



# The Olympic Lottery Distributor

Annual Report and Accounts  
for the year ended  
31 March 2007

Ordered by the House of Commons to be printed on 24 July 2007

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Annual Report presented to Parliament in pursuance of Schedule 5, paragraph 17 of the Horserace Betting and Olympic Lottery Act 2004 and Accounts presented to Parliament on behalf of the Comptroller and Auditor General in pursuance of Schedule 5, paragraph 25 of the Horserace Betting and Olympic Lottery Act 2004.

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## CHAIR'S FOREWORD

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The year covered by this report constituted both the first full year of the life of the Olympic Lottery Distributor and the first year of the permanent Board's stewardship.

In the year we built on the administrative foundations put in place by the Interim Board which was Chaired by Sir Andrew Foster, and we awarded our first grants. These were interim grants totalling £155m to the Olympic Delivery Authority (ODA). The grants were interim in nature as we were awaiting an application for a lifetime grant from the ODA and this cannot be made until the ODA produces a lifetime Corporate Plan. This in turn requires a lifetime budget for the Olympics which was announced by the Secretary of State on 15 March 2007. It is important for sound governance purposes that the corporate planning process is completed as soon as possible and we look forward to receiving an application from the ODA for a lifetime grant and making a decision on grant in the Autumn of 2007.

We have been very impressed by the progress being made by the ODA in creating the facilities necessary for the Games. We are also very glad to hear positive reports of the International Olympic Committee's (IOC's) impressions on the progress being made by the ODA. This good progress on the ground has not stopped the Olympics being the subject of much controversy. Inevitably there has been concern about the increase in the budget of the Olympics. It is not for us to comment on the size of the budget but the fact that the amount of Lottery money at our disposal to support the Olympics will grow to £1,835m, if Parliament agrees, adds to the sense of responsibility we feel to do everything we can to contribute to the delivery of the benefits which the Olympics and Paralympics can bring. The economic, social and sporting goals set out in the bid which won London the right to host the 2012 Games were ambitious and expectations are high. We see no reason currently why our sights should be lowered and, indeed, if we are to ask Lottery players to dig deeper into their pockets we should redouble our efforts and not compromise on our sporting, social and environmental goals.



The Olympic Lottery Distributor is not in the front line when it comes to delivering the Games. We are, however, accountable to Lottery players for what we do with their money. This is a responsibility which all my fellow Board members and our staff feel very strongly. In making money available to the ODA it is, therefore, our duty to assure ourselves that what is being achieved represents value for money and will deliver on the commitments made in winning the bid. This means that we do not simply hand over the money without asking questions and challenging the people who will be using Lottery money. Lottery players have a right to expect us to be a jealous guardian of their money. We will work constructively within the Olympic family but we will maintain our independence and stand ready to ask awkward questions. However, in assuring ourselves we will impose the minimum burden and costs on those responsible for delivering the Games. Balancing proper scrutiny with avoiding extra costs and delay is one of the challenges we face.

In order to fulfil our duty of accountability to Lottery players we will strive to achieve as much transparency as possible whilst respecting a proper degree of confidentiality. We will be a lean, efficient, organisation and minimise the amount of Lottery money we spend on running costs. In the last year we spent less than one third of 1% of our income on running costs.

With two years under our belt and five left to go, we know that many challenges lie ahead. We remain excited and optimistic about what can be achieved by the Olympics and Paralympics and we look forward to the contribution we can make on behalf of players of the National Lottery.

**Janet Paraskeva**



## CHIEF EXECUTIVE'S INTRODUCTION

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The year 2006/07 was one in which the Olympic Lottery Distributor developed considerably. The permanent Board was appointed and a wide range of corporate governance structures were put in place; Accounts Directions were approved as was a Statement of Strategic Purpose; Operational Performance Indicators were established and the Risk Management process was enhanced; the OLD also put in place a set of Financial and Administrative procedures and a Staff Handbook was drafted. Up until 1 December 2006 we relied on staff seconded on a part time basis from the Millennium Commission but since that date we have employed our own staff.

We strengthened our links with other members of the Olympic family and we now sit on a number of relevant committees such as the Olympic Board Steering Group and the Olympic Projects Review Group. Our objective in accessing such committees is to gather information on the progress of the Olympic project in an efficient way. Wherever possible it is our aim to rely on existing information rather than to seek bespoke data. This has enabled us to remain a small efficient organisation.

Our income from the National Lottery has been delivered somewhat ahead of schedule with a total of £112,517m being received in 2006/07.

I am grateful to the Board and my colleagues for all their support in the year.

**Mike O'Connor CBE**



# ANNUAL REPORT

## MANAGEMENT COMMENTARY

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### 1. Background and Functions of the Distributor

The Government introduced the Horserace Betting and Olympic Lottery Bill to Parliament in December 2003 and the Act gained Royal Assent on 28 October 2004. In the event that London was chosen to host the 2012 Olympic Games and Paralympic Games, the Act enabled Lottery games to be dedicated to the London 2012 Olympic Games and Paralympic Games. It also created the necessary structures for holding the proceeds from these Lottery games (the Olympic Lottery Distribution Fund) and a distribution mechanism (the Olympic Lottery Distributor) that would enable those proceeds to be used to meet expenditure in connection with funding the Olympic Games and Paralympic Games.

The Olympic Lottery Distributor was established by a Commencement Order which came into force on 8 July 2005.

*The Olympic Lottery Distributor's remit is to ensure proper, timely and effective distribution of Lottery money to fund any facility, function or service it considers necessary or expedient for the delivery of the 2012 Olympic Games and Paralympic Games.*

The Distributor will monitor grants to ensure they are spent effectively.

## 2. The OLD Board

The Department of Culture, Media and Sport appointed an Interim Board from 5 August 2005, whilst recruiting a permanent Board.


Interim Board:

(shading denotes expiry of office prior to financial year 2006/2007)

<b>Member</b>	<b>Date of Appointment</b>	<b>Date of expiry of office</b>
Jill Barrow	5 August 2005	14 April 2006
Sir Andrew Foster Chair of Board	5 August 2005	28 February 2006
Huw Vaughan Thomas	5 August 2005	14 April 2006
Janet Paraskeva Chair of Board	1 March 2006	14 April 2006
David Ross	5 August 2005	14 April 2006

The permanent Board came into effect from 15 April 2006, and details of the Board are shown below:

<b>Member</b>	<b>Date of Appointment</b>	<b>Date of expiry of office</b>
Janet Paraskeva Chair of Board	1 March 2006	1 March 2010
Hilary Daniels Chair of Audit Committee	15 April 2006	15 April 2010
Sharmila Nebhrajani	15 April 2006	15 April 2010
Sir Craig Reedie Chair of HR and Remuneration Committee	15 April 2006	15 April 2010
David Ross	15 April 2006	15 April 2010



The OLD Board has two committees – an Audit Committee and an HR and Remuneration Committee.

The OLD Board met six times between 1 April 2006 and 31 March 2007 and the Audit and HR and Remuneration Committees each met twice. In addition the Board carried out some work by correspondence.

The OLD Board's work fell into the following main areas:

- To finalise the institution of appropriate governance and administrative procedures to enable the Olympic Lottery Distributor to function as a Non-Departmental Public Body (NDPB);
- To clarify and confirm the OLD's role and the Board's remit and responsibilities in ensuring the fulfilment of that role. As part of this the Board discussed issues around legacy and sustainability and specific applications for funding;


And, importantly:

- To consider and determine applications for grant made by the Olympic Delivery Authority (ODA).

