



National Lottery
Commission

Regulating the National Lottery

Annual Report & Accounts
2004/2005

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We regulate the Lottery to ensure that players are treated fairly, the nation's interest in the Lottery is protected and the operator is motivated 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 National Lottery Act 1998) by the Secretary of State for the Department of Culture, Media and Sport.

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

ensure that the National Lottery, and every lottery that forms a part of it, is run with all due propriety;

ensure that the interests of every participant in the Lottery are protected; and

subject to these two duties, to do our best to secure that the proceeds of the National Lottery are as great as possible.

In our role as the independent regulator of the National Lottery, we ensure that the correct payments are made to the National Lottery Distribution Fund (NLDF). The Commission has no responsibility for the distribution of grants from the fund; this is the responsibility of the distribution bodies.

The Commission is funded by vote from Parliament. Our net expenditure is recovered from the NLDF and from licence fees paid by Camelot.

The Commission has the following functions:

- to issue a licence to authorise a body corporate to run the National Lottery (under Section 5 of the Act). Only one such licence may be in force at any one time;
- to issue licences for each constituent Lottery promoted as part of the National Lottery (under Section 6 of the Act). Each game that forms part of the National Lottery is subject to such a licence; and
- to ensure that the provisions of the licences that it grants are complied with. The Commission has a range of powers, which include publicly recording licence breaches, powers to impose financial penalties and to seek enforcement in the High Court, and, in extreme cases, revocation.

Key events

2004

7 April

The Joint Committee on the Draft Gambling Bill publishes its report, 'Draft Gambling Bill'

25 May

The Department for Culture, Media and Sport announces further investigation into proposed legislation governing the National Lottery

10 June

Commission commences independent research into potential interest in bidding for the next Lottery licence and perceived barriers to entry

16 October

Timothy Hornsby succeeds Moira Black as Chairman of the Commission

26 November

The Department for Culture, Media and Sport publishes the National Lottery Bill

2005

4 January

Annette Lovell appointed as Director of Licensing and Deputy Chief Executive. Colin Perry appointed as Programme Director for the next competition

27 January

Commission begins public debate on the structure of the next Lottery licence competition and publishes a discussion document, *A Lottery for the future*

1 April

The Secretary of State for Culture, Media and Sport appoints Robert Foster as Commissioner and Chairman of the Project Board and Dr Anne Wright as Commissioner

Chairman's foreword



The UK deserves a National Lottery which is fun and exciting to play and delivers the maximum return to good causes.

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

This has been a busy year for the National Lottery Commission – a year in which we have celebrated the 10th Birthday of the National Lottery, seen the returns to good causes break through the £16 billion mark (since the beginning of the Lottery), and launched the start of the next competition process.

We regulate a brand whose logo is instantly recognised by 95% of the population and are working hard to ensure its future success. The National Lottery, along with the wider gambling industry, has been under scrutiny this year and we believe it is right that its unique nature and importance to our society have been highlighted.

National Lottery Bill

In 2004 we gave evidence to the Culture, Media and Sport Committee on the reform of the National Lottery and to the Pre-Legislative Scrutiny Committee on the draft Gambling Bill. We welcome the inclusion of the National Lottery Bill in this Parliamentary session and hope there will be legislative clarity in time for the competition.

The National Lottery brand is instantly recognised by 95% of the population

Our position as the sole regulator of the National Lottery has been endorsed in the new Gambling Act, and we welcome the opportunity to work with the new Gambling Commission on areas of mutual interest.

We welcome the Government's review of the tax treatment of the Lottery, in particular whether a gross profits tax structure would be more suitable, and hope there will be clarity on this issue in time for the competition.

Sales performance

We have been encouraged by the modest growth in sales and, more importantly, in returns to good causes this year, and hope to see the operator continue to seek innovative approaches to its sales portfolio and playing channels. The UK deserves a National Lottery which is fun and exciting to play and delivers the maximum return to good causes.

Competition for the next licence

We are committed to designing a transparent competition framework which will be attractive to potential bidders, while delivering the best return for the UK's good causes. The response to our discussion document, *A Lottery for the future* has been encouraging.

Colleagues and staff

I am delighted to welcome Robert Foster as Chairman of the new Project Board for the competition. I would also like to welcome another new Commissioner, Anne Wright, and express my thanks to Moira Black whose term of appointment ended this year, and to Harriet Spicer who served for two full terms. They have contributed effectively to our regulatory efforts, drawing on their varied experience. I should also like to thank all those outside organisations and individuals I have met during the year and whose broad support for the Lottery is welcome.

The National Lottery is a complex, multi-billion pound operation and its successful regulation is due in no small part to the effort and dedication of Mark Harris and his staff whose achievements are described in the body of this report. I express my thanks to them on behalf of the Commissioners.



Timothy Hornsby
July 2005

Chief Executive's report



Next year will show whether Camelot can achieve a sales level of £5 billion for the first time since 1999/2000, together with further growth in returns to good causes.

A Lottery for the future

In January of this year, we began the public debate on the structure of the next Lottery licence competition and published a discussion document, *A Lottery for the future*. This document was based on wide-ranging research to assess why there might not be a strong competition for the next licence, together with a full review of our experience from previous competitions and as regulator over the first 10 years of the operation of the Lottery. Further details on the process, and the work done to date to encourage a strong, fair and effective competition for the next licence, are set out in the following section of this report.

Sales performance and returns to good causes

Last year we applauded the operator's efforts to return the Lottery to growth, whilst noting that the rise in sales was not matched by a rise in returns for good causes. I commented that three per cent growth per annum over the next three years would take sales back over the £5 billion mark.

We are pleased to have seen sales grow to £4,766 million this year, representing an increase of 3.3%. More importantly, this rise in sales has led to the first increase in NLDF primary contributions¹ since 1998/1999. The primary contribution has not increased at the same rate as sales, (due to the changing games

1. Primary contributions is the amount of money which goes to good causes from sales but which does not include unclaimed prizes. The total NLDF figure includes unclaimed prizes.

We will continue to regulate firmly but flexibly

mix of the portfolio where a greater percentage of sales came from high prize payout percentage games, such as Scratchcards), the primary contribution to good causes was £1,249 million, an increase of 2.6%. The total contribution to good causes was £1,354 million, (4.6% increase), this difference being due to a higher than normal level of unclaimed prizes.

Next year will show whether Camelot can achieve a sales level of £5 billion for the first time since 1999/2000, together with further growth in returns to good causes. We note that Camelot's plans for 2005/2006 aim for this and we will continue to regulate firmly but flexibly to help the operator achieve this level of sales.

Making Lottery games more accessible

We welcome the operator's efforts to ensure that players have more choice about how to play the Lottery. This is an important part of the operator's strategy to increase sales. We want access to play to be as straightforward as possible, so long as the standards of the integrity of the National Lottery and player protection remain high.

We considered the security of each method of play and the need to ensure it did not cause excessive play or appeal to under 16s.

The new channels introduced include:

- National Lottery FastPay™ – tickets for draw-based Lottery games will be available at Tesco checkouts across the country;
- Subscriptions system – this was launched on the National Lottery website on 2 September 2004. It allows players to buy subscriptions over the Internet;
- Interactive Digital Television (iDTV) – players can now buy tickets for Lotto and EuroMillions through this new channel; and
- Play by Text – in October 2004, Camelot launched access to games on all major UK mobile phone networks, including Orange, O2, T-Mobile, 3 and Vodafone.

Implementation of the subscriptions system led to some initial technical difficulties relating to data transfer across systems, which we monitored closely until they were resolved to our satisfaction.

Protecting our brand

The National Lottery is one of the most recognised brands in the UK. The Commission owns the brands and licenses them to the operator. We have worked closely with Camelot, the National Lottery Promotions Unit and the distributors to develop a set of logo guidelines to ensure that the National Lottery common brand is used effectively.

We will link with the Gambling Commission to ensure a strong exchange of experience and a consistency of approach

Following an extensive consultation process (during which we made a submission), Ofcom has issued its Broadcasting Code, which I am pleased to report has acknowledged the special status of the National Lottery.

