



The United Kingdom Sports Council

Lottery Distribution Fund

Annual Report and Accounts for the Year Ended

31 March 2004

Contents

	<u>Page</u>
Foreword and Annual Report	3 - 13
Statement of the Council's and the Chief Executive Officer's Responsibilities	14
Statement on Internal Control	15 - 18
Certificate and Report of the Comptroller and Auditor General	Error! Bookmark not defined.
Income and Expenditure Account	20
Statement of Total Recognised Gains and Losses	20
Balance Sheet	21
Cash Flow Statement	22
Accounting Policies	23
Notes to the accounts	23 - 34

Foreword and Annual Report

History and Background of the United Kingdom Sports Council

The United Kingdom Sports Council (referred to as "UK Sport" hereafter) was established on 19 September 1996 (and came into existence from 1 January 1997), by Royal Charter, as one of two successor bodies to the GB Sports Council, its core purpose is "**working in partnership to lead sport in UK to world-class success**" by supporting:

- Winning athletes;
- World class events; and
- Ethically fair and drug free sport.

The National Lottery was established under the National Lottery etc. Act 1993, and commenced operation on 19 November 1994, with a percentage of its proceeds being made available for distribution, by selected bodies, to specific "good causes".

UK Sport became a Lottery distributor, by direction of the Secretary of State, in exercise of the powers conferred upon him by section 29 of the National Lottery etc. Act 1993, making an Order cited as the National Lottery etc. Act (Amendment of Section 23) Order 1999 which came into force on 1 July 1999. This created a percentage share of the proceeds available for distribution by sport of 16.6% of which 9.2% is distributed by UK Sport.

The distribution of such funds, (which is governed by sections 24 and 25 of the National Lottery etc. Act 1993, as amended by the National Lottery Act 1998), is operated by UK Sport under the title of the UK Sport Lottery Fund. A separate set of accounts is prepared for UK Sport activities funded by the Exchequer, a copy of which can be obtained from UK Sport Corporate Services Team, 40 Bernard Street, London, WC1N 1ST.

Organisational Structure

Chief Executive Officer

UK Sport is headed by the Chief Executive Officer who is also the Accounting Officer. The Chief Executive Officer is supported by the Leadership Team comprising the executive directors and a senior manager heading each of the departments of the organisation and the Lottery Fund.

The Council

The Council is the equivalent of the Board of Directors and comprises Members appointed by the Secretary of State for Culture, Media & Sport.

Committees

The Council's work is supported by a number of Committees, each chaired by a Council Member and each (with the exception of the Audit Committee, which comprises Council Members only) having a membership comprising both Council Members and other individuals of relevant expertise and experience. The full Council ratifies all appointments to its Committees. The Committees report and make recommendations as appropriate to Council.

At 31 March 2004, the following Committees were operational:

UK Awards Panel – makes recommendations to Council on Exchequer grant and Lottery (World Class Performance Programme) awards and related policy matters;

Major Events Panel – makes recommendations to Council on Lottery (World Class Events Programme) awards and related policy matters;

Communications Panel – reviews all UK Sport communication activities;

International Panel - provides advice and guidance to Council on strategies for securing and extending UK influence in international sport;

Drug-Free Sport Panel – provides advice and expertise to UK Sport's Drug-Free Sport team; and

Audit Committee – considers external and internal audit reports, and oversees risk management processes, reviews the statutory accounts and other financial matters.

Members of The United Kingdom Sports Council (UK Sport)

The members of the Council during the period under review were:

	Member	Date of Appointment
Chair	Sue Campbell CBE	19 September 2003
	Sir Rodney Walker	6 July 1998 3 yrs (extended to 18 September 2003 when appointment expired)
Members	Zahara Hyde Peters *	Reappointed 23 November 2001
	Adrian Metcalfe OBE	Reappointed 23 November 2001
	Gavin Stewart	Reappointed 23 November 2001 (Resigned 18 May 2004)
	Tanni Grey-Thompson OBE	Reappointed 23 November 2001
	Alastair Dempster *	1 July 1999 (re-appointed 1 July 2002) (Chair, Sport Scotland)
	Gareth Davies	9 September 1999 (reappointed 1 April 2002, resigned 30 September 2003) (Chair, Sports Council for Wales)
	Professor Eric Saunders OBE	7 March 2000 (reappointed 1 April 2003) (Chair, Sports Council for Northern Ireland)
	Nick Bitel *	14 November 2002
	Lord Carter of Coles	27 November 2002 (Chair, Sport England)
	Constance St Louis	14 November 2002
	Louise Martin CBE	14 November 2002
	Laura McAllister	14 November 2002
	Anne Ellis	1 October 2003 (resigned 31 January 2004) (Chair, Sports Council for Wales)
Phillip Carling	1 February 2004 (Chair, Sports Council for Wales)	

* Members of the Audit Committee

Board members generally have an interest in sport. Where board members interest may conflict with their responsibilities, they are required to declare an interest. To that end attention is drawn to the information provided in note 30.