All Board Members have submitted a Register of Interests and they are asked to declare any interests at the start of every Board and Committee meeting. The Register of Interests is held at the Distributor's offices by the Board Secretariat and is open to inspection upon request.

### 3. Internal Governance

The Board has adopted procedures for meetings (standing orders), establishing a quorum of three Board Members with no member holding a casting vote; and a Code of Practice for Board Members.



The Board appointed the Big Lottery Fund's internal audit team as the Distributor's internal auditors for the 2006/07 financial year. Bentley Jennison have been appointed internal auditors with effect from 1 April 2007.

The Accounting Officer has taken steps to make himself aware of any relevant audit information and to establish that the Distributor's auditors are aware of that information. So far as the Accounting Officer is aware, there is no relevant audit information of which the auditors are unaware.

#### 4. Organisational Governance

The OLD was issued with Policy and Finance Directions by the DCMS in February 2006. Copies of both Directions can be found in the appendices.


An outline Funding Policy has been agreed and circulated to statutory consultees.

#### 5. Strategic Consideration

The OLD Board has recognised that the Distributor's primary role is to fund the provision of facilities and supporting infrastructure directly related to the operation of the 2012 Olympic and Paralympic Games as set out in the candidate file which secured the Games for London.

The Olympic Lottery Distributor intends to provide grant in the most efficient way and will minimise procedural and administrative obstacles to the delivery of the Games. The Board is keenly aware of the need to ensure the proper use of Lottery funds and to account to Parliament and the public for its stewardship of Lottery players' money.

The Board considers issues around environmental and social sustainability and the legacy of the Games. It has recognised that there are inherent challenges in the delivery of these aspects of the Olympic Bid but hopes to ensure, as far as possible, when investing Lottery funds that the principles of legacy and sustainability will be maintained.



The OLD Board will ensure that proper accountability is maintained and that OLD expenditure will be minimised.

## 6. Relationships with Stakeholders

The Olympics will be delivered by a variety of organisations in a complex network of relationships and with multiple accountabilities, illustrated in the January 2007 National Audit Office report "Preparations for the London 2012 Olympic and Paralympic Games – Risk assessment and management." This network will evolve and develop over time but it is clear that strong, open relationships with the delivery bodies will be important.

The OLD works closely with all its key stakeholders, particularly its sponsor department (the DCMS), and the ODA. In addition, members of the OLD executive team attend meetings of the OPRG (Olympic Projects Review Group), the OBSG (Olympic Board Steering Group), the OPLG (Olympic Park Legacy Group) and the Olympic Funders' Forum.

## 7. The OLD's Aims and Objectives

The OLD's Strategic Priority as set out in its Outline Funding Policy is:

To assist in the achievement of the four main themes which underpin the 2012 Olympic Games and Paralympic Games:

- ❑ Delivering the experience of a lifetime for athletes;
- ❑ Leaving a legacy for sport in Britain;
- ❑ Benefiting the community through regeneration;
- ❑ Supporting the IOC and IPC and Olympic and Paralympic Movements.

Underpinning this priority are the following Strategic Objectives:

1. To support the delivery of the 2012 Olympic Games and Paralympic Games by funding the provision of the necessary facilities and infrastructure in a manner that:
  - ❑ Is in accord with the fundamental principles of the Olympic Charter, and, in particular, that sport is a




human right which should be available to all, and cannot be reconciled with any form of discrimination;

- ❑ Embraces the concept of environmentally sustainable development, and which complies with applicable environmental legislation and serves to promote the protection of the environment;
  - ❑ Delivers post-Olympic use of venues and other facilities and infrastructures and positive legacies both socially in the local and wider communities and in environmental practices and policies;
  - ❑ Provides the best possible experience for participants, spectators and viewers of the events.
2. To ensure that best value is achieved with Lottery monies.
  3. To ensure that it maximises transparency and accountability.

And the following funding objectives:

Funding is provided by the OLD to support those bodies which are tasked with delivering or implementing the plans of the Olympic Board. In providing this funding, the OLD will actively seek to fund activities related to the implementation of those plans which:

- ❑ Ensure the timely and cost-effective delivery of the 2012 Olympic Games and Paralympic Games;
- ❑ Directly relate to requirements incorporated in the Host City Contract;
- ❑ Contribute to the infrastructure and sports legacy of the Games;
- ❑ Contribute to a legacy that demonstrates social inclusivity;
- ❑ Support wider Community and Regeneration benefits;

- 
- Contribute to the delivery of the Games which are low carbon, zero waste, conserve biodiversity and promote environmental awareness and partnerships.

## 8. Staffing

The work of the Olympic Lottery Distributor is led by a Chief Executive and Accounting Officer, Mike O'Connor. The Chief Executive is supported by a small team. As at 31 March 2007, the total staffing complement of the OLD was 6 (including the Chief Executive).

The OLD will be reviewing its staff against function and need during 2007/08.

## 9. Grant Management in 2006/07


During 2006/07 the OLD made three grant commitments as follows:

Grant to the ODA to cover historic costs incurred prior to its incorporation:	£2.6m
1 <sup>st</sup> Interim Grant to the ODA:	£75m
2 <sup>nd</sup> Interim Grant to the ODA:	<u>£77m</u>
Total commitments:	£154.6m

## 10. Risk

The Statement on Internal Control in the Accounts with this Report sets out further detail on the OLD's treatment of risk.

Key risks have been identified in relation to the need to ensure that grants are made on the basis of proper and timely assessments; that grants are never improperly or irregularly paid; and also that the OLD is able to pay grant requests within an appropriate timeframe. All of these risks would impact significantly on the Olympic project if realised. In addition further operational risks are identified in relation to an adequate staffing structure and compliance with



confidentiality, data protection and Freedom of Information requirements. Mitigating action is in place for all risks. The OLD also recognises that there are a number of risks associated with the Olympic Project which are beyond its control but its policy is to monitor those risks closely.

## 11. Key Performance Indicators

The Olympic Lottery Distributor is required to develop and operate a system for analysing its own administrative efficiency and performance. For 2006/07 the Distributor had put in place the following Key Performance Indicators:

1. To issue payment of compliant requests within ten working days (from receipt). If requests prove to be non compliant, we will refer them back to the grantee within that period.


Performance: During 2006/07, the Distributor took an average of 5.75 days to issue payment of compliant requests. The claim for historic costs is included in this average and required additional deliberation within the Distributor - it took 14 days. All non-compliant requests were referred back on receipt.

2. We will pay agreed invoices within 30 days of invoice date in line with the Better Payment Practice Code.

Performance: During 2006/07, the Distributor agreed 81% of invoices for payment within 30 days of invoice date.

3. The Olympic Lottery Distributor's total lifetime operating expenditure will be less than 1% of its total lifetime income.

Performance: To 31 March 2007, the OLD's cumulative operating expenditure was 0.3% of its cumulative income.

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4. The OLD budget will be approved before the beginning of the financial year to which it relates.

Performance: The 2007/08 budget was approved by the OLD Board on 8 March 2007.

5. To achieve an unqualified external audit opinion on OLD financial statements.

The Annual Accounts for 2005/06 had an unqualified audit opinion.

