Lottery funding from 2009 making the total target £2,175 million. The contribution from designated games, however, remains unchanged at £750 million. The Commission was consulted throughout the process leading to the announcement and will continue to ensure that the targets can be met.

We believe it is vital that the public can see how much is being raised for all good causes and that is why we began publishing the returns to the NLDF and the OLDF on our website on a quarterly basis in 2006. We work with the operator to ensure that the Olympic target will be met and make sure stakeholders can see how the operator is progressing towards that target.

It is disappointing to note that the ongoing discussions over the use of Olympic intellectual property remain unresolved. This restricts the extent to which games can be branded so consumers are fully aware which games are designated for the OLDF. The Commission will continue to play its part in trying to resolve the matter.

Maintaining the long-term reputation...

“To energetically play our part in maintaining the long-term reputation of the National Lottery and shaping the environment in which it operates”

Ben Haden
Head of Research
and Analysis

“Conducting research and learning from the findings is a really important way of extending our knowledge base and informing regulatory decisions. We have an ongoing research programme and, last year, we included a subject area we keep a close eye on – underage play. We knew the findings would be of interest not only to us, but also to academics, policy makers, parents and all those who have an interest in the Lottery and gambling environment.



“Working with leading agency Ipsos MORI, we made sure that we had invaluable advice from the outset, and are grateful to the academics, independent experts and colleagues from the Gambling Commission, and the Department for Culture, Media and Sport (DCMS) who helped to shape the research. Having surveyed over 8,000 12 – 15 year olds, we then went on to organise and host a roundtable to debate the findings, inviting a range of academics within the field of gambling and social

research. We enjoyed a lively discussion, which resulted in some interesting themes that we were able to feed back to all areas of the organisation. Finally, in the interests of transparency and knowledge-sharing, we presented the key findings at a seminar, to which we invited people from government, other regulators, Lottery distributors, gambling treatment agencies, faith groups, academia and the gambling industry. The research is also available on our website.

“We have received really positive feedback from some of the people we were in touch with over the course of publishing this research – not just because it was good news that the incidence of underage play had almost halved since the last study, but thanks to the genuine interest in the research itself. It was a valuable experience for us as we are looking forward to communicating the findings of our next big piece of research later in 2007.”

Protecting the interests of players

As part of our ongoing research programme, we published a report concerning Under 16s and the National Lottery to identify how many Under 16s have played the Lottery...



Informing our thinking

We aim to make a positive contribution to the wider environment in which the National Lottery operates. To do this we actively take part in relevant conferences, conduct research that we share with our colleagues in the industry and respond to consultations where we feel we can help shape future policy.

As part of our ongoing research programme, we published a report concerning Under 16s and the National Lottery. This took a large sample to identify how many Under 16s have played the Lottery and which methods they were using to play. As with all of our major pieces of research, this was independently commissioned, in this instance through Ipsos MORI and Nottingham Trent University. Though we work incredibly hard to ensure there are sufficient measures in place to prevent underage play, it is an ongoing challenge and an area that we will continue to scrutinise.

Preventing underage play

In conjunction with the Under 16s research, we insist on a range of measures on a continuous basis to prevent underage play, for example when new games and promotions are proposed. For the James Bond

...we insist on a range of measures on a continuous basis to prevent underage play...

Scratchcard promotion with Odeon cinemas we ensured the operator responded to our request for measures to be put in place to prevent underage sales. Activities included training for cinema staff so they knew not to give vouchers to Under 16s, plus messages to retailers reminding them to be vigilant via terminals, through the operator's retail publication, *Jackpot* and in the Scratchcard packs.

Test visits to retailers are a licence requirement and, in April 2007, the operator released the findings of its 2006 Operation Child, reporting the highest level of first refusal rates since the scheme was launched in 1999. Test purchasers who look younger than 16 years of age, but are 16 years old or over, were refused Lottery products on first attempt by 94.5% of the 10,236 sample of retailers. This is a promising result and demonstrates the important role retailers play in preventing underage play and also the importance of insisting on such schemes to test how easily children can access the Lottery.

Future research

Progressing with our research, we have commissioned a qualitative study seeking to understand the motivations and patterns behind female participation in the Lottery – the first in-depth research of its kind in this

country. We intend to publish and communicate the findings to a wide audience from July 2007 onwards. A further piece of in-house desk research on the interactive sector is underway. This will include detailed analysis of the current technological environment and how the interactive National Lottery experience is performing in relation to the competition.

The Under 16s research raised several issues that have shaped the next research programme. We have agreed to explore the topics further by adding questions to an Ipsos MORI Schools Omnibus Survey, which is a large-scale survey of pupils in secondary education and aims to discover what 11-15 year olds think about current educational and social issues. We are planning to further examine the issue of online registration by children using a mystery shopping exercise, the results of which are due early in 2008.



Test visits to retailers are a licence requirement and, in April 2007, the operator released the findings of its 2006 Operation Child...

Imrana Quraishi
Licensing and Intellectual
Property Manager



“Within the Licensing team I have responsibility for monitoring use of the National Lottery brand and associated logos – from how it is used on specific games through to advertising and sponsorship.

“The National Lottery brand is recognised by around 95% of the UK population and we work hard to protect its reputation and ensure people associate it with a Lottery that is run with integrity and cares about its players. A critical element of the job, therefore, is to ensure that the intellectual property associated with the National Lottery brand is not being misused or being used by people who do not have permission to do so.

“We have a lot of contact with members of the public and quite often they notify us of fraudulent websites that have been set up to give credibility to scam emails. Occasionally, we are made aware of these sites by the operator, the police, or the public. Though we do not have enforcement powers to tackle scams, we have put our efforts into having these sites shut down both to protect the Commission and the Lottery brand, and consumers who can be misled by them.

“The first step in trying close these sites down is to identify who the owner of the domain name is, which can be ascertained through undertaking a WHOIS Search.

Once we have those details we will write to the Internet Service Provider to notify them that the domain has fraudulently been registered in order to deceive the public by professing to be the National Lottery Commission. In most cases, the Internet Service Provider has closed down the site as registering a fraudulent site is against their terms & conditions.

“Last year we successfully oversaw the closing of five websites – though this may not sound like much, it all helps to protect consumers from scams and is an essential part of our work towards preserving the reputation of the National Lottery.”

Event	Month/Year	Event	Month/Year
Gaming Investors Conference	May 06	BRC/NAO Conference for Independent Regulators	November 06
Lottery Monitor	June 06	Self & Co-Regulation in the Communications Sector, London Business	November 06
Gaming Regulators European Forum (Rome)	June 06	NAO Conference for Independent Regulators	November 06
Westminster Media Forum	July 06	Public Management and Policy Association Annual Conference	December 06
Nordic Frontier Programme	August 06	Amusement Trades Exhibition International Regulators Exhibition	January 07
GamCare e-Access Conference	September 06	Responsibility in Gambling Trust Seminar	February 07
GREGRI Regulatory Rationale Conference	September 06	Gambling Commission Stakeholder Workshop	February 07
GamCare Annual Conference	October 06	Financial Crime Information Network Seminar	March 07
World Lottery Association Workshop	October 06	Gaming Regulators European Forum (The Hague)	March 07
Public Chair's Forum	October 06		
European Lotteries Association on Social Responsibility	October 06		
University of Salford Seminar	November 06		

Raising our profile

We encourage people across the organisation to attend and speak at conferences on a range of topics. Actively being involved in the industry in which we operate has a dual purpose; we are able to communicate the wealth of knowledge we have built up over the last 12 years to other industry bodies; equally we learn first-hand what is happening around us that might change our environment and, therefore, the way we regulate.

We encourage people across the organisation to attend and speak at conferences on a range of topics.

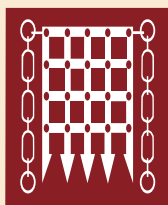
The Chairman of the Competition Project Board spoke at the Lottery Monitor conference in June 2006. He provided key Lottery stakeholders with the latest update on the competition, highlighting the work that had been done to structure the competition and create a fair and level playing field for bidders.

In July 2006, we sponsored the Westminster Media Forum seminar, *A Lottery for the future*, to generate

debate around the Lottery with key Parliamentarians and Ministers. Events such as this are important ways to remind people of the value we add and to cement our role in shaping the future of the National Lottery.