Relationship building

We believe it is very important to talk directly to interest groups across the UK. This year, we have met a wide range of our stakeholders including gambling concern groups, church groups and overseas lottery operators as well as maintaining relationships with the Department for Culture, Media and Sport, the National Lottery Promotions Unit and the Gaming Board. The Gaming Board for Great Britain in particular, is going through a period of change and is evolving to become the new Gambling Commission. We will develop our links further with the Gambling Commission as it takes on its new responsibilities to ensure a strong exchange of experience and a consistency of approach in the regulation of our respective sectors.

Our own performance

Financial performance

Expenditure for the year was £4.3 million. The financial statements show a surplus of £98,000.

During the year we spent £275,000 on preparing for the next licence competition. The majority of this expenditure was for the strands of research commissioned in 2004; further details on these can be found in the 'Next licence' section of this report. Staff costs were in line with budget and the remaining underspend was spread evenly across the organisation.

Meeting our targets

We have met, and in some cases improved upon, our performance targets this year. Invoices have been paid on time, vetting checks have been completed on staff appointed by the operator and we have responded to all player correspondence within 10 working days.

Sickness absence has been managed effectively, remaining below the previous year's level, and below the public sector average. Staff turnover in the year was 19%, a slight increase on last year.

Legislation

The Freedom of Information Act 2000 came into full effect on 1 January 2005. We have put arrangements in place to ensure we comply fully with its requirements.

Details of the arrangements for the competition are recorded elsewhere², and we are committed to running a successful competition for a single licence. Other changes proposed by the Government, which primarily concern competition arrangements and our governance structure, have been incorporated in the National Lottery Bill. We welcome the Bill, and note its progress in Parliament following its reintroduction after the General Election.

Provisions were also introduced as part of the Horserace, Betting and Olympic Lottery Act to enable Olympic Lotteries to be held to support the 2012 Olympics, if London is successful in its bid to stage the Games.

Investing in our people

The work carried out in our human resources practices over recent years has resulted in significant benefits to the organisation. The retention of skills and experience has remained a priority and we are committed to attracting staff from a range of backgrounds to ensure that we have the variety of skills and experience required to deliver our objectives.

We have maintained our investment in the training and development of staff and have ensured internal development activities take place, such as the provision of an Open Learning Centre and one-to-one coaching for senior staff.

Thank you

I would like to thank all staff for their enthusiasm and hard work over the past year. I would also like to give special recognition to Kingsley Jones, Director of Licensing, who retired earlier this year, for his commitment over the past seven years to our work and to the reputation of the National Lottery.



Mark Harris
July 2005

2. *A Lottery for the future* January 2005 (www.natlotcomm.gov.uk/competition).

The next licence



There needs to be the right balance between making the competition attractive to bidders whilst ensuring the maximum return to good causes.

This year marks the real start of our work to run an effective and well organised competition to award the next licence to run the UK National Lottery. I am encouraged by the positive response from the market and will be doing everything possible to convert this early interest into firm bids.

Managing the competition

Important preparatory work has already been carried out by the Commissioners and the Chief Executive prior to my appointment. The Project Board is now fully up and running and is responsible for overseeing the competition. It comprises two Commissioners and the Chief Executive, supported by advisers. I will chair the board throughout the process to provide stability and continuity.

We have recruited a Programme Director to project manage the work on the next competition and have already recruited key consultants to help with the process including Rothschild, NERA Economic Consulting, Hedra and Freshfields. This gives us a strong multi-disciplinary pool of talent that is already tackling the technical, economic and practical issues that are part of the competition development. We will continue to assess the skills and resources required to manage that work, recruiting additional support where needed.

This is the start of our work to run an **effective and well-organised** competition for the UK National Lottery

The competition will be subject to the Gateway process developed and administered by the Office of Government Commerce. We have also appointed Cornwell Management Consultants to conduct independent process assurance. This independent scrutiny will provide the Commission with assurance that the process has been properly conducted when it comes to make its final decision on the preferred bidder.

A Lottery for the future

We began the process of engagement in June 2004 when we commissioned four pieces of independent research to identify how best to remove the barriers which might prevent a strong competition for the next licence. We looked at economic issues and the experience of other lotteries; commercial factors and technology as well as seeking the confidential views of senior executives from a range of organisations which might participate in a bid consortium.

Using the results of this research, along with our own thinking, and input from other key parties such as the Joint Committee on the Draft Gambling Bill, the National Audit Office and the Culture, Media and Sport Select Committee, we produced a discussion document, *A Lottery for the future*.

Submissions in response to the document will help us ensure that the structure is designed to encourage competition and to ensure that all players are competing on a level playing field. There also needs to be the right balance between making the competition attractive to bidders whilst ensuring the maximum return to good causes.

Statement of Main Principles

We will be publishing our Statement of Main Principles later this year. These will draw on our discussions and set out how we intend to run the competition.

I believe we are putting in place effective plans for a first-class competition able to attract innovative and realistic proposals, and I look forward to the challenges ahead.



Robert Foster
Chairman of the Project Board

In the last year we
checked over

£1.3 billion

of payments to the NLDF

Propriety

We ensure that the National Lottery, and every lottery that forms a part of it, is run with all due propriety.

Maintaining confidence in the integrity of the National Lottery is paramount to us, as is scrutinising the way the Lottery is run. We make sure that everything, from the televised draws to the way players are paid their prize money, is done properly and in accordance with the licence. But we are also keen to see a Lottery which is fun to play and is widely accessible, and we work hard to achieve the right regulatory balance.

Maintaining confidence in the integrity of the National Lottery is paramount to us

Ensuring integrity

We set the parameters within which the operator works and ensure that it complies with these. We need to be absolutely certain that players can be confident in the Lottery and this forms a large part of our work. We monitor the operator closely to ensure that the right amount of money is paid to good causes; that players' money is always safe, (whether it is uncollected prize money or money paid for draws that have not yet taken place); and that the draws and Scratchcard games are safe from fraud.

Our work can be very detailed, for example checking that the calculations and the payments for the good cause money are correct, or strategic such as overseeing major projects and reviewing Camelot's IT development environment.

The range of our work covers all key risk areas of Camelot's operations. These include:

Prize winners

We undertake checks to ensure that prize winners who don't want publicity are protected and remain anonymous.

The Draw

Last year we attended 12 Saturday and 12 Wednesday draws, as well as attending a Daily Play draw once a month. We require an independent auditor to be present at every draw to ensure procedures approved by us are followed. This year, we also oversaw the arrangements for moving the operation of the Daily Play Draw from Camelot's Watford headquarters to the MTV studios in North London.

Money for good causes

By reviewing the payments made to the Players' Trust³ we are able to verify the payments made to the National Lottery Distribution Fund (NLDF) and check that players' prizes are adequately protected. In the last year we checked over £1.3 billion of payments to the NLDF. Our independent verification system enables us to check Camelot's information on sales and prizes for all games. This year we have overseen several upgrades to the system to enable:

- the migration of Camelot's subscription system to the Interactive platform;
- the buying of tickets by mobile telephone and at checkout tills; and
- the availability of Thunderball via the Internet and mobile channels.

Security

Robust security arrangements are essential to the reputation of the National Lottery. We regularly review physical and operational security at Lottery draws, as well as in the warehouses and other secure areas.

Randomness

We have a rolling programme of research to check that there are no anomalies in the statistical data of the Lottery draws. We commissioned two reports this year, one on Lotto and the other on Lotto Lucky Dip. Both reports concluded that there is no evidence of non-randomness. This rolling programme is additional to the continuous checks on Lottery equipment which includes regular testing of draw machines and balls.

Lottery systems

We require Camelot to carry out independent system testing and certification of all major projects and game launches before they go live. With more ways to play interactively, and an increasing public awareness of security risks on the Internet, we make it a priority that Camelot uses appropriate and effective information security systems. We maintained a watching brief over a range of projects this year, including subscriptions on the interactive platform, Play by Text and National Lottery FastPay™.