## 12. Operational Performance


The Distributor's results for the period from 1 April 2006 to 31 March 2007 and financial position at the year-end are set out in the Income and Expenditure Account, Balance Sheet and supporting notes on pages 26 to 37. The accounts have been prepared in accordance with the Accounts Direction given by the Secretary of State for Culture, Media and Sport with the approval of the Treasury, in accordance with Schedule 5(14) of the Horserace Betting and Olympic Lottery Act 2004.

All the Distributor's expenditure is met from the balance held on its behalf in the Olympic Lottery Distribution Fund (OLDF). At 31 March 2007, the market value of balances held by the OLDF was £75,692,000.

Operating expenditure for the year was £350,000 and grant commitments were made of £154,616,000. As detailed in Note 1b) to the Accounts, the Distributor recognises grant commitments made in anticipation of income being received. This results in the Balance Sheet at 31 March 2007 showing total net liabilities of £23,557,000.

**Taxation:** The Olympic Lottery Distributor is liable to corporation tax on income earned from interest paid on commercial bank accounts. In 2006-07 £4,619 was due.

**Post Balance Sheet Events:** Post balance sheet events are detailed in note 16.



**Auditors:** Under the Horserace Betting and Olympic Lottery Act 2004, the Distributor is required to have its financial statements audited by the Comptroller and Auditor General. The cost of the statutory audit is shown in note 6. There were no other audit services provided. The auditor's certificate on the financial statements is shown on pages 24 and 25.

**Employees:** A note of staff at the OLD during 2006/07 is shown earlier in this Management Commentary. The Distributor has a policy on equality of opportunity and this is detailed in the Staff Handbook.

**Pensions:** We are a participating employer in the Principal Civil Service Pension Scheme (PCSPS). Accounting policy Notes 1 e) and 5) disclose how pension liabilities are treated.

**Financial instruments and risk:** Note 14 gives details of the Distributor's exposure.

## 13. Remuneration Report

This report sets out the Distributor's policy on the remuneration of Board Members and the Chief Executive of the Distributor.

### **Board Members: remuneration policy**

The remuneration policy and remuneration rates for members of the Board are set by the Department for Culture, Media and Sport. Board Members do not receive salary or pension remuneration. The Chair of the Distributor was entitled to receive an annual honorarium of £10,200. Other members were entitled to receive an attendance allowance of £104 per half day.

All Members are entitled to be reimbursed for expenses. Expenses regarded by the Inland Revenue as taxable are settled by the Distributor, including any related tax payments, and reported as benefits in the tables below.



## Board Members: remuneration received

The remuneration of Board Members appointed or leaving during the year is included in respect of their period of office only. During the year to 31 March 2007, Board members received £18,324 in allowances and expenses (31 March 2006 £322).

	Amount claimed in 2006-07 £'000	Amount claimed in 2005-06 £'000
Janet Paraskeva	10-15	0 - 5
Hilary Daniels	0 - 5	
Sharmila Nebhrajani	0 - 5	
Craig Reddie	0 - 5	
David Ross	-	-
Jill Barrow	-	0 - 5
Huw Vaughan Thomas	-	0 - 5

Audited information

## Directors: remuneration policy

The Board has established an HR and Remuneration Committee to consider and agree the terms and conditions of employment for the Chief Executive and review these annually. This includes reviewing pay and considering performance against annually agreed objectives. For 2006/07 a performance related non-consolidated bonus can be awarded to the Chief Executive from a pot representing up to 16% of salary.

As a normal requirement of sponsorship the Board consults the Department for Culture, Media and Sport on the Chief Executive's pay, terms and conditions and uses the NDPB model contract of employment to set terms including contract and notice periods.

All Members of the Board are Members of the HR and Remuneration Committee but a Board Member other than the Chair of the Olympic Lottery Distributor chairs the Committee. The Committee operates within written terms of reference and has met twice during the year.

## Directors: remuneration received

Mike O'Connor was seconded from the Millennium Commission as Interim Chief Executive and Accounting Officer for the Distributor from 19 September 2005 to 30 November 2006, in addition to his existing responsibilities for the Millennium Commission. During the year the Commission charged £51,391 (2005/06: £26,000) in respect of work he performed for the Distributor.

He was appointed by the Board as Interim Chief Executive from 1 December 2006 to 28 February 2007 and was appointed on a permanent basis from 1 March 2007 on a fixed term contract which expires December 2010.

	Salary 2006/7 £'000	Pension 2006/7 £'000	Bonus 2006/7 £'000	Total 2006/7 £'000	Total 2005/6 £'000
Mike O'Connor (Chief Executive)	50	3	7	60	-
Audited information					

## Pension benefits

Details of the pension entitlements for senior staff:

	Accrued pension at 31 March 2007 £'000	Pension increase in the year 2006/7 £'000	Cash equivalent transfer value (CETV) at 31 March 2007 £'000	Cash equivalent transfer value at 31 March 2006 £'000	Real increase in employer funded CETV 2006/7 £'000
Mike O'Connor (Chief Executive)	0 - 5	0 - 2.5	2	0	2
Audited information					

## Mike O'Connor CBE Chief Executive and Accounting Officer

Date: 12 July 2007



## ANNUAL ACCOUNTS

### Statement of the Board and the Chief Executive's Responsibilities

Under Schedule 5 para 25 (1) to the Horserace Betting and Olympic Lottery Act 2004, the Olympic Lottery Distributor is required to prepare a statement of accounts for the financial period in the form and on the basis directed by the Secretary of State for Culture, Media and Sport.

The accounts are prepared on an accruals basis and must show a true and fair view of the Olympic Lottery Distributor's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the Distributor's accounts, the Accounting Officer must comply with the requirements of the Government Financial Reporting Manual and in particular to:

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



The Accounting Officer for the Department for Culture, Media and Sport has designated the Chief Executive of the Distributor as the Accounting Officer for the Distributor. The Chief Executive's relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the finances 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' (TSO), and in the Financial Directions issued by the Secretary of State for Culture, Media and Sport under Schedule 5 paragraph (14) (2) to the Horserace Betting and Olympic Lottery Act 2004.

**Mike O'Connor CBE**  
**Chief Executive and Accounting Officer**

Date: 12 July 2007



## Statement on Internal Control

### **Scope of responsibility**

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Olympic Lottery Distributor's policies, aims and objectives, as set out by the Board. It is also my duty to safeguard public funds and Distributor assets for which I am personally responsible, in accordance with the responsibilities assigned to me in 'Government Accounting' to ensure compliance with the requirements of the Distributor's Financial Directions.

### **The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to 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 risks to the achievement of organisational 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 in the Olympic Lottery Distributor since 1 December 2006 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

Prior to this, the Executive work of the Distributor was handled by the Millennium Commission. During this time, the Distributor relied on the Commission's system of internal control for which I was also responsible. The system of internal control was in place in the Millennium Commission from 1 April to 30 November 2006 and accorded with Treasury guidance.

### **Capacity to handle risk**

A risk management process was developed during 2006/07 and will be further refined in 2007/08. It captures risks identified by staff and a management assessment of the likelihood and impact of occurrence. Steps to mitigate against each risk are recorded on the register and risks are colour coded to aid prioritisation. The risk register is presented to the Distributor's Audit Committee. The risk management process involves all staff in understanding and managing risks in their areas of responsibility.