On 10 October 2006, our newly appointed Chair Dr Anne Wright CBE was invited to address the GamCare conference where she spoke about the importance of encouraging access to the National Lottery while all the time remaining firm on preventing underage or excessive play.

We were pleased to be asked to address the Nordic Frontier programme for the second year running in London, in August, and members of our Licensing team were invited to speak at a World Lottery Association (WLA) course and FIN-NET, the Financial Crime Information Network. Members of Commission staff have also attended workshops and seminars hosted by GamCare, the Gambling Commission, the University of Salford and an inaugural conference on research and gambling in Amsterdam hosted by the Global Remote and E-Gambling Research Institute (GREGRI).



**WESTMINSTER
MEDIA FORUM**

In July 2006, we sponsored the Westminster Media Forum seminar, *A Lottery for the future*, to generate debate around the Lottery...

Strengthening relationships

We aim to maintain strong and mutually beneficial relationships with other organisations and believe it is important for us to share our experiences and regulatory approach with other sectors.

We have worked hard this year to strengthen our links with the Gambling Commission at all levels of the organisation and to share our knowledge of regulating the National Lottery over the past 12 years.

We are delighted this year to be taking part in a two year secondment with GamCare. Helen Sear, our Consumer Protection Officer is acting as the Online Service Manager for GamCare, establishing strong and productive links between our two organisations and deepening our understanding of gambling related issues.

We have continued to develop strong relationships across Government and with our leading Parliamentarians and

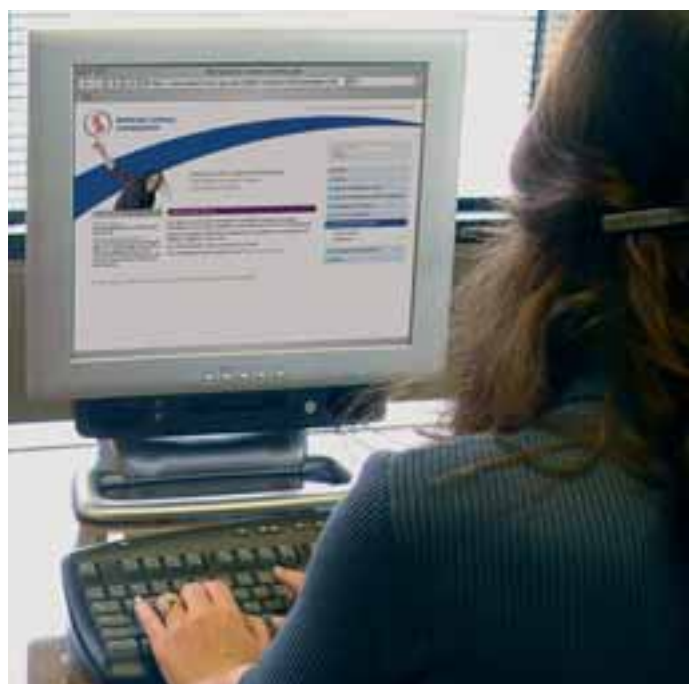
very much value their input into our work. We maintain close links with the Lottery Distributors at both executive and officer level to help inform Lottery policy and decision-making. We also work closely with other regulators, leading academics, retailers, and those who have an interest in the Lottery such as faith groups and social commentators. We continue to take an

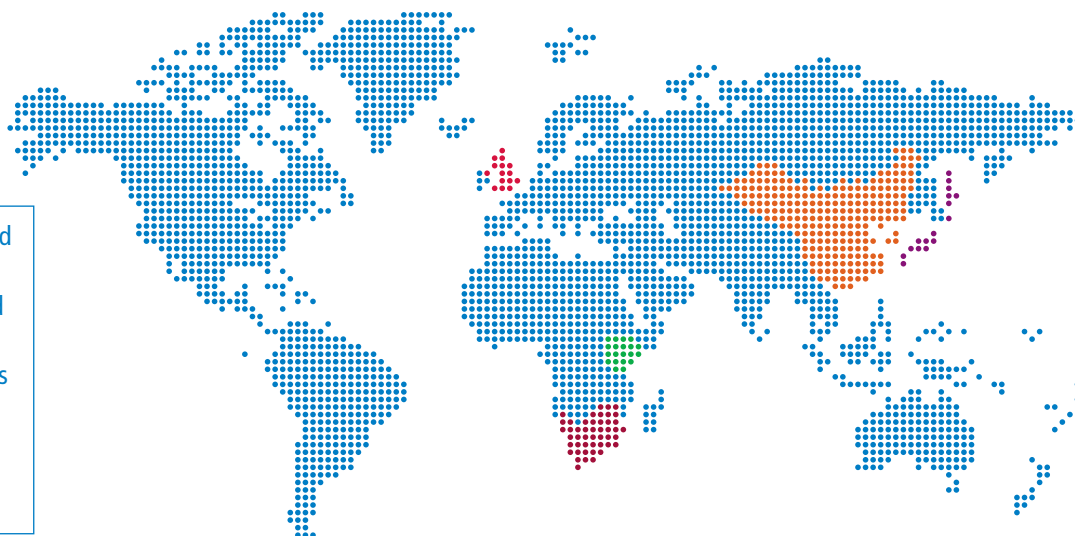
...it is important for us to share our experiences and regulatory approach with other sectors.

active interest in the work of the Responsibility in Gambling Trust and Gamcare – organisations fundamental to providing help and support.

We are also very involved in sharing our experience and knowledge with other lottery operators around the world. In 2006/2007, we welcomed visitors from China, Japan, Kenya and South Africa

...we provide information to concerned members of the public on our website and respond to queries on a daily basis...





In 2006/2007, we welcomed visitors from China, Japan, Kenya and South Africa and organised presentations by staff from different functions of the Commission.

and organised presentations by staff from different functions of the Commission. We answered a range of questions from our guests about our regulatory approach, the competition and the UK set-up. We value what we learn from meeting these delegations.

to queries on a daily basis from people who have been deceived into thinking they may have won the Lottery – last year we received over 1,000 enquiries about scams alone.

We also work closely with other organisations and last year we met with the Office of Fair Trading (OFT) to discuss the latest trends in scams and to better understand how the OFT is tackling them.

However, as guardian of the National Lottery brand we will demand action if we believe any of the images or branding are being fraudulently used. We require the operator to continually monitor usage of the logos and to take legal action if they find any unlawful uses.

...last year we received over 1,000 enquiries about scams alone.

Stamping out fraud

Unfortunately the number of scams targeting consumers is on the increase. At the Commission we do not have enforcement powers to stop scams ourselves but we do provide information to concerned members of the public on our website and respond

“To develop our internal capability, using the skills and knowledge base of our people to strengthen the organisational culture that reflects the Commission’s values of integrity, teamwork, accountability and communication”

Sarah Twaites
Compliance Manager

“When I joined the Commission as Compliance Manager, the other members of the auditing team were all undertaking studies to gain a professional qualification, which is encouraged by the organisation. Both to show my support for my colleagues who were studying and to ensure I had the most up-to-date knowledge to support my experience, I took the decision to become a student once more and enrolled on the Advanced Diploma in Internal Auditing & Management course.



"The Advanced Diploma comprises four theory modules covering Corporate Governance, Internal Audit Practice, Financial Analysis and Management (strategic and operational), together with one practical Advanced Communications Skills module – topics closely related to the work I carry out in my role.

"To achieve the qualification there was a written exam for each module, plus I was required to submit a log book detailing my professional experience and

other training. It took me two years to complete the course and the downside was that I spent many Bank holidays and Sundays in the office studying. However on the plus side, I was so delighted when I was awarded the qualification.

"The wide scope of the subject matter has provided me with a strong knowledge base which is a great support in many aspects of my work, for example when developing our approach to compliance work or performing

a risk assessment as part of annual planning. A further benefit was having the opportunity to build up a valuable network of contacts from tutors and the students that I met on revision courses along the way – two years undertaking the same challenge allows you to forge strong relationships with people."

Further investment in our people

We were delighted to be re-accredited as an Investor in People ... the culture of the organisation encourages people to contribute ideas and to become actively involved in decision-making at all levels.



Developing excellence

We continue to invest in our staff, ensuring they have the necessary skills base, knowledge and experience to perform their roles to capacity.