Members of the UK Awards Panel

Decisions relating to the award of financial support on the World Class Performance Programme from the UK Sport Lottery Fund are generally made by UK Sport after it has received recommendations from the UK Awards Panel, an executive committee appointed from the fields of elite sport, science, coaching, education and Governing Body experience. The Members of the UK Awards Panel as at 31 March 2004 were:

Gavin Stewart (Chair) (Resigned 18 May 2004)
Tanni Grey-Thompson OBE (1st Deputy Chair)
Professor Eric Saunders OBE (2nd Deputy Chair)
Anne-Marie Harrison
Chris Holmes MBE
Louise Martin CBE

Rod Carr served until 31 August 2003

In order to provide advice, the UK Awards Panel called upon the expertise of officers of UK Sport and of external advisors.

Members of the Major Events Panel

Decisions relating to the award of financial support on the bidding and staging of World Class Events from the UK Sport Lottery Fund are generally made by UK Sport after it has received recommendations from the Major Events Panel, an executive committee, appointed from the fields of elite sport, media, marketing, local Government, and Governing body experience. The Members of the Major Events Panel as at 31 March 2004 were:

Nick Bitel (Chair)
Alastair Dempster (Deputy Chair)
Lynne Evans MBE
Mervyn Elder
Robert Steven Rubin
Brian Stocks (appointed April 2003)
Pat Day (appointed April 2003)

Gavin Fletcher was unable to attend any panel meetings until his term of office ended in August 2003.

In order to provide advice, the Major Events Panel called upon the expertise of officers of UK Sport and external advisors.

Members of the Audit Committee

Members of the Audit Committee for the period were:

Zahara Hyde Peters (Chair)
Alastair Dempster
Nick Bitel

Members Interests

UK Sport maintains a register of the interests of its Members, and of the Members of the UK Awards Panel and of the Major Events Panel. This register may be viewed, by appointment, at the offices of UK Sport at 40, Bernard Street, London, WC1N 1ST.

Format of Accounts

These accounts have been prepared, in accordance with the direction given by the Secretary of State for Culture, Media and Sport issued on 26 March 2002, and in compliance with the provisions of section 35(3) of the National Lottery etc. Act 1993. A copy of the accounts direction may be obtained from UK Sport at 40 Bernard Street, London, WC1N 1ST.

It is a requirement of the direction given that all costs properly attributable to National Lottery activities should be funded from that income stream. It has been agreed, that it is not appropriate to combine the accounts of the UK Sport Lottery Fund with those of the UK Sport Group, as the sources of funding are not compatible. A separate set of accounts is prepared for UK Sport activities funded by the Exchequer, a copy of the Exchequer Accounts can be obtained from UK Sport Corporate Services Team, 40 Bernard Street, London, WC1N 1ST.

Notwithstanding the foregoing a specific comment of the Audit committee was that "It would be helpful to put a note in the forward to recognise the need to view both Lottery / Exchequer accounts together".

Operating and Financial Review

Financial Results

The result for the year is a surplus of £22.16m (2002/2003 £5.96m surplus) which brings the shortfall on the lottery fund to £10.70m (2002/2003 - £32.86m). The deficit on reserves has reduced as a result of de-commitments made in the light of new funding arrangements which involve the transfer of these commitments to the UK Sport Exchequer accounts where they are funded by Grant in Aid.

Commitments to athletes, governing bodies and events (note 11) are made for periods of up to four years to provide them with certainty of funding and to facilitate effective planning cycles for future Olympic Games. These commitments are a contractual obligation on the part of UK Sport, which under current DCMS Lottery accounts direction must be recorded as liabilities.

This requirement to record all liabilities far into the future does not extend to future income streams. As such, it will always result in a mismatch of income and expenditure in these accounts, resulting in a persistent, but variable, reported deficit on the lottery fund account.

The requirement to comply with FRS 17 Accounting for Retirement Benefits has been included for the first time and a prior year adjustment to the current year result incorporates the effect of previous accounting periods.

Review of Activities

The UK Sport Lottery Fund's principal activities are to:

Invest Lottery funds directly in support of world class athletes selected to UK Governing Body World Class Performance Programmes, to assist them to train and compete in the pursuit of excellence on the world stage and medal winning success;

Support UK governing bodies of sport to assist them in operating World Class Performance Programmes and developing athlete-centred structures; and

Invest Lottery funds in organisations bidding for, and staging, world class international events under the World Class Events Programme.

The UK Sport Lottery Fund had available to it, from National Lottery receipts and interest generated within the National Lottery Distribution Fund, £23.6 m (2002/2003 - £29.5m) during the period covered by these accounts. (see note 10)

The UK Sport Lottery Fund made 1059 (2002/2003 - 1358) Hard Commitments (awards which, had been accepted by the applicant) totalling £9.4 m, (2002/2003 - £15.2m) and at the end of the period Soft Commitments (awards which were still awaiting acceptance or confirmation of compliance with specific conditions) numbered 41 (2002/2003 - 85 awards) and totalled £3.4m (2002/2003 - £3.7m).

Future Funding

UK Sport Lottery funding represents 1.533% of UK National Lottery Income. This income is variable as it depends on Lottery ticket sales.

The long term nature of UK Sport's lottery grant commitments requires a degree of stability in funding. We have however estimated that the decline in lottery revenue, noticeable from previous years, will continue with a projected shortfall in 2004/05 estimated at around £12.5 m with further reductions in ensuing years.