## **The risk and control framework**

The system of internal control is based on a set of policies and financial and administrative procedures in line with Policy and Financial Directions set by the Secretary of State. The Distributor has also established the following processes:

- A Board which has a code of practice including a policy on declaration and registration of interests. The Board is responsible for strategic planning and direction, approving the annual report and accounts and ensuring the Olympic Lottery Distributor fulfils its obligations as an employer.
- An Internal Audit function that operates to standards defined in the Government Internal Audit Manual and whose programme of work is agreed and monitored by the Audit Committee. Internal auditors base their annual internal audit plans on an analysis of risk to which the Olympic Lottery Distributor is exposed. They submit an annual report which includes Internal Audit's independent opinion on the adequacy and effectiveness of the Distributor's system of internal control together with recommendations for improvement.
- An Audit Committee chaired by a member other than the Chair of the Distributor, with agreed terms of reference. The Committee receives and reviews internal and external audit reports and the adequacy of management responses to issues identified by audit activity. It also reviews the effectiveness of the Distributor's internal control system, including review of the risk management policy and risk register.

## **Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and managers within the Distributor 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 Board and Audit Committee and a plan to address weaknesses is in place.



Internal Audit completed their planned programme of work for the year ended 31 March 2007 and did not identify any significant control weaknesses that were considered to be pervasive in the effects on the system of internal control. Although Internal Audit identified some process control weaknesses they were able to give 'moderate' assurance on the design, adequacy and effectiveness of the system of internal control. This should be viewed in the context of the range of options available to them namely 'full', 'moderate', 'limited' or 'no assurance'.

In producing this statement, I have reviewed and discussed with the Board the scope, authority and resourcing of Internal Audit and the Internal Audit Annual Assurance Report.

**Mike O'Connor CBE**  
**Chief Executive and Accounting Officer**  
Date: 12 July 2007

## **THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT AND THE SCOTTISH PARLIAMENT**

I certify that I have audited the financial statements of the Olympic Lottery Distributor for the year ended 31 March 2007 under the Horserace Betting and Olympic Lottery Act 2004. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

The Board and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Horserace Betting and Olympic Lottery Act 2004 and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Board and Chief Executive's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Horserace Betting and Olympic Lottery Act 2004 and directions made thereunder. I report to you if, in my opinion, certain information given in the Annual Report, which comprises the Chair's Foreword, Chief Executive's Introduction and the Management Commentary, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

### **Basis of audit opinion**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration

Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Board and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Olympic Lottery Distributor's circumstances, consistently applied and adequately disclosed.

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

## **Opinions**

### **Audit Opinion**

In my opinion:

- the financial statements give a true and fair view, in accordance with the Horserace Betting and Olympic Lottery Act 2004 and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury, of the state of the Olympic Lottery Distributor's affairs as at 31 March 2007 and of its decrease in funds for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Horserace Betting and Olympic Lottery Act 2004 and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury; and
- information given in the Annual Report, which comprises the Chair Foreword, Chief Executive's Introduction and the Management Commentary, is consistent with the financial statements.

### **Audit Opinion on Regularity**

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

### **Report**

I have no observations to make on these financial statements.

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

**Date 16 July 2007**

## Income and Expenditure Account for the year to 31 March 2007

	Notes	£'000	2006-07 £'000	2005-06 £'000
Proceeds from the National Lottery	2		112,517	16,315
Investment income on balances at the Olympic Lottery Distribution Fund	2		2,435	171
Bank interest receivable			24	-
<b>Total income</b>			<b>114,976</b>	<b>16,486</b>
Grant commitments made	8		154,616	-
Employee costs	3	165		0
Other operating costs	6	185		49
<b>Total operating expenditure</b>			<b>350</b>	<b>49</b>
<b>Total expenditure</b>			<b>154,966</b>	<b>49</b>
(Decrease)/Increase in funds before tax			(39,990)	16,437
Corporation tax due on interest income	7		(4)	-
<b>(Decrease)/Increase in funds after tax</b>			<b>(39,994)</b>	<b>16,437</b>

The Olympic Lottery Distributor has no recognised losses or gains other than those included in the above income and expenditure account. Consequently no separate statement of recognised gains and losses has been prepared. There are no discontinued activities.

The notes on pages 29 to 37 form part of these accounts.

## Balance Sheet as at 31 March 2007

	Notes	£'000	2006-07 £'000	2005-06 £'000
<b>Current assets</b>				
Balance in Olympic Lottery Distribution Fund	2		75,692	16,453
<b>Creditors: amounts falling due within one year</b>				
Overdrawn cash balance held by the Big Lottery Fund	1	82		0
Grant commitments	8	99,136		0
Creditors	9	<u>31</u>		<u>16</u>
			99,249	16
<b>Net (liabilities)/assets</b>			<b><u>(23,557)</u></b>	<b><u>16,437</u></b>
<b>Represented by:</b>				
Income and Expenditure Reserve	12		<b><u>(23,557)</u></b>	<b><u>16,437</u></b>

The accounts were approved by the Board of the Olympic Lottery Distribution Fund on 12 July 2007 and signed on their behalf by:

**Mike O'Connor CBE**  
**Chief Executive and Accounting Officer**  
 Date: 12 July 2007

**Janet Paraskeva**  
**Chair**  
 Date: 12 July 2007

## Cash flow statements for the year to 31 March 2007

### Reconciliation of (decrease)/increase in funds to net cash inflow from operating activities

	2006-07 £'000	2005-06 £'000
(Decrease) / Increase in funds	(39,994)	16,437
Interest receivable	(24)	0
Increase in Olympic Lottery Distribution Fund balance	(59,239)	(16,453)
Increase in hard commitments	99,136	0
Increase in creditors	15	16
<b>Net cash (outflow)/inflow from Operating Activities</b>	<b>(106)</b>	<b>0</b>

### Cash flow Statement

	2006-07 £'000	2005-06 £'000
Cash received from Olympic Lottery Distribution Fund	55,713	33
Cash payments re grant commitments	(55,480)	
Cash payments to suppliers	(179)	(33)
Cash payments to and on behalf of employees	(160)	
<b>Net cash (outflow)/inflow from Operating Activities</b>	<b>(106)</b>	<b>0</b>
<b>Return on investments</b>	<b>24</b>	<b>0</b>
Interest received		
<b>Taxation</b>		
Taxation paid	0	0
<b>(Decrease)/Increase in cash</b>	<b>(82)</b>	<b>0</b>

### Reconciliation of net cash flow to movements in net funds (note 13)

	2006-07 £'000	2005-06 £'000
Net cash (outflow)/ inflow for the year	(82)	0
Other changes	(39,912)	16,437
Net funds at 1 April 2006	16,437	0
<b>Net (debt)/funds at 31 March 2007</b>	<b>(23,557)</b>	<b>16,437</b>



## Notes to the Accounts

### 1. Accounting Policies

#### (a) Conventions

The accounts have been prepared under the historical cost convention as modified by the revaluation of current asset investments at their value to the business by reference to current costs where these are materially different to their value under the historical cost convention. They have been prepared in a form directed by the Secretary of State with the consent of Treasury on 31 July 2006 in accordance with Paragraph (14)(2)(f) of Schedule 5 to the Horserace Betting and Olympic Lottery Act 2004. A copy of the Accounts Direction is at Appendix 3.

Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act 1985 and Accounting Standards issued or adopted by the Accounting Standards Board in so far as they are appropriate.