We are keen to see our staff take on new challenges allowing them to continue to develop in their roles and contribute to the overall success of the Lottery. This year we arranged an outward secondment for a member of staff to GamCare as well as an inward secondment for an economist and research specialist from DCMS; we believe these secondments will be a positive experience for the individuals involved and offer lasting benefits to the organisations involved. Over the past year we put a mentoring agreement in place, which gives first-time managers access to a mentor outside the organisation who will provide help in developing management skills.

We were delighted to be re-accredited as an Investor in People in May. The assessor commented that the culture of the organisation encourages people to contribute ideas and to become actively involved in decision-making at all levels. The report also gave us valuable information about where our staff would like to see improvements, for example in the consistency of managing people across the organisation. We have used this feedback to drive improvements and will continue efforts to invest in our staff.

We are keen to see our staff take on new challenges allowing them to continue to develop...

Over the past year, four members of staff have gained professional qualifications from project management to auditing and we have encouraged and financed staff to join professional

bodies relevant to their work. Staff attended skills training in subjects as diverse as disability equality, communication and client auditor relations and training in recognising identity fraud.

Measuring performance

We have undertaken a major piece of work this year to further build our internal capability and from this we have introduced a revised performance measurement system. The system has been designed to provide a means of measuring our achievement in delivering our corporate objectives as well as our general progress as an organisation.

The system has been designed to provide a means of measuring our achievement...

As a small organisation with a significant range of skill sets, it is important to have individual and specific

measures for the various functions of the Commission, such as licensing, compliance and performance and communications so we can effectively monitor how much we are achieving over time. The system includes a set of financial and non-financial key performance indicators (KPIs) which were agreed within teams and at all levels across the organisation. These KPIs will be reported and considered at senior level at regular intervals.

Planning ahead

To ensure the Commission is able to maintain critical activities during a crisis, we began a review of our Business Continuity Plan in August 2006. We determined the implications any given crises may have, and reviewed our business recovery requirements. Feedback from this analysis was fed into the technology refresh that took place to make certain that the IT infrastructure had sufficient capacity, flexibility and robustness to maintain activities in a range of situations.



We have undertaken a major piece of work this year to further build our internal capability and from this we have introduced a revised performance measurement system.

A range of our policies were updated over the course of the year, including our IT security, email and internet policies and Health and Safety. Our purchasing and tendering procedures have also been updated to reflect changes in EU procurement rules. As part of our overall efforts to ensure security, a briefing was held in December 2006 ahead of the competition bids being submitted to remind all staff about our security policies and everyone's responsibilities in observing and upholding these policies.

Updating processes

In September 2006, we appointed a new provider for our outsourced accounting services. The new system gives improved access to real time financial information for each Directorate in the organisation. This allows Directors to accurately monitor spend against set budgets and advise teams accordingly to ensure we stay within targets for specific projects. Previously, only the Finance Directorate had access to real-time financial information and Directors were reliant mainly on the monthly management accounts to track their expenditure, or ad hoc reports provided by the Finance Team on request.

Between June and November 2006, we refreshed our computer network, much of which had reached the end of its useful economic life. The refresh has improved the capacity of the network and its ability to respond to the changing needs of the organisation. The refresh has also laid down infrastructure enabling further enhancements to be made to the network and its applications during 2007/2008.

...staff could learn how to identify symptoms of stress and how to work best to reduce stress so that efficiency is maintained.

Protecting well-being

We are dedicated to supporting our staff and ensuring their well-being. Our Resources and Communications teams regularly undertake activities to foster a positive working environment.

In January 2007, we ran a Stress Bust week for staff. The highlight of the week's activities was an opportunity to attend a stress management workshop, during which staff could learn how to identify symptoms of stress and how to work best to reduce stress so that efficiency is maintained.

We are dedicated to supporting our staff and ensuring their well-being. Our Resources and Communications teams regularly undertake activities to foster a positive working environment.





Our consultation was wide-ranging, involving people with different types of disabilities, impairments and backgrounds.

We offer a free and confidential counselling service to staff to support them in tackling problems in either their work or family lives. This year we upgraded the service we provide to give 24-hour, 365 day per year service. The freephone helpline is answered by counsellors, all of whom have a diploma in counselling as a minimum. There is also a 24-hour back up service. Staff also have access to face-to-face counselling when considered appropriate by the counsellor and client.

Improving access

We are aware of our responsibility under the Disability Discrimination Act 2005 to produce and publish our Disability Equality Scheme (DES). This is to ensure that disabled people have equal access to all our business activities, including policy development, service delivery and employment. This year saw us continuing work on our DES, working with consultants on disability and diversity in the business environment.

We have consulted both internally with our employees and externally with a representative sample of disabled people about what we should include in our scheme. Our consultation was wide-ranging, involving people with different types of disabilities, impairments and backgrounds. In regard to internal research and involvement, two workshops were held with Commission employees interested in disability issues, covering issues of disability within the organisation, communications, customer complaints, compliance, employment and general issues. During workshops, staff were asked for their views on how our policies in these areas impact upon disabled people and also any improvements we can make to these policies.

The output from this consultation exercise will form the basis of our DES and our action plan which will be published in 2007/2008.

Commissioners biographies



Dr Anne Wright CBE was appointed as Chair of the Commission in October 2005. 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.

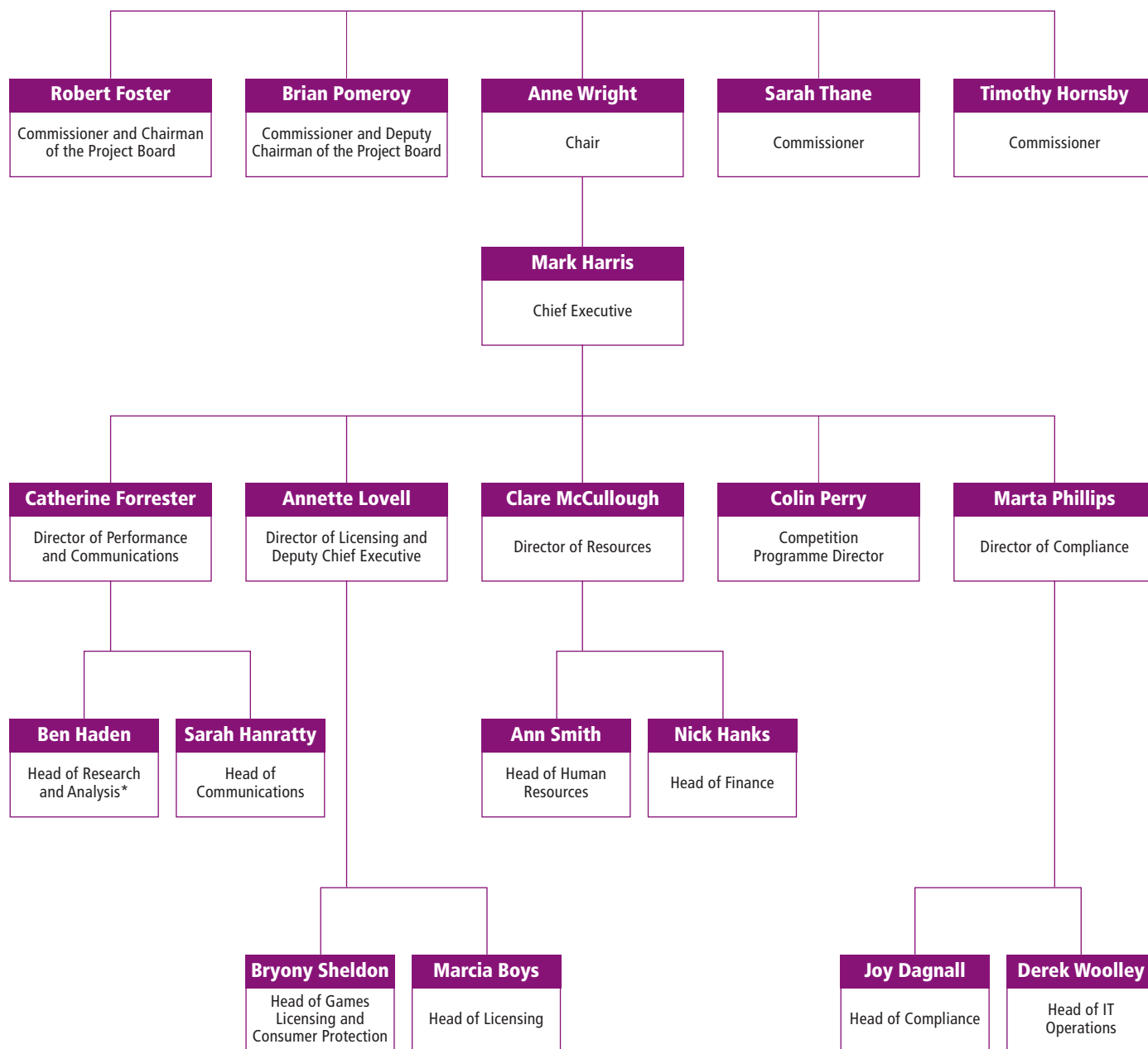


Sarah Thane CBE was appointed as a National Lottery Commissioner in October. She is an independent consultant on broadcasting regulation and is currently advising the BBC Trust on regulatory and compliance matters. Prior to joining the Commission, Sarah was Advisor, Content and Standards at Ofcom, the 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



*From February 2007, Dr John Lepper became interim Head of Research to cover Ben Haden who was appointed Head of Evaluation.