In order to continue to meet our commitments under the World Class Performance Programme we agreed with the DCMS in 2003/04 to fulfil some Lottery commitments with Exchequer funding and to redeploy resources from the Exchequer programmes to fund part of this shortfall.

Employment issues

UK Sport is committed to the development of positive policies to promote equal opportunity in employment, we ensure that people with a disability are given opportunities for suitable employment and that they are not discriminated against, on the grounds of disability, for recruitment, training or promotion purposes.

Currently within UK Sport 7.59 % (2002/03 - 8.25%) of staff describe themselves as non white European, however no staff members classify themselves as disabled.

UK Sport involves employees in decisions which may affect their health, safety or welfare which brings together representatives of the management and trade union in a working environment.

Prompt Payment Policy

UK Sport aims to comply with the Better Payment Practice Code. Payment terms are agreed with suppliers at the outset, and invoices are paid in accordance with those terms. Any disputed invoices are referred to suppliers and are dealt with expeditiously. The target is to pay within 30 days and 98 % (2002/2003 - 90%) of invoices were paid on time.

The Euro

The activities of UK Sport are mainly national. Although some exposure to transactions in Euros is likely, it is not currently considered that these will be significant. Our financial systems are capable of dealing with a new currency and procedures can be easily revised to accommodate it. Costs of ensuring compliance are not expected to be significant.

Compliance with Policy Directions

UK Sport is compliant with its Policy Directions under section 26 of the Act. In relation to each policy direction the following statements apply:

2a. Funds are distributed under two schemes: –

- i) the World Class Performance Programme to UK funded national governing bodies and world-class athletes through means tested personal awards; and
- ii) to the World Class Events Programme.

The Programmes reflect a growing public awareness that success in, and support for, international competition is as important as providing access to sporting opportunities.

2b. People from all sections of society and all parts of the United Kingdom who satisfy the performance criteria in funded priority sports may be considered for means tested funding if they are successfully nominated for inclusion on the Performance Programme by the Performance Director. Funding is limited to those sports, or tailored to those talented individuals, that meet eligibility criteria relating to the aims of the Programme. UK Sport encourages those organisations which are its partners in sport to promote equality and diversity in all their activities.

World Class Events supported by UK Sport may be subject to economic impact analysis. A major event staged in the United Kingdom will bring economic benefit to the surrounding community as well as creating benefits for the sport.

2c. As part of its overall remit to promote positive rôles and values within sport, UK Sport is working in collaboration with partner organisations and key stakeholders to determine good practice within sport and further raise awareness of the values and ethical principles of sport. Five key principles for ethical sport are:

- Protection of the individual;
- Equity;
- Drug-free sport;
- Corporate governance; and
- Sporting conduct.

2d. UK Sport furthers the objectives of sustainable development in high performance sport by, wherever appropriate, making awards for up to four years to match the Olympic and Paralympic cycle which in turn enables the sport to plan ahead and secure world class personnel on long-term contracts.

2e. UK Sport world class performance revenue awards are for a maximum of four years and are linked to the Olympic/Paralympic cycle. Every four years or less, each governing body will have to make the sporting case to UK Sport to be funded for a further period, against the finite funds forecast to be available. The UK Awards Panel undertakes an annual review of investment and performance against targets to provide an assurance that funding is helping to meet objectives. Athlete personal awards are limited to one year at a time when a fresh application is made.

2f. Each applicant has to demonstrate that it is financially viable and fit for the purpose of receiving and managing Lottery funding. Long-term viability is important in helping to sustain the status of the sport and the success of its athletes. UK Sport encourages sports to seek other sources of funding and sponsorship as future funding levels cannot be guaranteed. UK Sport does not have any capital schemes.

2g. UK Sport expects an element of partnership funding and/or contribution in kind commensurate with the reasonable ability of different kinds of applicants to obtain such support. Partnership funding is no longer a direct factor in deciding the level of award, but applicants are encouraged to seek additional sources of funding, as awards will not normally be increased over the four year cycle.

On World Class Events, UK Sport expects a significant contribution by the applicant in the form of sponsorship and/or cash and in kind, but no longer sets a fixed percentage contribution.

2h. UK Sport is working with its partner organisations and key stakeholders, including the Home Country Sports Councils and Institutes of Sport, to deliver elements of the strategy, which will be reviewed and developed to achieve cohesion and consistency. Most of the funding decisions are subject to the endorsement of the UK Sport Council on which sit the Chairs of each Home Country's Sports Council.

2i. UK Sport solicits governing body applications under the World Class Performance Programme as the most effective way of achieving part of its core purpose of leading the UK to sporting excellence by supporting winning athletes.

2j. UK Sport may utilise independent expert advice as part of the assessment process, in particular on significant major event applications, and when monitoring and evaluating performance under existing awards.

Monitoring and Evaluation

Since 1 April 2003, all aspects of Monitoring and Evaluation of the World Class Performance and World Class Events Programmes have been managed by UK Sport following the conclusion of the service level agreement with Sport England which required them to commission world-class advisers from their database.