#### (b) Going concern

The annual accounts have been prepared on a going concern basis. Although the Olympic Lottery Distributor (OLD) is showing significant net liabilities, the Distributor is not insolvent. Grant commitments must be recognised in the OLD balance sheet at the date of acceptance. Although income to meet the commitment cannot be anticipated in the accounts, it is forecast that it will be received in time to meet any payments. In addition, all grant agreements state the ability of the OLD to provide grant is dependant on the continued operation of the National Lottery and allocations to the OLD. Should that source of funding cease, the OLD may terminate its commitment to pay grant.

#### (c) Bank balance held by the Big Lottery Fund

The bank balance of the Olympic Lottery Distributor is operated by the Big Lottery Fund as our agent. This is to minimise transaction costs and improve financial control. At 31 March 2007 the overdrawn balance of £82,490 was made up of £74,263 cash held in the Distributor's account with the Big Lottery Fund, less £156,753 of recharges due to the Big Lottery Fund for amounts paid on the Distributor's behalf.



**(d) Olympic Lottery Distribution Fund**

Balances held in the Olympic Lottery Distribution Fund (OLDF) remain under the stewardship of the Secretary of State for Culture, Media and Sport. However, the share of these balances attributable to the Olympic Lottery Distributor is as shown in the Accounts and, at the Balance Sheet date, has been certified by the Secretary for State of Culture, Media and Sport as being available for distribution by the Distributor in respect of current and future commitments.

**(e) Pension fund**

We are a participating employer in the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme and the Olympic Lottery Distributor is unable to identify its share of the underlying assets and liabilities. We have therefore accounted for the scheme as if it were a defined contribution scheme in accordance with FRS 17 *Retirement Benefits* with the costs of the scheme charged to the income and expenditure account.

**(f) Soft and hard grant commitments**

Hard commitments are defined as a firm offer of grant which, together with appropriate conditions, has been accepted by the recipient. Soft commitments are defined as the potential commitment on projects for which the Board has given approval to issue a grant offer but where an offer has not been accepted.

The entire hard commitment due over the life of a grant is recognised as expenditure in the income and expenditure account in the year in which the grant offer is accepted. Details of soft commitments are disclosed in Note 8 to the accounts.

Hard commitments payable within one year of the balance sheet date are recognised as current liabilities. Those payable more than one year from the balance sheet date are shown as grant commitments over one year.

2. **Proceeds from Lottery games dedicated to the London 2012 Olympic Games and Paralympic Games**

	<b>2006-07</b>	<b>2005-06</b>
	<b>£'000</b>	<b>£'000</b>
Opening balance held by the OLDF as at 1 April	16,453	
Proceeds from the Lottery	112,517	16,315
Investment returns on the OLDF	2,435	171
Cash drawn down	(55,713)	(33)
Unrealised losses	0	0
<b>Closing balance held by the Olympic Lottery Distribution Fund at market value</b>	<b>75,692</b>	<b>16,453</b>

3. **Employee information**

	<b>2006-07</b>	<b>2005-06</b>
	<b>£'000</b>	<b>£'000</b>
Employee costs were as follows:		
Wages and salaries	121	0
Employer's pension contributions	4	0
Social security costs	12	0
Temporary staff including secondments	28	0
<b>Total employee costs</b>	<b>165</b>	<b>0</b>

From 8 July 2005 to 30 November 2006, the Distributor had no employees. Staff input was provided by the Millennium Commission during this period and is included in Note 6 - Other operating costs. For 2006/07 the Commission charged the Distributor £77,650 for this support (2005/06 - £36,000).

4. **Employee numbers**

	<b>2006-07</b>	<b>2005-06</b>
Permanent and fixed term contract staff	1.7	-
Temporary staff including secondments	0.3	-
<b>Average fte employees in year</b>	<b>2.0</b>	<b>-</b>

Staff input provided by the Millennium Commission for the year 2006/07 was the equivalent of 0.8 staff (2005/06 - 0.3 staff).

## 5. Pensions

The Olympic Lottery Distributor is a participating employer in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded defined benefit scheme. The scheme actuary last valued the scheme as at 31 March 2003. Full details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2006/07, employer's contributions of £4,119 were payable to the PCSPS (2005/06 £nil) at one of four rates in the range 17.1% - 25.5% of pensionable pay, based on salary bands (the rates in 2005/06 were between 16.2% and 24.6%). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007/08, the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006/07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can alternatively opt to open a partnership pension account, a stakeholder pension with an employer contribution. At the balance sheet date no employees of the Olympic Lottery Distributor had opted to open a partnership pension account and employers' contributions of £nil were paid during 2006/07 (2005/06 - £nil).

## 6. Other operating costs

	2006-07	2005-06
	£'000	£'000
External Audit	11	8
Board members' remuneration and expenses	20	0
Insurance	1	0
Other expenses	76	5
Recharges from the Millennium Commission	77	36
<b>Total other operating costs</b>	<b>185</b>	<b>49</b>

## 7. Corporation Tax

The Distributor pays tax on bank interest received. Interest earned on money held on the Distributor's behalf in the Olympic Lottery Distribution Fund is not taxable.

The tax charge for the year is £4,619 (2005/06 - £nil).

## 8. Soft and hard commitments: Due within one year

Grant commitments made in the period 1 April 2006 to 31 March 2007 are all due within one year and consist of:

	2006-07 £'000	2005-06 £'000
Hard commitments b/fwd	0	0
Commitments made in the period to the Olympic Delivery Authority	154,616	0
Commitments paid in the period	(55,480)	0
De-commitments made in the period	0	0
<b>Hard commitments c/fwd</b>	<b><u>99,136</u></b>	<b><u>0</u></b>

The charge to the Income and Expenditure Account for hard commitments made in the year is £154,616,153 (31 March 2006 - £nil).

There were no soft commitments at the 31 March 2007 (31 March 2006 - £nil).

## 9. Creditors: Amounts falling due within one year

	2006-07 £'000	2005-06 £'000
BIG Lottery Fund	11	0
Millennium Commission	0	8
Taxation, pension and social security costs	9	0
Other creditors and accruals	11	8
<b>Total creditors due within one year</b>	<b><u>31</u></b>	<b><u>16</u></b>

There are no amounts included in the above falling due after more than one year.

## 10. Capital commitments

There were no contracted capital commitments at 31 March 2007. (31 March 2006 Enil).

## 11. Leases

There were no commitments under non-cancellable operating leases at 31 March 2007 (31 March 2006 Enil).

## 12. Movement in Income & Expenditure Reserve

	2006-07 £'000	2005-06 £'000
Opening income & expenditure reserve	16,437	0
Transferred from income & expenditure account	(39,994)	16,437
Closing income & expenditure reserve	<u>(23,557)</u>	<u>16,437</u>

## 13. Analysis of Changes in net funds/(debt)

	At 1 Apr £'000	Cash flows £'000	Other changes £'000	At 31 Mar £'000
Overdrafts	0	(82)	0	(82)
Debt due within 1 year	(16)		(99,151)	(99,167)
Current asset investments	16,453		59,239	75,692
Total	<u>16,437</u>	<u>(82)</u>	<u>(39,912)</u>	<u>(23,557)</u>

## 14. Financial instruments

FRS13, Derivatives and other financial instruments, requires disclosure of the role which financial instruments have during the year in creating or changing the risks the Olympic Lottery Distributor faces in undertaking its activities.



### Liquidity risks

In 2006/07, 97.86% of the Olympic Lottery Distributor's income was derived from the National Lottery. The remaining income came from investment returns from the balance held with the Olympic Lottery Distribution Fund (2.12%), and from bank interest (0.02%).