Appendix A – Financial performance

Sales	2006/07	2005/06
National Lottery Game	2,856.80	3,021.00
Thunderball	330.40	356.00
Lottery Extra	12.60	57.00
Christmas Millionaire Maker	0.00	0.00
Scratchcards (inc. Instants since launch Feb 03)	927.70	865.00
HotPicks	220.20	225.00
Daily Play	48.60	54.00
EuroMillions	455.80	435.00
Dream Number	59.30	0.00
Total	4,911.40	5,013.00
Prizes won by players (including unclaimed prizes)	2,490.70	2,528.38
Payments to the NLDF / OLDF		
Primary contribution (note 1)	1,248.10	1,297.90
Unclaimed Prizes	88.00	102.00
Prize Target Shortfall	0.00	0.00
Ancillary activity income	0.20	0.30
Interest from trust accounts	4.80	4.80
Other miscellaneous payments	0.20	0.20
Total	1,341.30	1,405.20
Other Payments		
Lottery Duty	589.37	601.56
Retailers' commission	244.50	253.60
Retentions by licensees (note 2)	338	331
Note 1 Amount payable on sales figure less adjustments for NMSA and NLPU		
Note 2 (from Camelot's P&L) Terminal and data communication costs		
	121.00	112.80
Gross profit	217.30	218.10
	338.30	330.90

Appendix B – Section 5 licence variations made between 1 April 2006 and 31 March 2007

Condition etc	Effect of variation	Date effective
6(4)	To strengthen the provisions regarding access to secure areas.	8 June 2006
Interpretation, 18A, 21, Schedule 1, Schedule 2 Part II, Schedule 3 Part II and Schedule 5	To amend the provisions relating to the year end statements to be provided by the Licensee, to reflect changes in accountancy practice; and to allow for the recoupment of overpayments to the NLDF/OLDF by the Licensee.	18 June 2006 and 3 August 2006
9	To require the Licensee to adopt and maintain a Subscription Guide; to require the Licensee to maintain a copy of current terms and conditions for all games on the National Lottery website; and to require the Licensee to voice record calls to all of its player contact centres.	11 August 2006
Appendix II to Schedule 1	To reflect changes in the allocation of interactive costs following the integration of the Interactive business within the Licensee's core structure.	26 February 2007
18A, Schedule 1 Part II, Schedule 2 Paragraph 8	To reflect the transfer of the management of the National Lottery Promotions Unit from the Licensee to the Big Lottery Fund on 1 February 2007.	29 March 2007

Appendix C – Breaches of the Section 5 and 6 Licence recorded between 1 April 2006 and 31 March 2007

Section 5 Licence	
Condition/Schedule	Description of breach
9(31)	Camelot is required to ensure that any material and its content designed to encourage or enable a player to enter into or play a lottery game is accurate, does not mislead players and is compatible with the game rules and procedures for that game.
	For two and a half hours on 10 January 2006, Camelot incorrectly stated on the National Lottery website homepage that the cost of an entry for the Interactive Instant Win game 'Cars N Cash' was £1 rather than the correct price of £2. A licence breach was recorded on 13 July 2006.
9(31)	Camelot is required to ensure that any material and its contents designed to encourage or enable a player to enter into or play a lottery game is accurate, does not mislead players and is compatible with the game rules and procedures for that game.
	On 18 October 2005, a system fault caused errors in the animation of the Fair-weather Fortune Interactive Instant Win Game, which had the potential to confuse the player about the way the game should be played, the prizes available to be won and whether they had won a prize. A licence breach was recorded on 17 July 2006.
9(31)	Camelot is required to ensure that any material and its content designed to encourage or enable a player to enter into or play a lottery game is accurate, does not mislead players and is compatible with the game rules and procedures for that game.
	For approximately 2 hours and 15 minutes on 12 April 2006, Camelot incorrectly stated on the National Lottery website homepage that the cost of an entry for the Interactive Instant Win Game 'Weekly Payout' was £1, rather than the correct price of £2. During the time that the inaccurate information was displayed 119 people played the game. A licence breach was recorded on 10 August 2006.
9(31)	Camelot is required to ensure that any material and its content designed to encourage or enable a player to enter into or play a lottery game is accurate, does not mislead players and is compatible with the game rules and procedures for that game.
	For nearly eight hours on 1 May 2006, the results for the Daily Play draws were incorrectly displayed on the National Lottery website. The website incorrectly stated, in respect of every draw, that the 6th number drawn was the same as the 7th number drawn. A licence breach was recorded on 17 August 2006.
Paragraph 9(2) of Schedule 1	Camelot makes payments to the National Lottery Distribution Fund (NLDF) and Olympic Lottery Distribution Fund (OLDF) based on the number of tickets/plays sold and the prize payout for each game. These funds are drawn on by the organisations that support projects that relate to the 2012 Olympics, arts, heritage, health, education, sport and communities.
	With effect from 1 April 2006, all Interactive Instant Win games were designated as Olympic lotteries. Payments in respect of these games should therefore have been redirected from the NLDF to the OLDF. However Camelot made payments to the NLDF, which resulted in the OLDF being underpaid £30,622.06. A licence breach was recorded on 23 August 2006.
	Under the terms of the licence granted under Section 5 of the National Lottery etc. Act 1993 (as amended) Camelot was charged penalty interest at 7.5% for seven days on the underpayment of £30,622.06. Camelot did not seek a balancing adjustment in respect of the overpayment to the National Lottery Distribution Fund.
9(31)	Camelot is required to ensure that any material designed to encourage or enable a player to enter into or play a Lottery game is accurate and does not mislead players.
	Between 23 October 2005 and 16 June 2006, prize information for HotPicks games on the National Lottery WAP information service was incorrect. For example, throughout this period, the prize for matching three numbers on HotPicks 3 was incorrectly shown as £7,000 rather than the correct prize amount of £450. A licence breach was recorded on 28 November 2006.
9(31)	Camelot is required to ensure that any material designed to encourage or enable a player to enter into or play a lottery game is accurate and does not mislead players and is compatible with the game rules and procedures.
	On 27 July 2006, an incorrect ticket message for the EuroMillions draw was loaded onto the system. It incorrectly referred to a jackpot prize of £24 million rather than the correct figure of £10 million. This incorrect message was printed on the EuroMillions tickets issued by 1500 retailers. A licence breach was recorded on 21 December 2006.
Section 6 Licence	
Condition/Schedule	Description of breach
Condition 3(1) of Schedule 3 of the Ancillary Lotteries Section 6 licence.	<p>One of the conditions of the licence is that Camelot must comply with Terms and Conditions for each Ancillary Lottery.</p> <p>The 'HotPicks Pick1 Giveaway' was launched in November 2005. The Terms and Conditions of the 'HotPicks Pick 1 Giveaway' stated that for every sixtieth pound spent on the National Lottery Lotto game at retailers during a specified period, one free Lotto HotPicks Pick 1 ticket would be issued. However, due to a software error, the majority of players who purchased Lotto tickets from Tesco checkouts were not issued with a free Lotto HotPicks Pick 1 ticket. A breach was recorded on 19 April 2006.</p> <p>As a result of this incident 8,166 free tickets were unprinted. To compensate players, and because the individuals concerned could not be identified, Camelot gave 10,000 Tesco Clubcard holders a voucher for a free Lotto HotPicks Pick 1 ticket.</p>