We have observed over the past year that Camelot's system development processes have been under increasing pressure. This does not normally impact on the day-to-day operation of the Lottery, but increases

the risks associated with the quality and timing of the introduction of new software. We have discussed our concerns with Camelot and are pleased to report that changes have been proposed which, if implemented effectively, will reduce these risks.

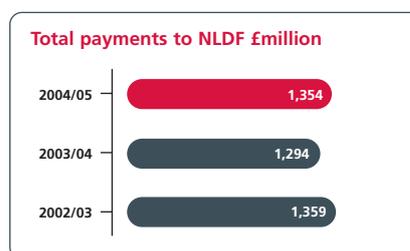
Vetting

We ensure that individuals and companies are 'fit and proper' to work with the National Lottery. We have reviewed and revised our vetting procedures, and reviewed the criteria to be used to determine which roles need to be vetted, looking particularly at those which have access to secure areas and winner information. We carried out 413 checks on individuals and four checks on companies.

Licence breaches

If the operator fails to comply with its licence obligations we are able to take enforcement action using a range of sanctions that are available to the Commission.

During the last twelve months we recorded seven licence breaches by the operator. A summary of these can be found in Appendix C.



We set the **parameters** within which the operator works

Getting the right balance

We want players to have more choice about how to play the Lottery and accepted a range of proposals as part of the bid for the second licence to improve player access. These are now coming to fruition and are an important part of the operator's strategy to regenerate sales. While we encourage innovation, we need to make absolutely certain that these new developments do not adversely affect players or existing games. We have been particularly concerned this year that the introduction of new technology should not have an adverse impact on the existing systems and will continue to monitor this closely.

National Lottery FastPay™

This year we have overseen the pilot of National Lottery FastPay™ – the sale of Lottery tickets through Electronic Point of Sale (EPOS) at Tesco stores. This will allow players to buy their tickets at any Tesco checkout rather than having to queue at the tobacco kiosk. We worked with Camelot to ensure that all key player information is on the ticket.

Interactive Television

As well as at the supermarket checkout, players can now also buy tickets for Lotto and EuroMillions via Interactive Digital Television (iDTV).

We considered a range of issues prior to the launch on 1 April 2004 and decided that players should be offered an e-mail or postal option to receive the full game rules in the absence of enough room on screen. We also agreed a number of amendments to the licence, revised the game rules and procedures and assessed the IT systems changes.

Play by Text

In October 2004, games were launched on all major UK mobile phone networks, including Orange, O2, T-Mobile, 3 and Vodafone.

We considered the security of this method of play and how players would know definitely whether they had been entered for the draw. We also considered player protection issues, including the additional cost of playing by text, agreed amendments to the licence and approved the use of an 'autoload' facility to simplify the transfer of funds to a player's 'wallet' through their mobile phone.

Subscriptions

The subscriptions system on the National Lottery website was launched on 2 September 2004. This was later than expected due to a number of delays to the IT implementation. As a result, Camelot experienced problems over the migration of existing player subscriptions from the old system to the new platform, given the complexity of the transition of data.

We want players to
have more choice
 about how to play the Lottery

Class licences enable the operator to be **more responsive** to market demand

We monitored this situation closely to ensure that the problems were dealt with promptly and effectively. These events highlighted a number of issues around the introduction of new technology and the impact on the existing IT systems.

Prior to giving Camelot launch approval for the subscriptions system to go live we approved the variations to the game rules and procedures and also approved revised terms and conditions.

Games and licences

Each Lottery game needs a separate licence except where it falls under the provisions of the class licence for Scratchcards or the class licence for Interactive Instant Win Games (IIWGs). The class licences allow Camelot to launch games without Commission approval provided it complies with the requirements set out in the licences. This enables the operator to be more responsive to market demand. As a result, the time it takes for a Scratchcard game to reach the market has been reduced. For IIWGs, this is even more relevant with Camelot able to market games based on television programmes such as 'I'm a Celebrity...' at the time they are on air.

EuroMillions

This Friday night draw-based game, launched in February 2004, is designed to offer large jackpots to players. The launch countries were the UK, France

and Spain. Six new countries joined in October 2004 – Austria, Belgium, Ireland, Luxembourg, Portugal and Switzerland. To accommodate the new countries we approved an amendment to the Lottery Operators' Agreement, considered player protection issues, required revision of the player guide, and reviewed the game procedures and the prize structure.

With effect from the draw on 20 August 2004, the prize structure for EuroMillions was amended as follows:

- the jackpot prize tier was increased from 20% to 22% of the prize fund, to help the jackpot grow more quickly;
- the fund for boosting the jackpot has been increased from 7% to 16% of the prize fund, to help ensure that the start level for each EuroMillions draw is attractive.

Free tickets

At the end of August, Camelot held a 'free ticket' promotion, made possible by a change in guidelines from the Secretary of State. This was the National Lottery's first free-ticket promotion funded by the NLDF. The form of the promotion was to give players a £2 voucher for every 116th Lotto ticket bought which could be redeemed for the new Scrabble Scratchcard. We will continue to monitor the impact of this type of approach over the coming year.

We will not license
a game that may cause excessive play
or that appeals to
under 16s

Protecting players

We make sure that the interests of every participant in the UK National Lottery are protected.

We do this by:

- safeguarding the interests of players, particularly vulnerable players;
- ensuring that Camelot provides high quality customer service;
- handling enquiries and complaints regarding the National Lottery; and
- developing and maintaining links with organisations with an interest in the public impact of gaming.

Players should expect a fair and efficient service

Protecting players

Our responsibility extends beyond National Lottery players to individuals who may not take part, but who could be affected by the National Lottery.

We will not license a game that we consider may cause excessive play or appeal to under 16s. We require Camelot to provide us with pre-launch evidence and can also insist that post-launch research is conducted. We require strict measures to monitor that actual play reflects the research results. For example, when the Bullion Scratchcard was launched in April 2004 we required Camelot to provide us with post-launch data to ensure that this game did not show any particular risk linked to problem play. When Play by Text was launched, we required information on the numbers of players using it, by bands of spend over defined time periods. We will continue to monitor these trends as this method of play develops.

And these strict measures pay off. Last year NCH, the children's charity, and GamCare tested 37 interactive gambling sites to see whether or not underage players would be allowed to register. Camelot was one of only two operators that successfully blocked the attempt to register someone under the age of 16.

Monitoring performance

Players should expect a fair and efficient service from the National Lottery. This year we reviewed Camelot's performance standards and targets to check they were still appropriate given the introduction of new ways to play. As a result of this review, we have introduced new customer service standards specifically relating to subscriptions.

Ensuring a high quality of service to players

We monitor Camelot's customer service departments monthly to understand the nature and volume of public contact. Players who are unhappy with any

aspect of the National Lottery have a right to complain. We require Camelot to maintain a helpline to deal with any problems that arise and have agreed a procedure for escalating complaints. In most cases, grievances are resolved at an early stage. However, if someone remains unhappy with Camelot's response, or its handling of the case, we take up the complaint. This year we resolved 100% of all investigations within 20 working days.

We ensure that the operator provides a suitable network of outlets for players to buy tickets and receive prizes. This year, we visited 426 retailers and Post Offices across the country to ensure that Camelot is fulfilling its responsibilities to players by providing them with up-to-date and relevant information. There are variations across the country but, overall, the standard of information available is in line with licence requirements. We also ensure that Camelot provides at least one retail outlet that sells draw-based games in every postal district that has at least 2000 people living in it, except where we have agreed it is impractical to do so.

Relationship building

It is very important for us to talk directly to interest groups across the UK. This year we have met with a wide range of our stakeholders including gambling concern groups, church groups and overseas lottery operators.



This increase is due to a rising number of queries about lottery scams. We provide general advice on our website.

This year we responded to
100% of all investigations
 within **20** working days

Total primary contributions⁴ to NLDF

£1,249

million,

a 2.6% rise on the previous year

Sales performance

We do our best to secure that the proceeds of the National Lottery are as great as possible.

We are encouraged by a further increase in sales this year, signifying a return to growth after a period of decline. Scratchcards accounted for much of this improvement in sales, while other highlights included the expansion of interactive channels, the National Lottery 10th Birthday and the first ever triple rollover.