At the balance sheet date the Olympic Lottery Distributor had net liabilities of £23,557,000. Payment of grant liabilities of £99,136,000 is dependent on sufficient income being received into the Olympic Lottery Distribution Fund.

### Cash flow projections over the next financial year

We do not believe that we are exposed to significant liquidity risks, and are satisfied that we have sufficient current liquid resources to cover our projected payments over the next financial year.

### Liquid assets as at 31 March 2007

£'000

Market value of Olympic Lottery Distribution Fund investments	75,692
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### Interest rate risk

In accordance with the Horserace Betting and Olympic Lottery Act 2004, National Lottery income receivable by the Olympic Lottery Distributor is passed by the Olympic Lottery Distribution Fund to the Commissioners for the Reduction of National Debt who invest the income in a narrow band of low risk assets such as government bonds and cash. The Olympic Lottery Distributor has no control over the investment of funds on its behalf. The management of the Olympic Lottery Distribution Fund meets with representatives of the Commissioners for the Reduction of National Debt on a regular basis to manage risks associated with the investment of these monies.

At the balance sheet date the market value of the Olympic Lottery Distributor's share of the Olympic Lottery Distribution Fund was £75,692,000. In the year the average return on these investments was 4.916%.

Cash balances which are drawn down by the Olympic Lottery Distributor from the Fund to pay grant commitments and operating costs are held by the Big Lottery Fund on our behalf in an instant access variable rate bank account, which carried an interest rate of 4.375% during the year. We consider that we are not exposed to significant interest rate risks on our cash balances.

**Foreign currency risk**

The Olympic Lottery Distributor is not exposed to any foreign exchange risks.

**15. Related party transactions**

**Board members and directors**


The Olympic Lottery Distributor maintains publicly available registers in which Board members and staff declare their Interests including any direct interests in grant applications made to and commercial relationships with the Olympic Lottery Distributor. There were no interests in grant recipients declared for the year ended 31 March 2007.

**Other government bodies**

The Department for Culture, Media and Sport (DCMS) is the sponsoring department for the Olympic Lottery Distributor and is regarded as a related party. At the year end the Olympic Lottery Distributor had the following grant balances outstanding with other entities for which the Department is regarded as the parent body.

	Grant offered year ending 31 Mar 2007	Creditor at 31 Mar 2007
	£'000	£'000
Olympic Delivery Authority	154,616	99,136
	<u>154,616</u>	<u>99,136</u>

The Big Lottery Fund provided the Distributor with internal audit and support services on a repayment basis during 2006/07. Total costs recharged by the Big Lottery Fund were £35,976. (2005/06 - £nil). A creditor balance of £10,538 was outstanding at the year end.



The Millennium Commission provided the Distributor with support services on a repayment basis between April and November 2006. Total support services costs recharged by the Millennium Commission were £77,650 (2006 - £36,000). There was no balance outstanding at the year end.

Arts Council England provided the Distributor with a seconded member of staff on a repayment basis between January and March 2007. Total costs recharged were £19,750 (2006 - nil). There was no balance outstanding at the year end.

16. **Post balance sheet events**

These accounts were authorised for issue by the Board of the Olympic Lottery Distributor on the 12 July 2007. There were no post balance sheet events.

**FINANCIAL DIRECTIONS ISSUED UNDER PARAGRAPH 14 OF SCHEDULE 5 TO THE HORSERACE BETTING AND OLYMPIC LOTTERY ACT 2004**

The Olympic Lottery Distributor shall comply with the requirements contained within the attached Statement of Financial Requirements, which have the status of directions under paragraph 14 of schedule 5 to the Horserace Betting and Olympic Lottery Act 2004 ("the Act"). The Statement of Financial Requirements complements, and should be read in conjunction with, the Olympic Lottery Distributor's Management Statement, which deals with corporate governance and management matters.

Signed by authority of the Secretary of State for Culture, Media and Sport

**ANDREW RAMSAY**

**Director General, Economic Impact**

Department for Culture, Media and Sport

**STATEMENT OF FINANCIAL REQUIREMENTS (SFR)**

**OLYMPIC LOTTERY DISTRIBUTOR**

*This Statement of Financial Requirements is effective from 1 February 2006*

Introduction

1. This statement complements the OLD's Management Statement (MS). Its context is the OLD's enablement to fund the running costs and the capital costs of the 2012 Olympics. It also complements and should be read in conjunction with the Accounts Directions issued to the OLD under paragraph 14(2)(f) of Schedule 5 to the Act, with any policy directions issued to the OLD under paragraph 14(1) of Schedule 5 to the Act, with other appropriate guidance such as that contained in "Dear Accounting Officer" letters, and with any guidance on matters such as fraud issued from time to time by DCMS.
2. The OLD must operate within the principles of administrative law. Lottery proceeds are public monies and shall be used only to make grants and loans in connection with successful Lottery applications or with 'allocated' Lottery awards of the type referred to in paragraph 4 of this SFR, or to defray administration expenses incurred in the distribution of those funds (including those connected with delegation of Lottery distribution). The OLD should have regard to value for money, and to additionality principles, in all aspects of its administration of Lottery funds.
3. Risk management principles should be applied to all aspects of the OLD's activities. Systems of internal control deployed by the OLD should be designed to manage risk to a reasonable level rather than eliminate all risk of failure to the achievement of policies, aims and objectives. Systems of internal control should be based on an ongoing process to identify and prioritise the principal risks to the OLD not achieving its objectives, to evaluate the likelihood and impact of those risks and to manage them efficiently, effectively and economically.

#### Applications and Allocation of grants

4. The OLD may distribute funds in response to applications, but need not give detailed consideration to applications that are clearly outside the scope of the powers given to it by section 30, and Part 3 of Schedule 5, to the Act; nor to any application that is clearly inconsistent with the provisions of any distribution policy prepared by the distributor under section 31(1) of the Act. It should be prepared to explain these limitations clearly to potential external applicants. The OLD may also, where it is clear that there are strategic benefits to be gained, distribute funds on the basis of funding arrangements without the need for open applications. In such cases, the OLD must allocate grants according to clear, set and transparent formulae or criteria agreed in advance by the OLD's Board, which should be made publicly available. Separate internal procedures, and a decision-making process, for allocating grants should be established. These procedures and processes should be designed to avoid creating a system of allocation that could be construed as being unfair, random or arbitrary and should ensure that those involved in making decisions avoid actual or perceived conflicts of interest.
5. The OLD may exercise as it sees fit, putting suitable management and accountability arrangements in place according to its estimation of the risks involved, its power under the Act to delegate, internally or externally, decisions as to whom Lottery money is to be distributed. It may solicit applications.
6. The OLD should ensure that, where appropriate, applicants are informed of the circumstances in which they will have to satisfy European Union (EU) and World Trade Organisation (WTO) procurement rules. Links to the appropriate websites are included in the schedule attached to this SFR listing relevant Government and other guidance.
7. The OLD should adopt appropriate policies for the appraisal of applications or the issue of 'allocated' grants depending on the nature, size and complexity of the project proposed. These should follow the best current practice and utilise, where appropriate, the Treasury "Green Book" and the Office of Government Commerce's Project Profile Model (PPM), used to determine the need for Gateway reviews. Where consistent with purposes of a proposed award, the OLD may rely on appraisals undertaken by the ODA, provided the OLD is satisfied with the adequacy of the ODA's procedures in this respect.
8. The OLD should collect what information it considers appropriate on each application it receives, and on each successful application. It should supply such information to the Secretary of State as and when requested. The OLD should also supply whatever financial information the Secretary of State requests, provided it is in the OLD's power to do so. This should include information on a quarterly basis on expected future drawdown requirements from the Olympic Lottery Distribution Fund (OLDF). It should have effective measures in place to detect and counteract fraud in relation to all its distribution activities, and it should share information on applications with other distributing bodies where it judges that there is a significant risk that an applicant could fraudulently apply to more than one body. The OLD should keep a record of all frauds and thefts discovered and report them to the Department as specified in any guidance of the type referred to in paragraph 1 of this SFR.