Appendix D – Camelot performance standards

Description of standard	Standard	Achieved
General matters		
Payments to Secretary of State	100%	98.88%
Computer systems		
Terminal available to sell tickets from 6.00-23.00 excluding Christmas day and draw break	99.5%	100%
Terminal available to validate tickets	99%	99.5%
Retailer management		
Retailer selection requests answered within 10 working days	95%	100%
Resolution of issues raised in retailer correspondence within 10 working days	95%	99%
Player service		
Response to correspondence by National Lottery Line (NLL) within five working days	95%	99.95%
Resolution of player complaints within 10 working days	95%	99.83%
Calls answered by NLL Voice Response System (VRS) Wednesday between 20.00 and 23.00	90%	100%
Calls answered by NLL VRS Saturday between 20.00 and 23.00	85%	99.99%
Calls answered by NLL VRS at all other times	97%	99.98%
Access to NLL Representative Saturday between 20.00 and 23.00 (calls answered within 5 seconds)	80%	86.25%
Access to NLL Representative Friday between 20.00 and 23.00 (calls answered within 5 seconds)	80%	86.98%
Access to NLL Representative at all other times (calls answered within 5 seconds)	90%	92.40%
Failure to select an option on VRS	< 8%	5.37%
Abandoned calls to NLL call centre	< 5%	0.78%
Prize payment		
Normal claims		
Prize claims made in within 1 hour	92.5%	99.54%
Prize claims made by post within 5 working days	95%	99.13%
Claims requiring investigation		
Draw based		
Resolution of claims in respect of damaged tickets within 20 working days	95%	100%
Resolution of claims in respect of previously validated tickets within 20 working days	90%	100%
Resolution of claims in respect of missing multi-draw exchange tickets within 20 working days	90%	99.50%
Resolution of claims in respect of lost, stolen or destroyed tickets within 20 working days	75%	99.95%
Scratchcards		
Resolution of claims in respect of damaged tickets within 20 working days	95%	99.70%
Resolution of claims in respect of stolen tickets/packs within 20 working days	92.5%	100%
Resolution of claims in respect of previously validated tickets within 20 working days	95%	100%
Resolution of any other claims for both draw based and scratchcard games within 20 working days	75%	99.79%
Subscriptions		
Written correspondence answered within 5 working days	95%	97.24%
Resolution of player complaints answered within 10 working days	95%	98.35%
Voice contact with Subscriptions Department (calls answered within 20 seconds following the recorded message)	80%	81.88%
Abandoned calls to Subscriptions Department	< 5%	2.09%
Interactive		
System availability to play games	99%	99.64%
Availability to pay prizes	99%	100%
Customer contact		
Voice contact with customer call centre (calls answered within 20 seconds of the end of the recorded message)	80%	81.44%
Abandoned call to customer call centre	< 5%	3.18%
Resolution of complaints within 10 working days	95%	97.39%
Customer emails answered within eight working hours of receipt	80%	84.01%
Mail server performance (emails bounced by the email server due to system unavailability)	< 1%	0%
Response to letters within 5 working days	95%	87.45%
Resolution of enquiries on first attempt	80%	99.16%

Under the terms of its licence, granted under Section 5 of the National Lottery etc Act 1993 (as amended), Camelot Group plc is required to provide the Commission with a range of information regarding its operation of the National Lottery. This includes regular reports on its actual performance against the performance standards established by the Commission following consultation with Camelot.

During the course of the year April 2005 – March 2006, it came to light that Camelot had provided the Commission with incorrect information regarding the performance of its Interactive Call Centre in resolving complaints. This was caused by a technical problem on a reporting system that has now been fixed. The effect of the error was that some complaints which had, in fact, been dealt with were recorded as unresolved. The information showed that Camelot had failed to meet the performance standard and was included in Appendix D of the Commission's Annual Report and Accounts, published in July 2006.

Once the inaccuracies had been identified, and the recalculated performance data had been verified by the Commission, it became clear that Camelot's actual performance accorded with the required performance standard. We are pleased to correct the information reported in last year's Annual Report as follows:

Interactive Contact Centre: Resolution of complaints within 10 working days

Required Standard	95%
Reported performance in last year's report	93%
Actual performance based on recalculated data	95%

Appendix E – NLC performance standards

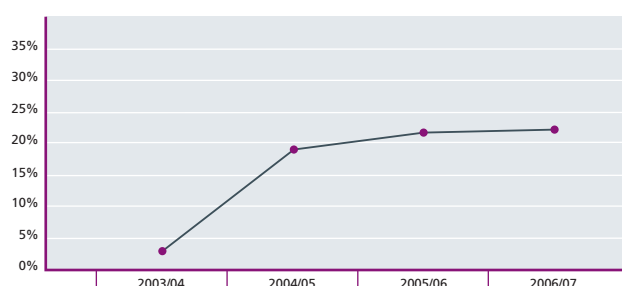
Correspondence		Standard	Achieved
Substantive response or acknowledgement to correspondence within 10 working days		95%	99%
Substantive response or acknowledgement to simple complaint within 10 working days		95%	96%
Substantive response or acknowledgement to emails within 10 working days		95%	99%
Response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

Equal opportunities analysis 2006/2007					
Position	Applicants selected for interview			Successful candidate	
	Total	Ethnic minority	Female	Gender	Ethnic origin
Head of Games & Licensing	8	3	5	F	White
Secretariat Manager	7	2	5	F	White
HR Assistant	9	4	8	F	Black African
Performance & Communications Administrator	5	2	4	M	White
Vetting Officer	4	2	1	M	White
Licensing Administrator	6	3	5	F	White
Consumer Protection Assistant	4	1	3	F	White

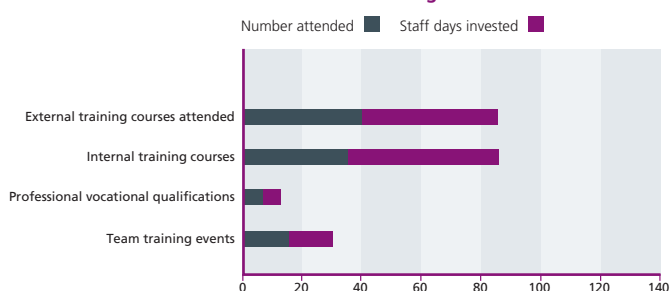
Other		Standard	Achieved
Payment of undisputed invoices within 30 working days of receipt		95%	96%
Payment of remaining undisputed invoices within 40 working days of receipt		100%	97%
Return to work interview held within 5 working days		95%	95%
Sickness absence (Civil service average = 9.8 days per year)		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



Management Commentary

Background

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, inter alia, by the National Lottery Act 1998 and the National Lottery Act 2006.

Functions, duties and powers

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

(a) Functions

- By licence to authorise a person to run the National Lottery (section 5)
- By licence to authorise a person to promote lotteries as part of the National Lottery (section 6)

(b) Duties

- That the National Lottery is run, and every lottery that forms part of it is promoted, with all due propriety, and
- 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 or promote lotteries as part of 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.

In accordance with amendments in the National Lottery Act 2006, the current Chair of the Commission was appointed by the Secretary of State to serve as Chair for a four year term. Prior to this, the role of Chair rotated annually and the Chair was selected by Commissioners.

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

See Note 5, and the Remuneration Report on pages 50 to 53.

Chief Executive

The Chief Executive was 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 4, and the Remuneration Report on pages 50 to 53.

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). Net operating costs for the year amounted to £11,427,000 (£8,911,000 in 2004/2005).

The increase in Net operating costs between the years was as the result of an accrual of £3 million, relating to New Licence Competition contractual commitments. It is probable that these commitments will fall due for payment in 2007/2008 and provision has been made in the Commission's grant-in-aid allocation for 2007/2008 to accommodate them. Notwithstanding the timing of the payment, Government Accounting requires these liabilities to be provided for at the balance sheet date. The Commission has therefore created a provision to account for these contractual commitments. If the contractual commitments are ignored, the Commission's net operating cost for 2006/2007 was £8,419,000. An analysis of the New Licence project costs is disclosed in Note 6.