It was decided that it would be inappropriate to commission formal monitoring reviews by external advisers of National Governing Bodies of Sport (hereafter referred to as NGB or NGBs) performance programmes in the countdown to Athens, as it would tie up valuable resources and leave insufficient time to make any material changes in approach. The intention is to refine the scope of future reviews with more focus on discrete elements of a plan where the use of independent and specialist expertise can help performance Directors focus on improving aspects of performance.

A 2003 Survey of athletes registered on the World Class Performance Programme as at 31 July 2003 provided an assessment of high performance sport as seen from the athletes' perspective. Overall, the survey confirmed that the World Class Performance Programme is rated highly by athletes and, taken together with Athletes Personal Awards, makes a genuine difference to athletes' ability to train and compete effectively.

The result of an independent economic impact study into the 9th IAAF Indoor Championships in Athletics, staged at the National Indoor Arena in Birmingham in March 2003, found that the city and surrounding area had received a financial boost of at least £3.7million. This consisted of 90% of the Lottery award itself or £950,000 for which goods and services were delivered locally and £2.7m expenditure by spectators, competitors, officials and the media.

UK Sport Lottery Strategy: 2002-2005

UK Sport published its Lottery Strategy 2002-2005 in July 2002 supporting its mission – Working in partnership to lead Sport in the UK to World Class Success.

The strategy built on the outstanding success of the British Olympic and Paralympic teams in Sydney 2000, and the successful major events which have been staged in the UK over recent years, and was the product of extensive and continuing dialogue with partner organisations and key stakeholders. It sets out the way UK Sport is managing its World Class Programmes through to 2005.

Performance against medal targets for individual Olympic and Paralympic sports are reviewed annually by the UK Awards Panel.

Targets

Performance against our set objectives is measured by a series of ministerially set targets and targets contained within our business plan for each of our key objective areas.

Ministerial Targets

Some UK Sport targets for 2001-3, set as part of the funding agreement with the DCMS were:

	Cumulative 2001-2003		2003		2002		2001	
	Target	Achieved	Target	Achieved	Target	Achieved	Target	Achieved
Number of Major Events staged by the UK and supported by UK Sport, via the World Class Events Programme	19	13	9	7	5	1	5	5
Aggregate number of Medals won at major international championships (able-bodied)	203	260	74 ¹	88	75	96 ²	54 ³	76
Aggregate number of Medals won at major international championships (disability sport)	347	432	46 ⁴	99	170	161	131	172

Figures relate to calendar years. Medals available in any year relate to the number and type of championships held.

1 - Changes to previously published targets

The target for 2003 able-bodied medals was published as 86 in the DCMS Annual Report 2004 on Sponsored Bodies. The net reduction to 74 after adjustments to several sports including archery, athletics, diving, gymnastics and sailing.

2 - Changes to previously published achievements

The achievement figure for 2002 of 96 able-bodied medals was published as 84 in both the DCMS Annual Reports for 2003 and 2004 on Sponsored Bodies as well as in the 2003 UK Sport Annual Report and Accounts. The net increase from 84 to 96 medals results from the European Short-course Swimming and Cross-country Championships being held in December 2002 as well as the later inclusion of some sailing class results. These had not been included in the Achieved figures when the Annual Report was initially compiled.

3 - Changes to previous years comparative Target figures

The 2001 target figure of 54 was previously published in both the DCMS Annual Reports for 2002 and 2003 on Sponsored Bodies and UK Sport' Grant-in-Aid 2003 Annual Report and Accounts as 46 when Waterskiing and Orienteering target medals were erroneously excluded.

4 - Disabled Sport Medals in 2003

The discrepancy between the target shown in this table and the original target of 135 medals published in the DCMS Annual Report 2004 on Sponsored Bodies, reflects the cancellation of the 2003 European Disabled Swimming Championships for which an indicative target of 89 medals had been set.

Further details of our agreed targets, measures and milestones are contained in our new funding agreement and in our business plan, copies of both can be obtained from our Corporate Services Team at 40 Bernard Street, London, WC1N 1ST.

Performance against targets for administrative efficiency Average time taken to process each Lottery funded application

UK Sport Lottery applications are diverse in nature and do not lend themselves to a meaningful single target, which had been set at 12 weeks. The UK Sport grant management system is able to provide important statistical data on the types of Lottery application recorded:

- Applications from national governing bodies for programme funding;

- Applications from athletes for athlete personal awards and education awards;
- Pre-applications from bodies wishing to bid for and/or stage events in the UK; and
- Full applications from those bodies that have passed the pre-application stage and wish to bid for and/or stage world class events in the UK.

In 2003/04, 15 (2002/03 - 34) applications from national governing bodies were processed. Taking the time between recording the application and when the soft commitment was made (often by a decision of UK Sport) the average number of working days for each application was 60.01 working days (2002/03 - 42.6) or just over 12 weeks (2002/03 - 8). For athletes, 1015 (2002/03 - 1,324 applications) were dealt with, of which 800 (2002/03 - 1,007) were for athlete personal awards. These took an average of 8.1 working days (2002/03 - 11.7) to process.