#### Successful applications and payments of grant

9. The terms and conditions with which each grant or loan recipient must comply should be clearly set out. These should include a provision that the grant can be clawed back if there is a change of use from the one originally intended, and/or that an appropriate

proportion of the value of the asset should be repaid; and a provision that Lottery finance can be guaranteed only to the extent that the National Lottery continues to operate and the OLD continues to receive sufficient funds from it. They should also include a provision for access by the Comptroller and Auditor General; requirements for the applicant to pay to the OLD a share of the proceeds from the disposal of assets (including their transfer to the private sector) purchased or enhanced with the assistance of Lottery funding; and for the applicant to repay the grant in full or in part if any of the grant conditions are breached, including instances where the purpose for which the grant was made is not fulfilled, or seems unlikely to the OLD to be fulfilled. The OLD may vary the terms and conditions of a grant or loan by written agreement with the recipient.

10. The OLD may waive such requirements and 'write off' the grant if it considers that this would be appropriate having regard to all the circumstances. However, write-offs totalling £50,000 or more in a single financial year must be reported to the Secretary of State.
11. Grants paid to successful applicants must come from a separate bank account(s) maintained specifically for the transfer of funds from OLF to approved projects. This, the Distributing Body's Lottery Account(s) (DBLA(s)), should also be used to cover any costs incurred in administering the Lottery by the OLD or any delegates.
12. The OLD may hold funds for a short time in DBLA(s) (which may be an interest-bearing instant access account) but may not otherwise invest Lottery money on its own behalf. Draw down requests should reflect the OLD's best estimate of the amount needed during the following period, and should normally be made once per month, though the OLD may vary this period by agreement with its sponsor division in DCMS if the OLD considers that this would better meet business needs. The DBLA(s) should not be overdrawn at any time. The OLD must not have a bank overdraft or borrow money in any other way.
13. Grants should not normally be issued to successful applicants in advance of need. However, the OLD can and should have regard to the flexibility provided for in relevant DCMS and other Government advice and guidance. The OLD should also bear in mind the need to release funds without undue delay so that the applicant can pay bills promptly in accordance with best commercial practice.
14. Funds may be paid in advance to successful applicants to meet anticipated costs where the applicant would not (or it can be reasonably assumed that the applicant would not) otherwise have sufficient working capital to carry out the project in question. The OLD should develop internal guidelines on the periods for which funds may be advanced, which should ensure that once funds are advanced they are not left unused for long periods.
15. The OLD should set up appropriate arrangements for monitoring and evaluating projects both while they are in progress and after completion.

#### **General administrative and financial matters**

16. The Chief Executive of the OLD is normally designated as the Accounting Officer for the Lottery funds under the OLD's control, and the responsibilities are set out in the Accounting Officer's appointment letter. In addition to satisfying him/herself on an ongoing basis of the adequacy of the OLD's internal control systems, as reflected in the annual Statement on Internal Control, the Accounting Officer should seek assurance at appropriate intervals that the OLD's administrative and financial systems as a whole remain adequate for the purpose of discharging the OLD's Lottery distribution functions. He/she should notify the Head of the OLD's

sponsoring division in DCMS if he/she has any reason to doubt that this is the case. The Accounting Officer is also responsible for signing the accounts for the OLD's Lottery distribution activities, and for ensuring that:

- Lottery money is distributed with due regard to regularity and propriety;
  - Bodies engaged as partners or agents for the purpose of processing Lottery applications and paying funds, or delegated to make decisions on the OLD's behalf, are fit and proper and have established appropriate management arrangements;
  - Lottery money is used economically, efficiently, and effectively even though grant decisions may have been delegated to an outside person, organisation or committee.
  - Cases of significant fraud are reported to the police, and, as appropriate, to the Serious Fraud Office and other authorities.
17. The OLD will devise and implement appropriate indicators for analysing its own administrative efficiency and performance. These should be agreed with its sponsor division in the DCMS. Performance measures, and targets for them, should be included in the annual business/operational plans.
  18. In making forward commitments the OLD must have due regard to past and projected income flows and, to the extent that these are within its control, to the need to keep its cash balance in the OLDF to a level which is consistent with safeguarding its commitments.
  19. The Accounting Officer should make sure an effective internal audit service for the OLD is in place, operating to standards defined in the Government Internal Audit Manual. He/she should send a copy of the OLD's Annual Internal Audit Report to its sponsoring division in the DCMS by 30 June each year.
  20. The Comptroller and Auditor General is the statutory auditor of the OLD's accounts. The OLD's statement of accounts, along with the books, documents or papers of the OLD that relate to them, shall be open to inspection by the Comptroller and Auditor General and to any persons so authorised by the Secretary of State.
  21. The Accounting Officer is responsible for ensuring that the OLD's banking arrangements meet the requirements of Government Accounting and are carried out efficiently, effectively, and economically.
  22. The OLD must maintain an asset register for its Lottery related operations, which should include details of those capital assets valued above the capital threshold agreed with the NAO that are employed in the administration of the Lottery.
  23. The OLD must not issue any guarantee, indemnity, or letter or statement of comfort which creates a financial commitment, nor incur any other contingent liability (whether or not in legally binding form) except as approved by the Department. Liabilities entered into in the normal course of the OLD's business (see Government Accounting for definitions) will not be classed as contingent liabilities for this purpose.
  24. The OLD must not use Lottery funds for the purpose of giving gifts, except where the total value of gifts to any one person in a financial year is £50 or less. Board members or members of staff should only accept gifts given to them as individuals where they are worth less than £25.

POLICY DIRECTIONS ISSUED UNDER PARAGRAPH 14 OF SCHEDULE 5 TO THE  
HORSE RACE BETTING AND OLYMPIC LOTTERY ACT 2004

**The Olympic Lottery Distributor shall comply with the attached statement of Policy Directions, which has the status of directions given to the Distributor by the Secretary of State under section 31(1) of, and paragraph 14 of Schedule 5 to, the Horserace Betting and Olympic Lottery Act 2004.**

Signed by authority of the Secretary of State for Culture, Media and Sport  
**NICOLA ROCHE**

**Director, Sports Division**

**Department for Culture, Media and Sport**

**Policy Directions for the Olympic Lottery Distributor**

The Secretary of State for Culture, Media and Sport in exercise of the powers conferred on her by section 31(1) of, and paragraph 14 of Schedule 5 to, the Horserace Betting and Olympic Lottery Act 2004, hereby gives the following Direction to the Olympic Lottery Distributor.

In these Directions:

- (1) any reference to a section is a reference to a section of the Horserace Betting & Olympic Lottery Act 2004; and
- (2) "the Distributor" means the Olympic Lottery Distributor established under section 29.

The Secretary of State hereby requires the Distributor, under section 31, to prepare a policy for the distribution of money under section 30. The preparation of that policy is to be informed by the content of these Directions.