The balance sheet at 31 March 2007 shows Net Liabilities of £2,457,000, (31 March 2006, Net Liabilities of £198,000). This reflects the inclusion of liabilities falling due in future years – as explained above – which, to the extent that they are not to be met from the Commission's other sources of income, may only be met by future grants-in-aid from the Commission's sponsoring department, (Department for Culture, Media and Sport). This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Management Commentary

Grant-in-aid for 2007/2008, taking into account the amounts required to meet the Commission's liabilities falling due in that year, has already been included in the Department's Estimate for that year, which has been approved by Parliament, and there is no reason to believe that the Department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements. The net liabilities include £224,000 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 the Commission's activities during the period is included within the main annual report narrative, on pages 4 to 39.

The Commission recorded 8 licence breaches during 2006/2007, none of which resulted in a financial penalty being incurred by Camelot. Full details about the breaches incurred by Camelot in 2006/2007 can be viewed on the Commission's website (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 and in Note 5.

Equal opportunities

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

Investors in People (IiP)

The Commission achieved IiP re-accreditation in May 2006.

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 2006/2007 the Committee comprised Timothy Hornsby (chair), Brian Pomeroy and Sarah Thane. Previously, the Audit Committee Chair served for a year: however, following the appointment of the Commission's Chair who will serve as Chair for the term of her appointment, Timothy Hornsby will serve as Chair of the Audit Committee for the remainder of his appointment, until 25 March 2008.

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 2007 the Commission settled 96 per cent of invoices within 30 days (96 per cent in 2005/2006). No interest was paid during 2006/2007, (£379 in 2005/2006), 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

Appointment of additional Commissioner

In line with the changes to the Commission's constitution under the 2006 Act, the Secretary of State has appointed an additional Commissioner. The new Commissioner is Mr Deep Sagar. Mr Sagar's period of appointment starts on 1 September 2007 for a term of four years.

Determination of contractual commitment criteria

In determining the outcome of the contractual arrangements arising out of the New Licence Competition, the Commission has decided that it is probable that the full award of £3 million will fall due for payment in 2007-08, and as a result a provision has been made in recognition of this, (see Note 14 on page 74).

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; and
- 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.

Audited Information

Remuneration paid to the Chief Executive, Directors and Commissioners during the year was as follows – figures in the table are audited information.

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

Name and designation	Salary £	Pension Contributions £	Bonus £	Benefits in kind £
Mark Harris (Chief Executive)	101,637 (96,473)	25,913	14,407	0
Annette Lovell (Director)	78,758 (70,071)	20,083	3,422	0
Marta Phillips (Director)	70,166 (74,773)	17,865	2,053	0
Catherine Forrester (Director)	68,019 (65,871)	17,343	3,422	0
Clare McCullough (Director)	67,518 (63,882)	17,214	2,053	0
Colin Perry (Director) (Note i)	68,019 (45,037)	17,343	3,422	0
Anne Wright (Chairman) (Note ii)	57,690 (28,250)	N/A	N/A	0
Timothy Hornsby (Commissioner)	6,052 (30,204)	N/A	N/A	0
Brian Pomeroy (Commissioner)	9,764 (8,244)	N/A	N/A	0
Robert Foster (Commissioner) (Note iii)	33,600 (27,076)	N/A	N/A	0
Sarah Thane (Commissioner)	12,787 (7,363)	N/A	N/A	0

Notes

- i) Colin Perry's 2005/2006 full year equivalent salary was £57,508.
- ii) Anne Wright was appointed Chair of the Commission on 16 October 2006 for a term of four years, until October 2010. She was first appointed as a Commissioner on 1 May 2005.
- iii) Robert Foster is also the Chairman of the New Licence Project Board.

Salary

'Salary' includes basic salary and any other allowance to the extent that it is subject to UK taxation. Bonuses have been disclosed separately. The Chief Executive's bonus can be up to 20% of his annual salary, subject to performance. The bonus is non pensionable and non consolidated, although up to 5% may be consolidated (as a pay increase). The bonus, and any consolidated pay increase, is set by a Remuneration Committee consisting of three Commissioners – Brian Pomeroy, (Chair) Anne Wright and Timothy Hornsby – who review his performance against the objectives he was set at the start of the year.

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. Directors' bonuses are moderated by the Remuneration Committee.

Remuneration report

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 2006/2007, (none also in 2005/2006).

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

Name and designation	Real increase in pension (£000)	Real increase in lump sum (£000)	Pension at end date (£000)	Lump sum at end date (£000)	Cash equivalent transfer value at 1 April 2006 (nearest £000)	Cash equivalent transfer value at 31 March 2007 (nearest £000)	Real pension increase in the year (£000)
Mark Harris (Chief Executive)	0 – 2.5	5 – 7.5	25 – 30	85 – 90	410	440	24
Annette Lovell (Director)	0 – 2.5	2.5 – 5	5 – 10	15 – 20	62	83	19
Marta Phillips (Director) (i)	0 – 2.5	0 – 2.5	15 – 20	25 – 30	252	297	28
Catherine Forrester (Director) (i)	0 – 2.5	0	0 – 5	0	46	61	12
Clare McCullough (Director)	0 – 2.5	2.5 – 5	10 – 15	40 – 45	196	216	16
Colin Perry (Director)	2.5 – 3	7.5 – 10	15 – 20	55 – 60	228	275	42

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.

The 'Pension at end date' is the pension the member is entitled to receive when they reach 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

Further details about the Civil Service Pension arrangements can be found at the website (www.civilservice-pensions.gov.uk)

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003/2004 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 Cabinet Office's Civil Superannuation 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 2006 on the advice of the Scheme Actuary. The CETV figure for 31 March 2006 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2007).

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



Mark Harris
Chief Executive
10 July 2007

Accounts

2006/2007

Commission information

Commissioners

Dr Anne Wright CBE
(Chair from 16 October 2005, and was re-appointed as Chair on 16 October 2006 for four years until October 2010)

Robert Foster
(Chairman of the Project Board)

Brian Pomeroy CBE
(Deputy Chairman of the Project Board)

Timothy Hornsby

Sarah Thane CBE

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

Internal Auditors

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

Bankers

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

HSBC Bank
431 Oxford Street
London W1C 2DA

Solicitors

Freshfields Bruckhaus Deringer
65 Fleet St
London EC4Y 1HS

Lawrence Graham
190 Strand
London WC2R 1JN

The Comptroller and Auditor General was appointed as the statutory auditor under the National Lottery etc Act 1993 (as amended). Note 6 to the Accounts discloses 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.

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, inter alia (by the National Lottery Acts 1998 and 2006) the Commission is required to prepare a statement of accounts for each financial year in the form and on the basis directed by the Secretary of State for Culture, 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
10 July 2007

Statement on Internal Control 2006/2007

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 2007 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 additional 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 risks at the operational level, where either the gross or net risk are classified as high.
- During the year The Audit Committee;
 - Reviewed the Commission's risk appetite, and concluded that it remained proportionate and appropriate to the statutory functions and the Corporate Plan objectives;
 - Received presentations on risk management from Directorates and reviewed the strategy and action plan for mitigation of risk contained in the Directorate Risk Action Plans;
 - Reviewed the Audit Committee's effectiveness against best practice; and
 - Reviewed the Commission's anti-fraud policies and processes in the light of best practice.
- 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;

Statement on Internal Control 2006/2007

- 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 appraised of any new risks that managers had added to the operational level registers;
- the strategic level risk register and the Commission's risk appetite were also reviewed by the Management Group, to ensure that they continued to reflect the risks to the effective performance of the Commission's statutory functions and the successful delivery of the Corporate Plan objectives, and continued to reflect the Commission's tolerance to risk in its various business activities;
- also during the year a major exercise was undertaken by Management Group to review and update the Commission's Business Continuity Plan.

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
10 July 2007

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 2007 under the National Lottery etc Act 1993 (as amended). These comprise the Operating Cost Statement, the Balance Sheet, the Cashflow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Commission, Chief Executive and auditor

The Commission and Chief Executive as Accounting Officer 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 the Secretary of State for Culture, Media and Sport directions made thereunder 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 and the part of the Remuneration Report to be audited 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 in the Annual Report, which includes a Management Commentary and a 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 National Lottery Commission has not kept proper accounting 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 National Lottery Commission'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 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. 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 National Lottery 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.