We have continued to improve our internal reporting processes, leading to more productive discussions with Camelot and better working practices. We will continue to emphasise the need to raise more money for the National Lottery Distribution Fund (NLDF) as well as increasing sales.

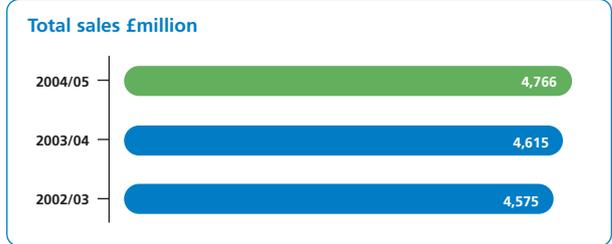
Sales⁵

The total value of sales in 2004/2005 was £4,766 million, representing a 3.3% rise on the previous year. We have continued to oversee Camelot's strategy to broaden sales via interactive channels by launching two further channels: interactive television and mobile phones.

The rise in sales led to the first increase in NLDF primary contributions⁶ since 1998/1999. £1,249 million of primary contributions went into the Fund, which is an increase of 2.6%.

However, primary contribution did not increase at the same rate as sales due to the changing games mix of the portfolio where a greater percentage of sales came from high prize payout percentage games, such as Scratchcards.

The total contribution (which includes unclaimed prizes) to good causes was £1,354 million, a 4.6% increase on the previous year.



Lotto

Lotto sales experienced their first year of growth since 1997/1998 with sales of £3,225 million, that were slightly higher than the previous year. This game accounted for 67.7% of total sales, compared to 69.9% in 2003/2004.

The first ever triple rollover in May 2004 and the bonus draw to celebrate the National Lottery's 10th Birthday in November were key drivers in exceeding the previous year's sales. Five £15 million superdraws and a new advertising campaign featuring Lady Luck also contributed to sales growth.



Lotto Extra

Lotto Extra sales, at £77.4 million, were marginally below the previous year's total, with weekly sales averaging £1.5 million. Three winners shared the game's highest ever jackpot of £21.1 million in August 2004.



Thunderball

Thunderball sales fell 2.4% on the previous year to £343 million. A slow start to the year was followed by consistent growth after the commencement of the Lady Luck campaign.



Scratchcards

Scratchcard sales rose by 12.9% on the previous year after strong sales from 42 new games. Camelot improved its telesales operations and Scratchcard distribution and launched Christmas-themed Scratchcards in place of Christmas Millionaire Maker.



Lotto HotPicks

Lotto HotPicks sales averaged about £4.2 million a week (£4.6m in 2003/2004) and the game has accounted for £219 million over the year. The decline HotPicks experienced since it was launched was reversed midway through the year.



Daily Play

This was the first full year for Daily Play. Weekly sales are declining, though this has slowed since last summer. Average weekly sales over the full year were £1.1 million per week.



EuroMillions

Changes to the prize structure in August 2004 and the addition of six further participating countries in October 2004 were the main drivers in the first full year of EuroMillions. This led to faster increases to the jackpot and increased sales later in the year. One UK player won a £16.8 million jackpot. Sales in the UK averaged almost £2 million a week.

Interactive Instant Win Games (IIWGs)

Camelot has worked hard to attract players to the interactive channels. Interactive Instant Win Games (IIWGs) had average weekly sales of £400k for 2004/2005 and by March 2005 sales were running at £600k a week. Interactive sales now account for nearly 3% of total weekly National Lottery sales.

5. Details of how to play the games and the odds of winning can be found on the National Lottery website www.national-lottery.co.uk.

6. Primary contribution is based on sales and does not include unclaimed prizes.

We are encouraged by a further increase in sales

New games

Camelot launched 23 IIWGs and 42 Scratchcards between 1 April 2004 and 31 March 2005. The majority of these were launched under the class licences, examples include Scrabble, Star Wars and 'I'm a Celebrity'. Camelot also held a £10 million jackpot-only birthday draw on 6 November 2004 to celebrate the 10th Birthday of the National Lottery.

Olympic Lottery games

At the time of writing, the International Olympic Committee (IOC) had not yet decided on who will host the Olympic Games in 2012. Camelot has pledged to generate £750 million through Olympic Lottery games in the event that London is selected as the host city. The National Lottery itself will provide a further £750 million from the Sports Lottery Fund, and mainstream National Lottery games from 2009. Preparations are already underway to make sure that everything is in place should London be successful. We will play an important part in this process by undertaking a series of legal and regulatory actions, including an amendment to the Section 5 licence. All Olympic Lottery games will need to be licensed under a Section 6 licence. We will, as with all games, only license those which have been thoroughly researched to ensure that they do not encourage excessive or underage play.

Protecting our brand

The National Lottery brand is one of the most recognised brands in the UK. The Commission owns the brands and licenses them to the operator.

We have also worked closely with the National Lottery Promotions Unit (NLPU), the good causes distributors and Camelot to develop guidelines so that the distributors can use the "crossed fingers" logo as part of the common brand. Although most people play to win prizes it is important that they know the kinds of projects benefiting from their play. The guidelines will ensure that the National Lottery "crossed fingers" common brand logo is used effectively and will remind people of the benefits that the National Lottery brings to the nation.

Biographies



Timothy Hornsby is Chairman of the National Lottery Commission. 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).



Brian Pomeroy 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.



Dr Anne Wright CBE is 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.



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.

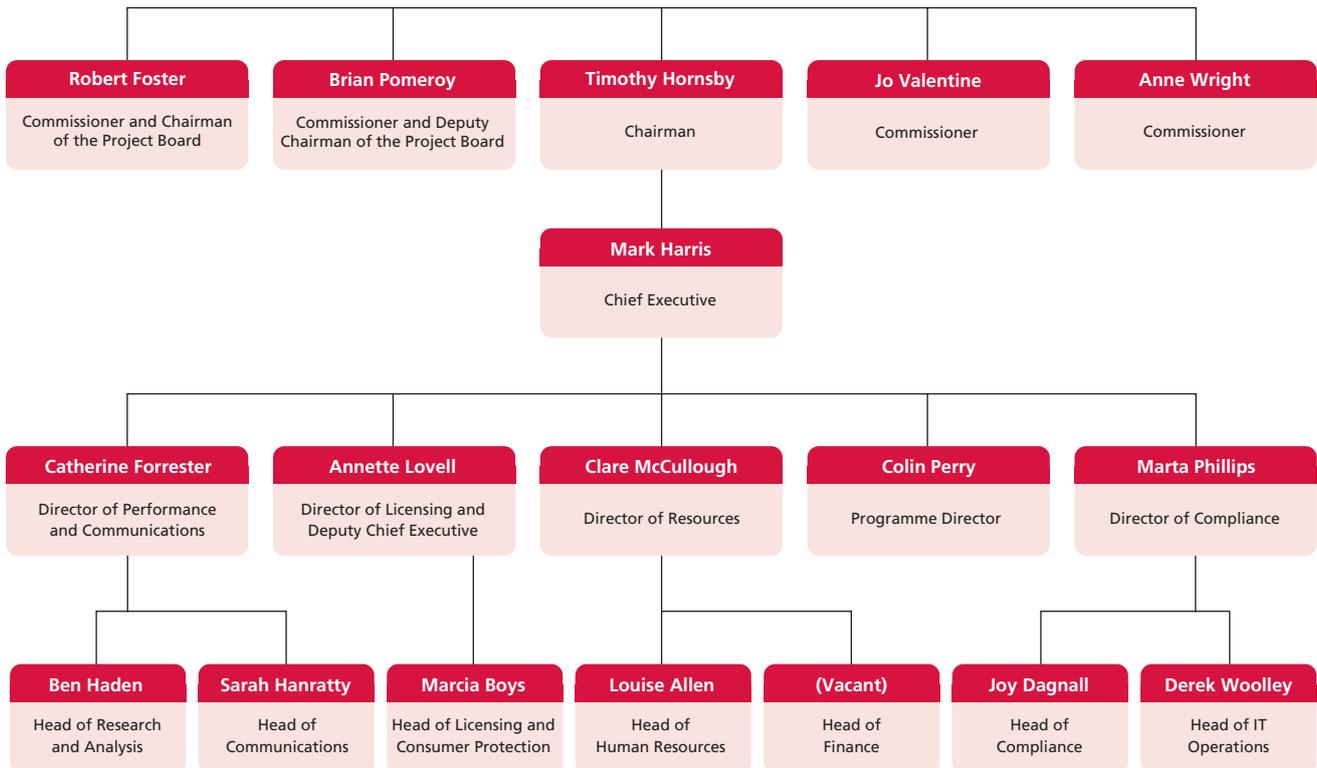


Jo Valentine is Chief Executive of London First, a position she took over in 2003 having worked for the organisation previously, both as Managing Director and Chief Operating Officer. Before joining London First, she created the Central London Partnership and before that the Blackburn Partnership in Lancashire, one of the early regeneration partnerships sponsored by HRH the Prince of Wales. Jo's varied career began in corporate finance in the City in the '80s. She was subsequently head of Planning and Corporate Finance at BOC Group.