The Distributor shall, in particular, take into account the following matters in determining the persons to whom, the purposes for which, and the conditions subject to which, it distributes money under section 30:

- (1) The need to ensure that money is distributed for Olympic projects which promote the public good and which are not intended primarily for private gain.
- (2) The need to ensure that money is distributed only if the Distributor considers it necessary or expedient for the purpose of or in connection with the following:
  - (i) The provision of facilities which are necessary or expedient for London to host the 2012 Olympic Games and Paralympic Games; or

- (ii) any other service or function which it is necessary or expedient to provide or undertake for London to host the 2012 Olympic Games and Paralympic Games.
- (3) The priorities set out in, and the requirements of: the Olympic Delivery Plans as agreed by the Olympic stakeholders, namely, the Secretary of State for Culture, Media and Sport, the Mayor of London, and the British Olympic Association; the Candidature File; the Host City Contract; and the Olympic Charter.
- (4) The need to liaise, as appropriate, with the other Olympic and infrastructure funding bodies – the Greater London Authority, the London Development Agency, and HM Government – and, in addition, the London Organising Committee of the Olympic Games, to help ensure the effective co-ordination of the funding streams and the timely delivery of Olympic projects.
- (5) The desirability of working with other Lottery distributors, where this is an effective means of delivering elements of the Distributor's strategy.
- (6) Such information as the Distributor considers necessary to make decisions on each grant request, including expert independent advice when required.
- (7) The need to further, where appropriate, the objectives of regeneration and sustainable development.
- (8) The desirability of legacy planning.

## OLYMPIC LOTTERY DISTRIBUTOR

### LOTTERY ACCOUNTS DIRECTION GIVEN BY THE SECRETARY OF STATE FOR CULTURE, MEDIA AND SPORT, with the approval of the Treasury, in accordance with PARAGRAPH (14)(2)(f) of SCHEDULE 5 TO THE HORSE RACE BETTING AND OLYMPIC LOTTERY ACT 2004.

1. This direction applies to the Olympic Lottery Distributor (OLD).
2. The OLD shall prepare accounts for the period ended 31 March 2005 and subsequent financial years in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury ("the FReM") which is in force for the financial year for which the accounts are being prepared.
3. The accounts shall be prepared so as to:
  - (a) give a true and fair view of the state of affairs at 31 March 2005 and subsequent financial year-ends, and of the income and expenditure, total recognised gains and losses and cash flows for the financial year then ended; and
  - (b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. Provide disclosure of commitments and additional details as required in Annex A.
5. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed with HM Treasury.

Signed

**Andrew Lean**

**Director, Government Olympic Executive**

**31 July 2006**

## **ANNEX A**

### **ADDITIONAL DISCLOSURE REQUIREMENTS**

1. The **Balance Sheet** shall show, inter alia:
  - a. under the heading "Current assets": shown as an investment the balance held on behalf of the body at the Olympic Lottery Distribution Fund;
  - b. Hard Commitments falling due for payment within one year should be disclosed under the heading "Creditors falling due within one year".
  - c. Hard Commitments falling due for payment after more than one year should be disclosed under the heading "Creditors falling due after more than one year" (see note 7 below on commitments);
  - d. under the heading "Represented by":
    - i. the balance on the Income and Expenditure Account, including other reserves, such as revaluation and donation reserves.
2. The **Cash Flow Statement** shall, inter alia:
  - a. use the direct method when presenting "Cash flow from Operating Activities" and
  - b. under the heading "Operating Activities" disclose details of payments, categorised by staff, operating costs and awards.
3. The **Notes to the Accounts** shall, inter alia, include:
  - a. the amounts committed in respect of Olympic Lottery grants split between hard and soft commitments identifying the amount falling due (see note 4 below). Where these commitments exceed available resources shown on the Balance Sheet, there should also be a note explaining the rationale for the over-commitment in terms of the benchmark being applied and the assumptions behind it, taking into account any advice received from the Department as appropriate.
  - b. a statement that the Accounts have been prepared in a form directed by the Secretary of State with the consent of Treasury in accordance with Paragraph (14)(2)(f) of Schedule 5 to the Horserace betting and Olympic Lottery Act 2004. The reference should state where a copy of the Accounts Direction can be obtained.
  - c. an analysis of the income and expenditure, to include:
    - i. the total amount of Lottery proceeds receivable, split between the share of Lottery proceeds, and the

investment income from the Olympic Lottery Distribution Fund;

- ii. any other income (detailed between bank interest, recoveries of grant and other income).

4. The nature of the Distributing Bodies' Lottery activities means that they will be making commitments for future expenditure which will need to be shown in the annual financial statements. Commitments should be categorised and shown as follows:

**a. Soft Commitments**

These will occur when there is agreement in principle by the OLD to fund a scheme. Once a formal offer and acceptance of the terms and conditions of the grant has been concluded this will become a hard commitment. The total of soft commitments will be shown in a note to the Balance Sheet. Changes in soft to hard commitments which arise after the accounting year end and before publication of the Accounts will not be adjusting events in terms of SSAP 17 (Accounting for Post Balance Sheet Events). A tabulation should accompany the Notes to the Accounts and show:

- i. Soft commitments brought forward;
- ii. Soft commitments transferred to hard commitments;
- iii. Soft de-commitments;
- iv. Soft commitments made;
- v. Balance of soft commitments outstanding carried forward.

**b. Hard Commitments**

A hard commitment is analogous to a commitment arising from a legally binding contract, carrying with it an obligation on the distributor to pay the agreed Olympic Lottery grant provided only that all the conditions of grant are met, and that the Olympic Lottery continues to operate. For the purposes of recording a charge in the Income and Expenditure Account, a hard commitment arises when a firm offer of a grant from the Olympic Lottery proceeds has been made by the OLD and accepted in writing by the recipient. A firm offer will only be made if there is a reasonable expectation that conditions attached to the offer will be met.

A tabulation should accompany the Notes to the Accounts and show:

- vi. Hard commitments brought forward;
- vii. Hard commitments met in the last year;
- viii. Hard de-commitments (withdrawal of an offer);
- ix. Hard commitments made;
- x. Balance of hard commitments outstanding carried forward;

- xi. A breakdown of hard commitments for each year up to and including 5 years and over 5 years.

**c. De-commitments**

- i. Soft Commitments

If a soft commitment fails to become hard for any reason and there is no prospect of a formal offer letter being issued and accepted then the soft commitment should be deleted from the OLD's records. It will be shown in the table accompanying the notes to the Balance Sheet in the soft de-commitments line.

- ii. Hard Commitments

Should a hard commitment fail to become a cash payment within the expected time frame, and there is little possibility of it crystallising, the OLD may withdraw the offer formally in writing. A reverse entry to the commitment should then be made in the Income and Expenditure Account, and disclosed separately as follows:

<u>Expenditure</u>	<u>£000</u>
Grant commitments made in year	xxx
Less lapsed and revoked commitments	<u>(xxx)</u>
	xxx

The table in the Notes to the Accounts will correspondingly be reduced.

**d. Balances at the OLDF**

A note reconciling the opening and closing balance of investments held at the OLDF should be included. This should disclose income received from the Lottery, investment in earned income, any unrealised loss on investment, and cash drawn down.

In respect of any unrealised losses on current asset investments the loss should be disclosed against expenditure as a "loss on the revaluation of investments".

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