Opinions

Audit Opinion

In my opinion:

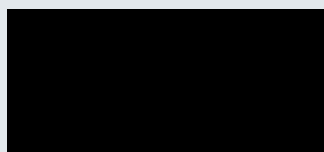
- the financial statements give a true and fair view, in accordance with the National Lottery etc Act 1993 (as amended) and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury, of the state of the National Lottery Commission's affairs as at 31 March 2007 and of its net operating costs 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 thereby under the Secretary of State for Culture, Media and Sport, with consent of HM Treasury; and
- information given in the Annual Report, which includes a Management Commentary and a 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
12 July 2007

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

Operating Cost Statement for the year ended 31 March 2007

	Note	2006/07 £'000	2005/06 £'000
Expenditure			
Staff costs	4	(2,536)	(2,283)
Administrative expenses	6	(7,862)	(5,585)
Other operating costs	7	(1,019)	(1,033)
Sundry receipts		–	–
Notional cost of capital	8	94	25
Operating costs after notional costs		(11,323)	(8,876)
Other finance costs	5	(10)	(10)
Operating costs after other finance costs		(11,333)	(8,886)
Reversal of notional cost of capital		(94)	(25)
Net operating cost for financial year	15	(11,427)	(8,911)

All activities were continuing in the year

The notes on pages 66 to 76 form part of these accounts

The presentation of the results for the year in the form of an operating cost statement is in accordance with a change in accounting policy as required by the Financial Reporting Manual (FRM), (see Note 1 on page 66).

If the results had been presented in the form of an income and expenditure account, it would have shown a retained deficit of £2,255,000 for the year, (deficit of £590,000 in 2005/2006). The deficit for the year has been caused by the £3 million accrual for contractual commitments relating to the New Licence Competition, mentioned on pages 47 to 49 in the Management Commentary.

Statement of Recognised Gains and Losses for the year ended 31 March 2007

	Note	2006/07 £'000	2005/06 £'000
Actuarial Loss and increase in pension liabilities	5	(33)	(17)
Total recognised gains and losses relating to the year		(33)	(17)

The notes on pages 66 to 76 form part of these accounts

Balance Sheet as at 31 March 2007

	Note	2006/07 £'000	2005/06 £'000
Fixed Assets			
Intangible Assets	9	38	56
Tangible Assets	10	174	128
		212	184
Current Assets			
Debtors and Prepayments	11	299	179
Cash at bank and in hand	12	1,499	1,273
		1,798	1,452
Creditors			
Amounts falling due within one year	13	(1,225)	(1,642)
Provisions			
	14	(3,018)	–
Net Current Assets/Liabilities		(2,455)	(190)
Total Assets less current liabilities (before pension liability)		(2,233)	(6)
Pension liability	5	(224)	(192)
Net Assets/(Liabilities) including pension liability		(2,457)	(198)
Represented by:			
General Reserve	15	(2,233)	(6)
Pension Reserve		(224)	(192)
		(2,457)	(198)



Mark Harris
Chief Executive
10 July 2007

The notes on pages 66 to 76 form part of these accounts

Cash Flow Statement for the year ended 31 March 2007

	Note	2006/07 £'000	2005/06 £'000
Net cash inflow/(outflow) from operating activities	16(i)	(8,839)	(7,378)
Capital expenditure:			
Payments to acquire intangible fixed assets		(22)	(13)
Payments to acquire tangible fixed assets		(102)	(54)
Financing	16(ii)	9,200	8,292
Other Payments			
Payment of Pension Benefits		(11)	(11)
Increase/(decrease) in cash	16(iii)	226	836

The notes on pages 66 to 76 form part of these accounts

Notes to the financial statements for the year ended 31 March 2007

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.

Change of accounting policy

With effect from the 2006/2007 reporting period, the FRM requires Non-departmental public bodies to account for grants and grants in aid received for revenue purposes as financing because they are regarded as contributions from a controlling party which gives rise to a financial interest in the residual interest of NDPBs. This is a change in accounting policy from earlier periods when such items were recorded as income. The effect of this change on the certified 2005/2006 accounts, and the impact of the change on the results of the current year, is shown below. Note there is no impact on the net liability position of the National Lottery Commission as a result of this change in policy:

	At 31 March 2006 (as previously stated)	Impact of adopting the new policy	At 31 March 2006 (re-stated)
Net Expenditure for 2005/2006	(590)	(8,321)	(8,911)
General Reserve (non pension element)	(183)	177	(6)
Government Grant Reserve	177	(177)	0

	At 31 March 2007 (without applying the new policy)	Impact of adopting the new policy	At 31 March 2007 (applying the new policy)
Retained Deficit/Net Expenditure for 2006/2007	(2,255)	(9,172)	(11,427)
General Reserve (non pension element)	(2,438)	205	(2,233)
Government Grant Reserve	205	(205)	0

Grants receivable

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

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	3-4 years
Fitting out costs	6-7 years
Furniture	3-5 years
Telephone equipment	5 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	3-4 years
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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 the 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 5.

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 2006/2007, £9.2 million (100%) of the National Lottery Commission's income derived from Grant-in-Aid from the Department for Culture, Media and Sport (2005/2006 £8.23 million, 100%). The Commission is satisfied that there are sufficient liquid resources in the form of cash of £1,499,000 and the draw down of funds available in the financial year 2007/2008 to cover all current contracted commitments of £4,243,000, as well as the Commission's activities planned for 2007/2008 (see page 47 of the Management Commentary). The Commission is also satisfied that it 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 £1,481,000. 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.

Notes to the financial statements for the year ended 31 March 2007

3. Other operating income

	2006/07 £'000	2005/06 £'000
Sundry receipts	–	–
	–	–

4. Staff costs

	2006/07			2005/06	
	Total £'000	Permanent Staff £'000	Others £'000	Commissioners £'000	Total £'000
Salaries	1,981	1,557	298	126	1,804
Employer's NIC	176	141	21	14	144
Pension costs	351	316	35	–	294
Temporary Staff costs	28	–	28	–	41
	2,536	2,014	382	140	2,283

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

	2006/07			2005/06
	Total	Permanent Staff	Others	Total
Chief Executive/Directors	6	5	1	6
Chief Executive's Office	1	1	–	1
Resources	8.5	7.5	1	9
Compliance	10	10	–	11
Licensing	8	8	–	7
Performance and Communications	8	7.5	0.5	7
New Licence	3	–	3	1
	44.5	39	5.5	42

Remuneration paid to the Chief Executive, Directors and Commissioners during the year is contained in the Remuneration Report on pages 50 to 53. Staff costs relating to the New Licence project have been analysed separately in Note 6.

5. Pension Disclosures

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but 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). For 2006/2007, employers' contributions of £348,525 were payable to the PCSPS (2005/2006 £294,427) at one of four rates in the range 17.1% and 25.5% of pensionable pay, based on salary

bands (the rates in 2005/2006 were between 16.2 and 24.6%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007/2008, the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006/2007 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 £2,342 (£1,783 in 2005/2006) 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 £228 (under £190 in 2005/2006), 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 the *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 50 to 53.

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) and is paid directly from the Commission's own funds. In 2001, upon the recipient reaching retirement age, pension payments commenced. In 2006/2007, pension payments of £11,392 were made (2005/2006 £11,082 – restated). 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 2007 and at 31 March 2006. Scheme liabilities and the expected rate of return are:

Main assumptions

	At 31 March 2007 % per annum	At 31 March 2006 % per annum	At 31 March 2005 % per annum	At 31 March 2004 % per annum	At 31 March 2003 % per annum
Rate of increase in salaries	4.3	4.0	4.0	3.9	4.0
Rate of increase in pension payment	2.8	2.5	2.5	2.4	2.5
Discount rate	4.6	5.4	6.1	6.0	6.1
Inflation assumption	2.8	2.5	2.5	2.4	2.5

	At 31 March 2007 £000	At 31 March 2006 £000	At 31 March 2005 £000	At 31 March 2004 £000	At 31 March 2003 £000
Present value of scheme liabilities attributable to the NLC	224	192	176	172	160
Total value of liabilities	224	192	176	172	160
Net pension liability attributable to the NLC	(224)	(192)	(176)	(172)	(160)

Notes to the financial statements for the year ended 31 March 2007

Amounts included as other finance costs

	31 March 2007 £'000	31 March 2006 £'000
Interest cost on pension scheme liabilities	10	10
Net finance (charge)	(10)	(10)

Analysis of amount included in the Statement of Recognised Gains and Losses (SRGL)