In 2003/04, 34 (2002/03 - 40) pre-applications on Major Events were received. These took an average of about 3 (2002/03 - 5) working weeks to process. Of these 16 (2002/03 - 16) were sent a full application form, and 17 (2002/03 - 24) were not considered to meet the criteria for support from the World Class Events Programme, and were referred for consideration to the appropriate home country Sports Council. 11 full applications were received and approved in 2003/04 (2002/03 - 11). Average processing time for these applications from receipt to a decision was about 8.5 (2002/03 - 6) weeks. On Major Events in particular a lot of preliminary work between UK Sport officers and the organising body can take place before a formal application is submitted.

In each case, UK Sport is processing applications in less than the average target time. NGB applications for funding are normally required to be submitted within a relatively narrow time band to meet the sequence of assessment, recommendation, and decision making in UK Sport. All summer sport awards normally commence from 1 April, and decisions are normally made no later than the March Council meeting. This discipline has removed the tradition of applications coming in at different times of the year and taking longer to process.

Average administrative cost per completed application

2003/04 is the second year in which UK Sport has been able to assess the cost of dealing with all its Lottery applications. With an outturn of some £1.72m (2002/03 - £1.68 m) of total Lottery administration costs and some 1,075 (2002/03 - 1,400) applications, the average administrative cost per application was calculated as £1,600 (2002/03 - £1,200).

Significant Events

Winning Athletes

This year saw a number of new British world champions emerge. Swimmers James Gibson and Katy Sexton returned from the World Championships in Spain in July 2003 with gold medals in the breaststroke and backstroke respectively. Cath Bishop and Katherine Grainger ensured one British pair won a gold medal at the World Championships in Milan.

Technological support and research funded by UK Sport contributed to Kristan Bromley's historic win in the Bob Skeleton World Cup. The Bath-based athlete became the first British man to win an overall winter sports world cup.

During the course of the year the United Kingdom Sports Institute (UKSI) element of the performance directorate evolved. The UKSI now reflects the network of high performance support services throughout the Home Countries and their Sports Institutes. Out of the UKSI structure at UK Sport came the development of the new technical team, led by the appointments of Mike Whittingham and Peter Keen.

UK Sport support to the World Class Performance Programmes continued in the vital 12 months preceding the Athens Olympic and Paralympic Games. Funding enabled the 600 supported athletes to access warm weather training camps, sports science and sports medicine, to compete at World level competitions and numerous bespoke sports specific projects to enhance performance.

The Athlete Career Education UK (or ACE UK) programme licence agreement with Australia came to an end in 2004. This work was repositioned and it re-launched in February 2004 as Performance

Lifestyle, a UK specific programme that will enable athletes to balance sport and personal commitments more effectively.

In November 2003 the third annual World Class Coaching Conference was staged at The Belfry. Up to 300 of the UK's leading coaches and World Class Performance Programme staff took part in a series of workshops and keynote addresses. Planning for the 2004 event is now underway.

World Class Events

Seven major events were staged across the UK in 2003/04 with the support of National Lottery funding from UK Sport's World Class Events Programme. The largest individual recipient of funding was the World Badminton Championships in Birmingham in July/August 2003, which received an award of £280,000 from UK Sport.

Several commitments were made towards the staging costs of future major events on home soil, including the 2005 European Eventing Championships at Blenheim, to which UK Sport has committed £275,000. UK Sport also committed £950,000 of National Lottery funding towards the staging costs of the 2008 World Short Course Swimming Championships in Manchester, should the bid be successful.

UK Sport hosted its 5th Major Events Conference in London in November 2003. The annual gathering, which consisted of a series of seminars and workshops for event organisers and national governing bodies, featured keynote addresses from Keith Mills, Chief Executive of London 2012, and Alec McGivan, Director of Sport at the DCMS.

In November 2003, UK Sport published *Major Sports Events: The Guide* – an invaluable free resource for event organisers. The publication is available to download for free from the UK Sport website. (www.uk sport.gov.uk)

UK Sport gave its full support to Britain's bid for the 2012 Olympic and Paralympic Games, which received Government backing in May 2003. UK Sport has since continued to lend advice and support to London 2012. A UK Sport member of staff was also seconded to the bid company.

Ethically Fair and Drug-free Sport

UK Sport continued to play a leading and proactive rôle in the international fight against the misuse of drugs in sport, most notably contributing to each key stage of consultation on the World Anti-Doping Code prior to its agreement in March 2003. The Code will see the harmonisation of anti-doping policies and procedures across different sports and countries, and is due to be implemented in August 2004. UK Sport has played the lead rôle in the UK to ensure that national policy meets the standards set out in the Code, as well as assisting national governing bodies to ensure they are fully compliant by the August 2004 deadline.

Over the course of the year UK Sport conducted over 6,000 tests on UK and overseas competitors, covering more than 40 sports. Over 98% of these tests returned a negative result. Sports receiving most tests during the period under review were football, athletics and rugby league.

As one of the first moves to World Anti-Doping Agency Code or WADA Code compliance, UK Sport launched its Drugs Results Database in February 2004. The online service will provide details of all positive findings from the testing programme, with cases posted up to 20 days after the disciplinary process, as set out in the WADA Code.

An independent review of arrangements for the governance, structure and operation of the national anti-doping programme in the UK was commissioned by UK Sport in January 2004. The review, conducted by PMP consultants, concluded that the rôle of national anti-doping organisation should remain within UK Sport but that the management and reporting structure should be reformed.