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.

Organisation structure



Appendix A – Financial performance

Primary contribution based on amount payable to NLDF in respect of ticket sales of £4,766			
Sales £m	2004-05	2003-04	Since launch
Lotto	3,225	3,225	40,014
Thunderball	343	351	1,651
Lotto Extra	77	78	418
Christmas Millionaire Maker	0	16	183
Scratchcards (inc. Instants since launch Feb 03)	738	641	7,546
Lotto HotPicks	219	244	679
Daily Play	60	45	105
EuroMillions	104	15	119
Easy Play	0	0	24
Total	4,766	4,615	50,739 Based on actual sales receipts (unadjusted sales figures)
Prizes won by players (including unclaimed prizes)	2,386	2,294	24,566

Payments to the NLDF	2004-05	2003-04	Since launch
Primary contribution (Note 1)	1,249	1,216	13,853 Amount payable in respect of sales
Unclaimed Prizes	100	73	720
Prize Target Shortfall	0	0	667
Ancillary activity income	0	1	6 Rounded up
Interest from trust accounts	4	3	46
Other miscellaneous payments	0	1	5 Rounded up
Total	1,354	1,294	15,298²

Other Payments	2004-05	2003-04	Since launch
Lottery Duty	572	554	6,089
Retailers' commission	246	242	2,581
Retentions by licensees (Note 3)	312	307	2,957

Note 1

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

Note 2

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

Note 3 (from Camelot's P&L)

Terminal and data communication costs	105.90
Gross profit	206.90
	312.80

Appendix B – Section 5 licence variations in 2004/2005

Section 5 Operating Licence		
Condition, etc	Effect of Variation	Date Effective
2	Reflected changes in the form of Camelot's core procedures and processes.	3 December 2004
5(5)	Allowed the Commission to waive the requirements of Condition 5(3) ⁷ in relation to National Lottery FastPay™ and Play by Text.	1 October 2004
8, 9, 10 and Schedule 1	Consequential changes of licensing ancillary lotteries. Ancillary lotteries have, to date, taken the form of promotions whereby players buying a ticket for one draw have a chance of being allocated a free ticket for another draw or a free Scratchcard.	20 August 2004
9(24) and 10(11)	Removed restrictions on free tickets in line with revised directions from the Secretary of State.	7 April 2004
22(12)	Removed the requirement for any sub-licences or permissions granted by Camelot to third parties for the use of regulated intellectual property to be in a form approved by the Commission.	25 June 2004
33	Changed the requirements of Condition 33 ⁸ putting greater emphasis to the consideration of general Lottery related ideas, while recognising that approaches from third parties may lead them to apply for independent Section 6 licences.	10 February 2005

Appendix C – Licence breaches recorded between 1 April 2004 and 31 March 2005

Section 5 Licence	
Condition/Schedule	Description
5(1)	Camelot failed to ensure the security of data used in connection with the National Lottery. This breach relates to a specific event that occurred on 2 December 2004. A cupboard containing information about winners within a secure area was not locked.
9(31)	The National Lottery website showed two incorrect figures. The first showed an incorrect figure for the EuroMillions jackpot on 28 May 2004 and the second showed an incorrect figure for the Lotto jackpot on 5 June 2004.
9(31)	The wording on the Euro Winner! 2004 Scratchcard ticket was not consistent with game procedures, and Camelot's quality control processes failed to identify the errors. The Commission continues to monitor Scratchcard games for consistency of procedures.
11(1)	Camelot failed to meet its performance standard requiring 90% of callers to be able to speak to a National Lottery Line representative. The level achieved was 89.43%.
17(12)(b)	In December 2004, the balance of one of the Trust Accounts fell below £4 million, contrary to licence requirements.
33	Following an investigation in June 2004, it became apparent that Camelot was failing to maintain or implement a strategy to encourage potential applicants for an Independent Section 6 licence.
Paragraph 9 of Schedule 1	Camelot made a deduction from monies due to good causes without producing an auditor's certificate which covered all of the issues required under the licence.

7. Condition 5(3) places an obligation on Camelot to ensure that data regarding any lottery that forms part of the National Lottery cannot be accessed by third parties. Condition 5(5) provides that, if Camelot can establish to the Commission's satisfaction that there is no reasonable likelihood of compromise to the security of the National Lottery or any of the proceeds of the National Lottery, the Commission may agree to waive or vary the absolute requirement set out in Condition 5(3).

8. Condition 33 requires Camelot to have a strategy in place for Independent Section 6 licences.

Appendix D – Camelot performance standards

Camelot performance standards		
Description of standard	Standard	Year End Actual
1. General matters		
Payments to Secretary of State	100%	100%
2. Computer Systems		
Terminal sales availability	99.5%	100%
Terminal validation availability	99%	99.96%
3. Retailer Matters		
Response to retailer selection request within 10 working days	95%	92.69%
Response to retailer correspondence within 10 working days	95%	99.60%
4. Player Service		
Response to correspondence by National Lottery Line (NLL) within five working days	95%	99.73%
Resolution of general complaints by players within 10 working days	95%	98.87%
Access to National Lottery Line Voice Response System (NLL VRS) Wednesday (20.00 – 23.00)	90%	100%
Access to NLL VRS Saturday (20.00 – 23.00)	85%	100%
Access to NLL VRS at all other times	97%	100%
Friday (20.00 – 23.00) Access to NLL Representative	80%	98.32%
Saturday (20.00 – 23.00) Access to NLL Representative	80%	89.13%
Access to NLL Representative at all other times	90%	92.17%
Failure to select an option on NLL VRS	<8%	5.11%
5. Prize Payment		
5.1 Normal claims		
Prize claims made in person within one hour	92.5%	99.66%
Prize claims made by post within five working days	95%	99.01%
5.2 Claims requiring investigation		
5.2.1 Draw based		
Resolution of lost, stolen or destroyed tickets within 20 working days	75%	80.60%
Resolution of claims in respect of missing multi-draw exchange tickets within 20 working days	90%	95.98%
Resolution of claims in respect of damaged tickets within 20 working days	95%	98.93%
Resolution of claims in respect of previously validated tickets within 20 working days	90%	93.46%
5.2.2 Scratchcards		
Resolution of damaged tickets within 20 working days	95%	100%
Resolution of claims in respect of stolen tickets/packs within 20 working days	92.5%	99.80%
Resolution of claims in respect of previously validated tickets within 20 working days	95%	98.37%
Investigations within 20 working days	75%	98.87%

Camelot performance standards		
Description of standard	Target	Year End Actual
1. System availability		
Availability to play games	99%	97.52%
2. Customer contact		
Voice contact with customer call centre at the end of the Voice Recognition System (VRS) message within 20 seconds	80%	83.68%
Abandoned calls to customer call centre	<5%	4.05%
Customer contact via e-mail to be answered within 8 working hours of receipt	80%	90.55%
Mail server performance (less than 1% to be bounced by email server due to unavailability)	<1%	0.09%
Response to letters within 5 working days	95%	100%
Contact resolution (enquiries)	80%	98.66%
Acknowledgement of complaints received in writing within 5 working days	95%	100%
Effectiveness of complaint resolution at first attempt	75%	96.34%
Complaint resolution within 10 working days	90%	97.09%
3. Prize payout		
Prizes paid to wallets within 1 hour of win where player opts for this method of payment	100%	100%
Prizes paid to bank accounts	99%	100%
Prizes payable by cheque within 5 working days following the player claiming their prize	95%	100%
4. Resolution of financial disputes		
Resolution of disputed prize claims within 20 working days	95%	100%
Resolution of financial disputes within 20 working days	75%	100%