	31 March 2007 £'000	31 March 2006 £'000
Actuarial losses arising on pension scheme liabilities	(33)	(2)
Increase in liabilities due to change in investment return	–	(15)
Total actuarial loss recognised in SRGL	(33)	(17)

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

	31 March 2007 £'000	31 March 2006 £'000
Surplus/(deficit) at 1 April	(192)	(176)
Increase in liabilities due to change in investment return	–	(15)
Finance Costs	(10)	(10)
Actuarial gains/(losses)	(33)	(2)
Benefits paid	11	11
Surplus/(deficit) at 31 March	(224)	(192)

History of Experience gains and losses

	31 March 2007 £000	31 March 2006 £000	31 March 2005 £000	31 March 2004 £000	31 March 2003 £000
Actuarial losses on liabilities	33	2	5	13	0
Present value of liabilities	224	192	176	172	160
Percentage of the present value of liabilities	15%	1%	3%	8%	0%

6. Administrative expenses

	2006/07 £'000	2005/06 £'000
Legal advice	1,602	2,163
Other consultancy costs	5,881	3,057
External auditor's remuneration	23	21
Other administrative costs	356	344
	7,862	5,585

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

	2006/07	2005/06
	£'000	£'000
Staff and Project Board costs	537	308
Travel & subsistence	12	101
Consultants	5,626	2,708
Legal advice	1,183	1,665
Accommodation	155	–
Office costs	68	–
	7,581	4,782

The figure of £5,626,000 for expenditure on consultants includes £3,008,000 of contractual commitments relating to the New Licence Competition, payable in 2007/2008, as mentioned in Note 14 and on page 74 in the Management Commentary.

7. Other operating costs

	2006/07	2005/06
	£'000	£'000
Accommodation costs	769	609
Personnel costs	118	199
Depreciation and impairment of fixed assets	97	96
Travel and subsistence	35	129
	1,019	1,033

8. 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 charge.

Notes to the financial statements for the year ended 31 March 2007

9. Intangible fixed assets

	Software licences £'000	Total £'000
Fixed assets		
Cost as at 1 April 2006	143	143
Additions	22	22
Disposals	(45)	(45)
Revaluation to current cost	(6)	(6)
At 31 March 2007	114	114
Amortisation		
At 1 April 2006	87	87
Charge in year	34	34
Disposal	(45)	(45)
At 31 March 2007	76	76
Net book value		
At 31 March 2007	38	38
At 31 March 2006	56	56

10. Tangible fixed assets

	Fitting out costs £'000	Furniture £'000	Computer equipment £'000	Telecoms £'000	Total £'000
Fixed assets					
Cost as at 1 April 2006	188	52	353	16	609
Additions	–	28	66	9	103
Disposals	–	(3)	(212)	(16)	(231)
Revaluation to current cost	1	–	(8)	–	(7)
At 31 March 2007	189	77	199	9	474
Depreciation					
At 1 April 2006	98	43	324	16	481
Charge in year	28	5	22	–	55
Backlog Depreciation	–	–	(5)	–	(5)
Disposal	–	(3)	(212)	(16)	(231)
At 31 March 2007	126	45	129	0	300
Net book value					
At 31 March 2007	63	32	70	9	174
At 31 March 2006	90	9	29	–	128

11. Debtors

	2006/07 £'000	2005/06 £'000
Trade debtors	17	–
Other debtors	10	14
Prepayments and accrued income	272	165
	299	179

All debts are payable within one year.

The Other debtors include a value of £10,000 of 10 staff with balances left on interest-free, annual season ticket loans (2005/2006 £14,000 for 9 staff). This includes the following Directors:

	Balance of loan brought forward 1 April 2006 £	New loan £	Balance of loan carried forward 31 March 2007 £
Catherine Forrester (new advance made April 2006)	–	5,140	428
Clare McCullough (new advance made April 2006)	260	2,416	113
Annette Lovell	2,604	–	–

12. 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.

	2006/07 £'000	2005/06 £'000
Balances at OPG	1,481	1,258
Commercial banks and cash in hand	18	15
	1,499	1,273

13. Creditors

	2006/07 £'000	2005/06 £'000
Creditors due within one year		
Trade creditors	534	495
Other creditors	2	7
Accruals	689	1,140
	1,225	1,642

There are no creditors falling due after one year.

Notes to the financial statements for the year ended 31 March 2007

14. Provisions

The Commission has created a provision of £3 million arising from a contractual arrangement relating to the New Licence Competition. The Commission considers it probable that this will be payable and has made a provision accordingly, (see also the Post Balance Sheet Events section in the Management Commentary on page 49).

At the balance sheet date the Commission was in negotiations with its landlord, following a rent review of the lease of its Wigmore Street offices. A provision has been created for that element of the new rental rate falling due for payment in the current year, based on a reasonable assessment of the outcome of the rent review which is yet to be determined.

Provisions

	Total	New Licence contractual commitments	Other
	£'000	£'000	£'000
At 1 April 2006	–	–	–
Additional provision in the year	3,018	3,008	10
Utilisation of provision in the year	–	–	–
At 31 March 2007	3,018	3,008	10

15. Movement on reserves

	2006/07			Total
	General Reserve	Pension Reserve	Government Grant Reserve	£'000
	£'000	£'000	£'000	£'000
At 1 April 2006	(375)	–	177	(198)
Transfers	369	(192)	(177)	0
At 1 April 2006 (as restated)	(6)	(192)	0	(198)
Net operating cost	(11,427)	–	–	(11,427)
Grant-in-Aid received towards resource expenditure	9,075	–	–	9,075
Grant-in-Aid received towards purchase of fixed assets	125	–	–	125
Actuarial Loss	–	(32)	–	(32)
Transfers	–	–	–	–
At 31 March 2007	(2,233)	(224)	–	(2,457)

(The figures for Grant-in-Aid received towards the purchase of fixed assets and the Actuarial Loss contain £1,000 rounding errors in order to ensure the carried forward balances are correct)

16. Notes to the cash flow statement

Note (i) Reconciliation of net operating cost to net outflow from operating activities

	2006/07 £'000	2005/06 £'000
Net Operating costs	(11,427)	(8,911)
Depreciation and impairment of fixed assets	97	96
Non cash finance costs	10	10
Decrease/(Increase) in debtors	(120)	30
(Decrease)/Increase in creditors	2,601	1,397
Net cash inflow/(outflow) from operating activities	(8,839)	(7,378)

Note (ii) Analysis of financing

	2006/07 £'000	2005/06 £'000
Total Grant-in-Aid received from Department for Culture, Media and Sport (Request for Resources 1)	9,200	8,292
Applied towards purchase of fixed assets	(125)	(67)
Total Grant-in-Aid applied towards revenue expenditure	9,075	8,225

Note (iii) Analysis of changes in net funds

	At 31/3/07 £'000	Cash flow £'000	At 31/3/06 £'000
Cash at bank and in hand	1,499	226	1,273

17. Operating leases

At 31 March 2007, the National Lottery Commission was committed to making the following payments during the next year in respect of operating leases.

	2006/07		2005/06	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases due to expire:				
Within one year	156	–	–	–
Between two and five years	–	15	–	15
After five years	423	–	423	–
	579	15	423	15

The Commission is in ongoing negotiations with its landlord following a rent review on the lease of its Wigmore Street offices. The current rental rate has been disclosed for the purposes of this note as the new rental rate has yet to be agreed. Further details are contained in Note 14.

Notes to the financial statements for the year ended 31 March 2007

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 16(ii), and
- (ii) the surrender to the Department for Culture, Media and Sport of licence fees in the sum of £80,000.

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 2007, the National Lottery Commission had no debtor balances and £1,540 of creditors with other government organisations.

21. Contingent Liabilities

At the balance sheet date the Commission was involved in an Employment Tribunal with a member of staff. The Tribunal began in late March and a judgement is not expected until August. The information usually required by FRS 12 is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the Tribunal. The Commission is of the opinion that the claim can be resisted successfully.

22. Losses and special payments

Losses Statement

	£000
Total of 0 cases	Nil
Details of cases over £250,000:	Nil

23. Post Balance Sheet Events

Post balance sheet events are mentioned in detail on page 49.

These accounts were authorised for issue on 17 July 2007.

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