A thorough pre-Olympics and Paralympics testing programme has been developed which will see every member of the British team tested at least once before they go to Athens. In addition, a comprehensive set of drug-free sport education and information materials will be distributed to all British representatives.

UK Sport's work in these three areas is underpinned by other key Exchequer-funded projects and programmes:

Modernisation

This programme was established in 2000 to help governing bodies of sport become fit for purpose, in order to increase participation, develop talent and deliver international success or a combination of all three. In 2003 a significant milestone was reached through the publication of the "Investing in Change" report. It explains what the modernisation process should mean to the national governing bodies and offers practical advice on the structures, systems and processes available to become more efficient and effective.

Equity

Work began on UK Sport's Equality and Diversity Strategy in 2003 through the appointment of a full time equity officer. This work has involved partnership working with a number of sporting bodies throughout the UK. In November the UK Strategy Framework for Women and Sport was launched at a meeting of the International Working Group on Women's Sport. The document sets targets for participation, leadership and performance at world class levels.

International

To maintain and advance the UK's influence in world sport, UK Sport continued to provide financial support and assistance to more than 400 British post-holders carrying positions of influence within international sports federations.

UK Sport also continued to play a key rôle in the global development of sport through the support of projects overseas, exchange visits and information sharing with other nations. UK Sport announced an award to support a unique sports development programme aimed to help tackle the rapid spread of HIV/AIDS in Africa. The new initiative run by VSO – the international development charity – will use sport to deliver education to out-of-school children in Malawi, the third poorest country in Africa with one of the highest HIV infection rates.

Operations

Over the course of the review period changes took place at both Chair and Chief Executive Officer level. In September 2003, Sue Campbell took over from Sir Rodney Walker to become Interim Reform Chair for a period of 18 months. In December 2003 Liz Nicholl took over as Acting Chief Executive Officer from Richard Callicott and continued to fill this rôle as at 31 March 2004.

From January 2004, UK Sport embarked on a full and thorough business planning process for the period from 2005-2009. This was ongoing as at 31 March 2004 and the outcomes will be communicated and implemented over the course of the next 12 months.

Significant Future Events

As an organisation, UK Sport is now primarily focused on the forthcoming Olympic and Paralympic Games in Athens in 2004 where the investment of Lottery funds through the World Class Performance Programme will be judged. In addition to this:

- The business planning process as outlined above will be completed and roll-out will begin;and
- The World Anti-Doping Code will be implemented which will see the issuing of a revised national anti-doping policy in the UK to ensure full compliance;

Events over the next year taking place with the support of Lottery funding through UK Sport's World Class Events Programme are:

- The Cycling World Cup in Manchester;
- The Junior Outdoor Target Archery World Championships at Lilleshall;
- The World Bowls Championships in Ayr: and
- The World Wheelchair Curling Championships in Glasgow.

Executives and Executive Directors of the Lottery Sports Fund

The UK Sport executives responsible for UK Sport Lottery Fund distribution activities for the year under review were the Chief Executive Officer and Accounting Officer, Richard Callicott until December 2003 and Liz Nicholl from January 2004.

The Director responsible for UK Sport Lottery Fund distribution activities for the year was the Director of Performance Services, Liz Nicholl.

Audit

The UK Sport Lottery Distribution Account is required to be audited by the Comptroller and Auditor General who is responsible for laying the accounts before both Houses of Parliament at Westminster and the Scottish Parliament. The fees for this year will be £18,000 (2002/03 - £17,500)

Post Balance Sheet Events

After the year end agreement was reached with the former Chief Executive Officer and former Director in charge of Drug Free Sport on the terms of the termination of their contracts of employment. Provision for the severance costs has been made in the Grant in Aid accounts. No other Post Balance Sheet Events warrant reporting.

Liz Nicholl

Acting Chief Executive Officer and
Accounting Officer of the United Kingdom Sports
Council

14 July 2004

Sue Campbell

Chair of the United Kingdom Sports Council

14 July 2004

Statement of Council's and Chief Executive Officer's Responsibilities

Under section 35(2) and (3) of the National Lottery etc. Act 1993 the UK Sport Lottery Fund is required to prepare a statement of accounts for the financial period in the form and on the basis directed by the Secretary of State for Culture, Media and Sport with the consent of the Treasury.

The financial statements are prepared on an accruals basis and must show a true and fair view of the state of affairs of the UK Sport Lottery Fund distribution activities at the period end and of its income and expenditure and cash flows for the financial period.

In preparing the accounts the Council is required to:

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

The Accounting Officer for the Department of Culture, Media and Sport (hereafter referred to as "DCMS") has designated the Chief Executive Officer of UK Sport as Accounting Officer for the Council. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the finances for which she is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by the Treasury and published in "Government Accounting" (HMSO), and in the Financial Directions issued by the Secretary of State for Culture, Media and Sport under section 26(3) of the National Lottery etc. Act 1993.