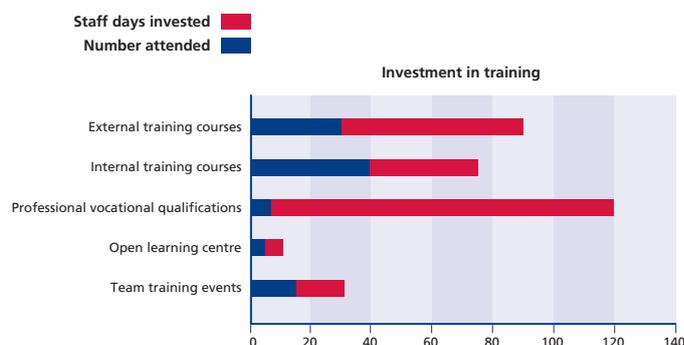
Appendix E – Our performance

Correspondence		
Performance measure	Target	Achieved
Substantive response or acknowledgement to correspondence within 10 working days	95%	97%
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%	100%

Equal opportunities analysis					
Position	Applicants selected for interview			Successful candidate	
	Total	Ethnic Minority	Female	Gender	Ethnic Origin
Compliance IT Manager	2	0	2	F	White
Head of Communications	8	0	4	F	White
Compliance Auditor (x2)	6	2	1	M (X2)	Bangladeshi Indian
Office & IT Manager	5	0	0	M	White
Programme Director	6	0	0	M	White
Director of Licensing	4	0	2	F	White
P&C Directorate Administrator	5	1	4	F	White
Vetting Assistant	4	3	3	F	White
Total	40	6 (15%)	16 (40%)	4M 5F	78% White

Other		
Performance measure	Target	Achieved
Payment of undisputed invoices within 30 working days of receipt	95%	95%
Payment of remaining undisputed invoices within 40 working days of receipt	100%	98%
Return to work interview held within 5 working days	95%	95%
Sickness absence (Civil service average = 9.8 days per year)	7	6.31
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



Accounts

2004/2005

Commission Information

Commissioners Timothy Hornsby (Chairman from 16 October 2004)
Moir Black (Chairman to 15 October 2004,
term of office expired 31 March 2005)
Brian Pomeroy
Harriet Spicer (term of office expired 30 April 2005)
Jo Valentine
Robert Foster (appointed 1 April 2005)
Dr Anne Wright (appointed 1 May 2005)

Chief Executive Mark Harris

Registered Address 101 Wigmore Street, London W1U 1QU

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

The Comptroller and Auditor General was appointed as the statutory auditor under the National Lottery etc Act 1993 (as amended).
Note 7: Notes to the Accounts provides details of the cost of audit services provided by the Comptroller and Auditor General

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

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

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

Solicitors Freshfields Bruckhaus Deringer
65 Fleet St
London EC4Y 1HS

Lawrence Graham
190 Strand
London WC2R 1JN

Foreword

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 by the National Lottery Act 1998.

Functions, duties and powers

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

(a) Functions

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

(b) Duties

- 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
- To impose a financial penalty on the licensee if the Commission is satisfied that the licensee has contravened a condition of its licence under section 5 or 6.

Commission membership

There are five Commissioners, all of whom are appointed by the Secretary of State for Culture, Media and Sport, who also determines their remuneration. Commissioners have corporate responsibility for ensuring that the National Lottery Commission fulfils the aim and objectives set out in legislation and complies with any statutory or administrative requirements for the use of public funds.

See Note 5: Notes to the Accounts

Chief Executive

The Chief Executive was appointed by the Commissioners on a four year fixed term contract, through an open competition process. The process was overseen by DCMS who have a role in ensuring the Chief Executive is suitable to be Accounting Officer. The fixed term contract was renewed for a further two years. In July 2005, the contract became permanent. Should the contract be terminated, this would be done in line with the procedures set out in the Civil Service Management Code.

See Note 5: Notes to the Accounts

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.

Results for the year

The accounts have been prepared in accordance with the Accounts Direction given by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury in accordance with the National Lottery etc Act 1993 (as amended). The surplus for the year was £98,000 with Net Assets at 31 March 2005 of £438,000 (31 March 2004 £414,000). There are no post balance sheet events that may affect the reader's understanding of the accounts. Greater detail can be found in the Accounts and Notes to the Financial Statements.

Pension liabilities

The Commission has a pension liability for a former Director General of OFLOT. The liability for this pension passed from OFLOT to the Commission. Full disclosure can be found in Note 6 to the Accounts.

Review of activities

During the year, the Commission has considered a range of regulatory conditions relating to the launch of Play by Text, National Lottery FastPay™, the availability of tickets via Interactive Digital Television, online subscriptions and the expanded EuroMillions game.

The Commission recorded nine licence breaches during 2004/2005.

The Commission continued its work in protecting the interests of vulnerable groups, ensuring a high quality of service to players of the National Lottery and maintaining effective co-operation with those organisations having an interest in the public impact of gambling.

Greater detail about the work of the Commission during 2004/2005 can be found in the annual report.

Equal opportunities

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

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 2004/2005 the Committee comprised Harriet Spicer (chair to 30 April 2005), Jo Valentine and Brian Pomeroy. From 1 May 2005, Dr Anne Wright was appointed Chair of the Audit Committee.

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 2005, the Commission settled 95 per cent of invoices within 30 days. No interest was paid during 2004/2005 under the Late Payment of Commercial Debts (Interest) Act 1998.

Statement of the Commission's and Chief Executive's responsibilities for the financial statements

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

In preparing the accounts the Commission is required to:

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

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



Mark Harris
Chief Executive
6 July 2005

Statement on Internal Control 2004/2005

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 2005 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

Capacity to handle risk

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

- during the year the structure and content of the NLC risk register has been reviewed. As a result, more detailed operational level risk registers have been agreed for each Directorate. These were drawn up by managers within each Directorate, this work was facilitated by our internal auditors. Directors and managers will own the register for their area of the business – they will have responsibility for updating the register with newly identified risks, changes to the assessment of gross and net risk, changes to the risk management strategy and identification and implementation of action plans to further mitigate risks. Management Group meet and discuss the content of the registers at least three times per year. Members of the group will ensure that risks identified across the organisation are treated consistently and they will be apprised of any new risks that managers have become aware of that have been added to the operational level registers;
- in addition to the operational risk registers, a strategic level risk register has been agreed. It will be the responsibility of the Directors Group to discuss, identify and agree assessment and classification of risks at this level. The strategic risk register will be subject to formal review at least three times per year;
- leadership is given to the risk management process by the work of the Audit Committee – the Committee is responsible for reviewing, at each of their meetings, the risks identified and recorded in the strategic risk register, and the strategy for mitigating risk and any further action planned to further mitigate risk. In addition, members of the Committee will be informed of any changes to the assessment of risk at operational level where either the gross or net risk are classified as high. In these cases the Committee will review the strategy and action plan for mitigation of risk. During 2004/2005, the Committee requested that, during the annual cycle of meetings, they receive a presentation on risk management in each Directorate of the Commission;
- 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; and

- 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.

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 auditor 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
6 July 2005

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 on pages 42 to 55 under the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998). These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 46.

Respective responsibilities of the Commission, the Chief Executive and Auditor

As described on page 37, the Commission and Chief Executive are responsible for the preparation of the financial statements in accordance with the National Lottery etc Act 1993 (as amended) and directions made thereunder by the Secretary of State for Culture, Media and Sport with the consent of HM Treasury and for ensuring the regularity of financial transactions. The Commission and Chief Executive are also responsible for the preparation of the Foreword and other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Lottery etc Act 1993 (as amended) and directions made thereunder by the Secretary of State, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Commission has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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 certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on page 38 reflects the Commission's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Commission's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Commission and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the National Lottery Commission at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998) and directions made thereunder by the Secretary of State for Culture, Media and Sport; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

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

8 July 2005

Income and Expenditure Account for the year ended 31 March 2005

	Note	2004/05 £'000	2003/04 £'000
Income			
Grant-in-Aid	3	4,194	4,154
Other operating income	4	0	6
Transfer from Government grant reserve	14	169	177
		4,363	4,337
Expenditure			
Staff costs	5	1,960	1,811
Administrative expenses	7	1,304	1,266
Other operating costs	8	991	986
Notional cost of capital	9	9	12
		4,264	4,075
Operating surplus/(deficit) after notional costs		99	262
Other finance costs	6	(10)	(9)
Operating surplus/(deficit) after other finance costs		89	253
Reversal of notional cost of capital		9	12
Surplus/(deficit) for financial year		98	265

All activities were continuing in the year
The notes on pages 46 to 55 form part of these accounts

Statement of Total Recognised Gains and Losses for the year ended 31 March 2005

	Note	2004/05 £'000	2003/04 £'000
Surplus/(deficit) for the year		98	265
Prior year adjustment		0	(170)
Actuarial loss	6	(5)	(13)
Total recognised gains and losses relating to the year		93	82

The notes on pages 46 to 55 form part of these accounts

Balance Sheet as at 31 March 2005

	Note	2004/05 £'000	2003/04 £'000
Fixed assets			
Intangible assets	10	96	40
Tangible assets	11	117	243
		213	283
Current assets			
Debtors and prepayments	12	209	278
Cash at bank and in hand		437	314
		646	592
Creditors			
Amounts falling due within one year	13	(245)	(289)
Net current assets/liabilities		401	303
Total assets less current liabilities (before pension liability)		614	586
Pension liability		(176)	(172)
Net assets including pension liability		438	414
Represented by:			
	14		
General Reserve		232	139
Government Grant Reserve		206	275
		438	414



Mark Harris
Chief Executive
6 July 2005

The notes on pages 46 to 55 form part of these accounts

Cash Flow Statement for the year ended 31 March 2005

	2004/05 £'000	2003/04 £'000	
Net cash inflow/(outflow) from operating activities	134	219	
Capital expenditure			
Purchases of intangible fixed assets	(97)	(33)	
Purchases of tangible fixed assets	(2)	(39)	
Financing			
Grant-in-Aid applied towards purchase of fixed assets	99	72	
Other payments			
Payment of pension benefits	(11)	(10)	
Increase/(decrease) in cash	123	209	
Note (i) Reconciliation of operating surplus/(deficit) to net inflow from operating activities			
Operating surplus/(deficit) after notional costs	99	262	
Depreciation and impairment of fixed assets	169	180	
Transfer from Government Grant Reserve	(169)	(177)	
Decrease/(increase) in debtors	69	(52)	
(Decrease)/increase in creditors	(43)	(6)	
Reversal of notional costs	9	12	
Net cash inflow/(outflow) from operating activities	134	219	
Note (ii) Analysis of changes in net funds			
	At 31/3/05 £'000	Cash flow £'000	At 31/3/04 £'000
Cash at bank and in hand	437	123	314

The notes on pages 46 to 55 form part of these accounts

Notes to the financial statements for the year ended 31 March 2005

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 *Executive Non-Departmental Public Bodies: Annual Reports and Accounts Guidance*, insofar as these are appropriate to the National Lottery Commission and are in force for the financial year for which the statements are prepared. The financial statements are prepared under the modified historical cost convention by the inclusion of fixed assets at their value to the business by reference to current costs.

Grants receivable

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

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

Fixed assets

Expenditure on tangible and intangible fixed assets is capitalised for each item which costs more than £2,000. All items of computer equipment forming part of our computer network are capitalised.

Fixed assets are revalued annually by reference to indices published by the Office for National Statistics.

Depreciation and amortisation

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

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

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

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

An inventory of all assets is maintained.

Operating leases

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

Pension policy

The retirement benefit of a former Director General of OFLOT for which the NLC is liable, is provided for under a scheme which is fully analogous to Principal Civil Service Pension Scheme (PCSPS). The retirement benefits of all other eligible staff of the Commission are provided for under the PCSPS.

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 2004/2005, £4.29 million (100 per cent) of the National Lottery Commission's income derived from Grant-in-Aid from the Department for Culture, Media and Sport (2003/2004 £4.23 million, 100 per cent). The Commission is satisfied that there are sufficient liquid resources in the form of cash of £437,000 and the draw down of funds available in the financial year 2005/2006 to cover all current contracted commitments of £245,000 and that the National Lottery Commission is not exposed to significant liquidity risks.

Interest rate risks

Cash balances, which are drawn down from the Department for Culture, Media and Sport to pay administration and other operating costs, are held in an account with the Office of HM Paymaster General, an Executive Agency sponsored by the Treasury. The account is non-interest bearing. The year-end cash balance held by the Commission in the Office of HM Paymaster General Account was £428,000. The Commission considers that there is no exposure to interest rate risks.

Foreign currency risk

The Commission is not exposed to any foreign exchange risks.

3 Grant-in-Aid

	2004/05 £'000	2003/04 £'000
Total Grant-in-Aid received from Department for Culture, Media and Sport (Request for Resources 1)	4,293	4,226
Applied towards purchase of fixed assets	99	72
Total Grant-in-Aid applied towards revenue expenditure	4,194	4,154

4 Other operating income

	2004/05 £'000	2003/04 £'000
Sundry receipts	0	6
	0	6

Notes to the financial statements for the year ended 31 March 2005

5 Staff costs

	2004/05 £'000	2003/04 £'000
Salaries	1,590	1,424
Employer's NIC	137	132
Pension costs	209	192
Temporary staff costs	24	63
	1,960	1,811

Remuneration paid to the Chief Executive, Directors and Commissioners during the year was as follows. Comparative figures for the previous year for the Chief Executive's, Directors' and Commissioners' salaries are shown in brackets:

Name and designation	Salary	Pension contributions	Bonus
	£	£	£
Mark Harris (Chief Executive)	85,111 (83,423)	15,745	12,300
Kingsley Jones (Director) (Note i)	70,254 (76,968)	12,330	3,433
Marta Phillips (Director)	73,104 (71,372)	12,336	1,954
Catherine Forrester (Director)	62,799 (60,858)	11,309	1,954
Clare McCullough (Director)	60,380 (56,437)	9,963	1,954
Annette Lovell (Director) (Note i)	16,232 67,092 full year equivalent (-)	3,003	0
Colin Perry (Director) (note ii)	9,228 58,436 full year equivalent (-)	1,522	0
Timothy Hornsby (Chairman) (Note iii)	23,969 (6,685)	N/A	N/A
Moira Black (Chairman) (Note iii)	22,209 (19,521)	N/A	N/A
Brian Pomeroy (Commissioner)	6,819 (21,774)	N/A	N/A
Harriet Spicer (Commissioner)	6,819 (6,685)	N/A	N/A
Jo Valentine (Commissioner)	6,819 (6,685)	N/A	N/A

Notes

- i) Kingsley Jones retired on 20 February 2005 and Annette Lovell was appointed a Director on 4 January 2005.
- ii) Colin Perry was appointed a Director on 14 February 2005. He is on a three year secondment from the Department for Culture, Media and Sport working on the New Licence project.
- iii) Moira Black was Chairman of the Commission until 15 October 2004. Timothy Hornsby took over as Chairman on 16 October 2004.