Liz Nicholl

Acting Chief Executive Officer and
Accounting Officer of the United Kingdom Sports
Council

14 July 2004

Sue Campbell

Chair of the United Kingdom Sports
Council

14 July 2004

Statement on Internal Control

Accounting Officer's Responsibilities

The Accounting Officer has responsibility for maintaining a sound system of internal control that supports the achievement of UK Sport's policies, aims and objectives, set in statute and by Ministers from the Department of Culture, Media and Sport, whilst safeguarding the public funds and UK Sport's assets for which she is personally responsible, in accordance with the responsibilities assigned to her in Government Accounting.

The Council, through the Audit Committee, also have responsibility for maintaining a sound system of internal control.

There is no separation or difference between the mechanisms by which the Accounting Officer, together with the senior management team, gain assurance, from those that the Council uses, to assure themselves that the systems of internal control are working effectively.

The Accounting Officer, management team, the Council and the Committees of the Council of UK Sport work in close collaboration to achieve full compliance with the recommendations of the Turnbull Committee on Internal Control.

The Accounting Officer acknowledges her separate Accounting Officer responsibilities to Parliament, in particular responsibility for taking action should the Chair or the Council contemplate a course of action involving a transaction which she considers will infringe the requirements of regularity or propriety or which does not represent efficient or effective administration. She also acknowledges that under the terms of the UK Sport Financial Directions, neither the Chair nor the Council is permitted to give her instructions which conflict with her duty as Accounting Officer.

Commitment to Corporate Governance

The Council of UK Sport is committed to achieving high standards in corporate governance throughout the organisation and to integrity and high ethical standards in all its dealings. Our approach is informed by:

- DAO (GEN) 13/00 and 09/03 HM Treasury's corporate governance requirements for central government; and
- Internal Control: Guidance for Directors on the Combined Code (the "Turnbull report").

Context

We work with and through NGBs who are key partners in achieving excellence in sport through the World Class Performance Programmes by developing "winning athletes". These bodies work directly with athletes, many of whom are funded directly by us, through athlete personal awards and education awards. Generally, four year awards are made at the beginning of each Olympic and Paralympic cycle, which are subject to annual review and confirmation of Lottery budgets for the forthcoming year.

The World Class Events Programme aims to secure and stage world class events in the UK through supporting appropriate applications to bid for and stage such events.

There is a regular process for identifying, assessing and managing the strategic risks of the organisation. This has been in place throughout the period under review and up to the date of approval of the annual report and accounts.

We have identified a number of strategic risks. Only a very few have been rated as high gross risk exposure. The two most significant ones are:

- The reliance of the organisation on key partner organisations for delivery of our objectives; and
- Athletes not receiving adequate non-financial support.

This information is contained in the organisation's Internal Control Report which is regularly updated, and available from the Corporate Services Director.

Internal Control

The system of internal control is designed to meet the needs of UK Sport and the risks to which it is exposed and to manage rather than eliminate the risk of failure to meet its objectives. In pursuing these

objectives, internal controls can only provide reasonable and not absolute assurance against material mis-statement, error, losses, fraud or the breaches of law or regulation. We have in place a formal Policy on Internal Control which has been approved by Council and the Audit Committee that defines internal control processes and rôles and responsibilities.

Management

The system of internal control is based upon a framework of corporate policies, regular management information, financial regulations, administrative processes and accountability. In addition to processes described above the other key controls in the system include:

An annual business planning process;

An appropriate organisational structure to support key business processes;

Regular review by the Executive Directors of the register of strategic risks and the adequacy and effectiveness of controls to mitigate/manage these risks;

Compliance with all current health and safety legislation. This includes ongoing risk assessments throughout the organisation;

Relevant processes have been implemented and are monitored to ensure that UK Sport recruits, develops and retains the appropriate calibre staff to support the delivery of our business plan. These include a job evaluation mechanism, competency based appraisals and performance related pay. A staff "quality of work life" survey was carried out in April 2002 and will be updated during 2004. Processes are in place to ensure that all relevant employment legislation is incorporated within our staff policies;

A three year Funding Agreement agreed with the DCMS, with performance against key targets reviewed annually internally and with the DCMS;

Compliance with the DCMS Management Statement / Finance Directions and Accounts Directions;

A detailed budgeting process with an annual budget approved by the Accounting Officer and the Council and regular financial management reports, which indicate spending against budget, together with a regular forecasting process;

Systems for the assessment and control of grant applications ensuring that all applications receive sufficient and consistent processing in line with policy and financial directions of the Secretary of State by the UK Awards Panel and the Major Events Panel;

A fraud policy and response plan which have been approved by the Audit Committee and implemented;

An agreed national anti-doping policy setting out publicly accountable standards for UK Sport and its partner organisations has been in place since January 2002 to demonstrate compliance, assess risks and implement plans for continuous improvement of policies and practices to monitor the achievement of drug free sport; and

The anti-doping process itself is a system of risk management to protect investment and participation in sport. Any mismanagement of this process would damage the reputation of UK Sport as well as the governing bodies that are UK Sport's partners. Our anti-doping processes have been certified under ISO 9001:2000 for the management of drug testing programme for human sport (6 monthly audits are carried out by BSI under our ISO certification of our anti-doping processes).