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

Name and designation	Real increase in pension	Real increase in lump sum	Pension at end date	Lump sum at end date	Cash equivalent transfer value at 1 April 2004	Cash equivalent transfer value at 31 March 2005	Real pension increase in the year
	£k	£k	£k	£k	nearest £k	nearest £k	nearest £k
Mark Harris (Chief Executive)	0 – 2.5	0 – 2.5	20 – 25	65 – 70	263	291	19
Kingsley Jones (Director) - retired February 2005	n/a	n/a	30 – 35	95 – 100	580	n/a	n/a
Marta Phillips (Director) (i)	0 – 2.5	(20 – 25)	10 – 15	0	156	186	25
Catherine Forrester (Director) (i)	0 – 2.5	(0 – 2.5)	0 – 2.5	0	11	22	11
Clare McCullough (Director)	0 – 2.5	2.5 – 5	10 – 15	30 – 35	116	139	19
Annette Lovell (Director)	0 – 2.5	0 – 2.5	2.5 – 5	7.5 – 10	24	35	10
Colin Perry (Director)	0 – 2.5	0 – 2.5	10 – 15	35 – 40	135	142	6

The Cash Equivalent Transfer Value (CETV) is an actuarially assessed capitalised value of the Pension Scheme Benefits accumulated by a member at a point in time. The real pension increase disclosed has been adjusted to take account of inflation, member contributions and other variations.

(i) 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.

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

	2004/05	2003/04
Chief Executive/Director	5	5
Chief Executive's Office	2	2
Resources	8	8
Compliance	12	11
Licensing	8	8
Performance and Communications	7	7
	42	41

The employee numbers represent staff who are in post.

Notes to the financial statements for the year ended 31 March 2005

6 Pension disclosures

Pension contributions are paid under the Principal Civil Service Pension Scheme (PCSPS). The 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. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2004/2005, employers' contributions of £208,000 (£192,000 in 2003/2004) were payable to the PCSPS at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. For 2005/2006, the salary bands will be revised and the rates will be in a range between 16.2% and 24.6%. The contribution rates reflect benefits as they accrue, not the costs as they are actually incurred, and reflect past experience of the scheme. Employees can opt to open a partnership pension account; a stakeholder pension with an employer contribution. Employers' contributions of £1,000 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 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. Employer contributions of 0.8 per cent 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; this amounted to less than £1,000. There were no contributions due or prepaid to the partnership pension providers at the balance sheet date. There are no additional accrued pension liabilities payable by CSP arrangements to individuals who retired early on health grounds during the year.

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 analogous to the PCSPS (for details see www.civilservicepensions.gov.uk) and is paid directly from the Commission's own funds. In 2001, upon the recipient reaching retirement age, pension payments commenced. In 2004/2005, pension payments of £10,748 were made (2003/2004 £10,455). Under FRS17, the National Lottery Commission is required to show the present value of the liability on its Balance Sheet.

For FRS17 disclosure a valuation has been provided by the Government Actuary's Department who have assessed the liabilities of the scheme as at 31 March 2005 and at 31 March 2004. Scheme liabilities and the expected rate of return are:

Main assumptions

	31 March 2005 per cent per annum	31 March 2004 per cent per annum
Rate of increase in salaries	4.0	3.9
Rate of increase in pension payment	2.5	2.4
Discount rate	6.1	6.0
Inflation assumption	2.5	2.4
	31 March 2005 £'000	31 March 2004 £'000
Present value of scheme liabilities attributable to the NLC	176	172
Total value of liabilities	176	172
Net pension liability attributable to the NLC	(176)	(172)

Amounts included as other finance costs

	31 March 2005 £'000	31 March 2004 £'000
Interest cost on pension scheme liabilities	10	9
Net finance (charge)	10	9

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

	31 March 2005 £'000	31 March 2004 £'000
Actuarial losses arising on pension scheme liabilities	(5)	(13)
Total actuarial loss recognised in STRGL	(5)	(13)

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

	31 March 2005 £'000	31 March 2004 £'000
Surplus/(deficit) at 1 April	(172)	(160)
Finance costs	(10)	(9)
Actuarial gains/(losses)	(5)	(13)
Benefits paid	11	10
Surplus/(deficit) at 31 March	(176)	(172)

History of Experience gains and losses

	31 March 2005 £'000	31 March 2004 £'000
Actuarial losses on liabilities	5	13
Present value of liabilities	176	172
Percentage of the present value of liabilities	3%	8%

7 Administrative expenses

	2004/05 £'000	2003/04 £'000
Legal advice	463	637
Other consultancy costs	545	391
External auditor's remuneration	21	21
Other administrative costs	275	217
	1,304	1,266

Notes to the financial statements for the year ended 31 March 2005

8 Other operating costs

	2004/05 £'000	2003/04 £'000
Accommodation costs	570	563
Personnel costs	212	212
Depreciation and impairment of fixed assets	169	179
Travel and subsistence	40	32
	991	986

9 Notional costs

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

10 Intangible fixed assets

	Software Licences £'000	Total £'000
Fixed assets		
Cost as at 1 April 2004	57	57
Additions	97	97
Disposals	0	0
Revaluation to current cost	(5)	(5)
At 31 March 2005	149	149
Amortisation		
At 1 April 2004	17	17
Charge in year	36	36
Disposal	0	0
At 31 March 2005	53	53
Net book value		
At 31 March 2005	96	96
At 31 March 2004	40	40

11 Tangible fixed assets

	Fitting out costs £'000	Furniture £'000	Computer equipment £'000	Telecoms £'000	Total £'000
Fixed assets					
Cost as at 1 April 2004	162	40	427	16	645
Additions	0	0	2	0	2
Disposals	0	0	(23)	0	(23)
Revaluation to current cost	1	1	(32)	0	(30)
At 31 March 2005	163	41	374	16	594
Depreciation					
At 1 April 2004	46	24	320	12	402
Charge in year	24	14	57	3	98
Disposal	0	0	(23)	0	(23)
At 31 March 2005	70	38	354	15	477
Net book value					
At 31 March 2005	93	3	20	1	117
At 31 March 2004	116	16	107	4	243

12 Debtors

	2004/05 £'000	2003/04 £'000
Trade debtors	0	0
Other debtors	24	29
Repayments and accrued income	185	249
	209	278

All debts are payable within one year.

The Other Debtors include a value of £18,000 in respect of 12 staff with balances left on interest-free, annual season ticket loans (2003/2004 £14,000 for 13 staff). This includes the following Directors:

	Balance of loan brought forward 1 April 2004 £	New loan £	Balance of loan carried forward 31 March 2005 £
Catherine Forrester (new advance made March 2005)	4,012	4,757	4,757
Clare McCullough (new advance made April 2004)	230	2,850	238
Annette Lovell (new advance made February 2005)	0	2,532	2,532

Notes to the financial statements for the year ended 31 March 2005

13 Creditors

	2004/05 £'000	2003/04 £'000
Creditors due within one year		
Trade creditors	31	33
Other creditors	1	1
Accruals	213	255
	245	289

There are no creditors falling due after one year.

14 Movement on reserves

	General Reserve £'000	Government Grant Reserve £'000	Total £'000
At 1 April 2004 as restated	139	275	414
Retained surplus for the year	98		98
Actuarial Loss	(5)		(5)
Grant-in-Aid received towards purchase of fixed assets		100	100
Transfer to Income and Expenditure Account		(169)	(169)
At 31 March 2005	232	206	438

The General Reserve includes an amount of £176,000 (£172,000 2003/2004 restated) in relation to Pension Liabilities as explained in Note 6 Pension Disclosure.

15 Operating leases

At 31 March 2005, the National Lottery Commission was committed to making the following payments during the next year in respect of operating leases.

	2004/05		2003/04	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Operating leases due to expire:				
Within one year	0	0	0	0
Between two and five years	0	22	0	22
After five years	423	0	423	0
	423	22	423	22

16 Related party transactions

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

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

These transactions consist of the following:

- (i) Grant-in-Aid received from the Department for Culture, Media and Sport during the year – see Note 3, and
- (ii) The surrender to the Secretary of State for Culture, Media and Sport of licence fees in the sum of £316,000.

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.

17 Key corporate financial targets

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

18 Intra-government balances

As at the 31st March 2005, the National Lottery Commission had no debtor balances with other government organisations. There was a creditor of £2,000 with OFGEM.

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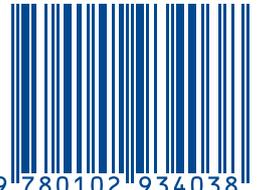
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