During 2003/04

The business plan for 2005/06 to 2008/09 has been completed;

A review of organisational structure is on-going and will be concluded in 2004/05; and

The following are in the pipeline for 2004/05:

The Drug Free Sport operations will be required to demonstrate compliance with the World Anti-Doping and the additional technicalities that the compliance with the code will require will be implemented in 2004/05.

We are still working towards compliance with BS7799 (The British Standard – Information Technology: Code of Practice for Information Security Management) and are implementing the

necessary action to achieve compliance in 2004/05.

Management Accounting Processes

Regular cash flow forecasts of Lottery income and expenditure are produced; and

An analysis of commitments is verified to our Grant Management System (GMS)/ source documents and commitments are incorporated in the general ledger on a monthly basis.

UK Sport World Class Performance Programme awards in support of athletes are made on the basis of agreed performance based criteria to those sports with a recent history of medal success and/or data showing evidence of medal potential. Prioritisation criteria were agreed by the UK Sports Council to guide World Class Performance Programme funding decisions. Awards to priority sports are normally made for four years subject to an annual review by the UK Awards Panel.

Partnership Action Plans are in place for all summer Olympic and Paralympic sports that receive Lottery funds. These record actions for the governing body and UK Sport officers, helping to ensure continuous improvement of UK governing body programmes. Partnership Action Plans are also a monitoring and reporting mechanism and help direct the work programme of Performance Development Consultants within the Performance Services Directorate. They cover grant award conditions, actions required following monitoring and evaluation reports, agreed actions under the Modernisation programme, actions required following management audit, any compliance issues, compliance with the anti-doping policy statement and actions in respect of major events and international strategies.

Contributing to this is the anti-doping programme that prioritises testing on high-risk sports and lottery funded athletes and helps to verify that sports that UK Sport invests in are committed to drug free sport.

Council

The Chair of the Audit Committee reports the outcome of the Audit Committee meetings to the Council and the Council receive minutes of all of these meetings. The Council also regularly receive and review an Internal Control report in line with the Policy on Internal Control.

Internal Audit

There are two established internal audit functions in operation:

- i) Deloitte & Touche provide assurance on internal control at UK Sport; and
- ii) Littlejohn Frazer carry out management audit and compliance check of NGBs.

The service being provided by Deloitte was re-tendered during the year; the contract was renewed with them for a further three years.

Audit Committee

The Audit Committee of the Council is comprised of Non-Executive Council Members. Its primary functions are to:

Agree its internal audit strategy;

Review with management the audit plan for the next year, using risk based prioritisation;

Risk Management and Corporate Governance

Receive and review Internal Control Reports;

Consider reports from management and both internal and external audit on the system of internal control and any material control weaknesses ; and

Discuss with management the actions taken on problem areas identified by Council Members, Audit Committee Members and both external and internal audit reports.

As Accounting Officer my review of the system of internal control is informed by the work of internal auditors and Executive Directors who have the responsibility for the development and maintenance of the internal control framework. It is also informed by comments made by the external auditors in their management letter and by other reports.

The Accounting Officer has been informed by the Council before producing this statement that the Council, through the Audit Committee, has reviewed letters of assurance from internal auditors Deloitte and Touche and other relevant information confirming compliance throughout the period with a number of key internal control elements namely:

Commitment to the philosophy of maintaining good corporate governance practices and an effective system of internal control;

Confirmation that the processes that they are responsible for are operating effectively across UK Sport;

The actual processes used to identify, assess and manage risk and confirmation that remedial action has been taken on any weaknesses identified during the period;

There were no instances of fraud, malpractice or significant losses reported. Employees are aware of their responsibilities in respect of propriety and regularity and ways of rectifying any known breaches;

There is a business continuity plan and a formal Incident Management process is in place. Further work needs to be done during 2004/05 particularly with regard to the consideration of human resource and damage assessment; and

Any other issues that impact upon internal control are reported.

Before producing this statement the Council, through the Audit Committee has also reviewed:

The audit plan covering the scope of work which changes from year to year and the resourcing of internal audit;

Internal Audit's annual assurance statement which shows that the overall level of assurance achieved in the internal audit programme undertaken by Deloitte and Touche for 2003/04 was significantly better than the previous year. The Audit Committee reviewed all reports with special emphasis on those in high risk areas and those receiving less than substantial assurance. In all cases, satisfactory management responses were provided for all internal audit recommendations; and

Littlejohn Frazer's NGB audit and compliance assurance report is presented to the Audit Committee twice per annum. A total of 6 reviews of NGBs were completed during the year. A programme of follow-up audits to those NGBs categorised as limited or no assurance resulted in a number of NGBs improving their assurance rating from limited to reasonable. In all cases specific actions were agreed with the NGBs and embedded in Partnership Action Plans (referred to above).

The audit and compliance programmes were completed as set out on time and to budget.

Compliance with Turnbull Guidance on Internal Control

We believe we were fully compliant throughout the year. We ensured that all the above stated processes and procedures were fully operational throughout the year and up to the date of approval of these accounts.

We do accept however that we will need to continually ensure that risk management processes are embedded throughout the organisation.

Liz Nicholl

Sue Campbell

Acting Chief Executive Officer and
Accounting Officer for United Kingdom Sports
Council

Chair of the United Kingdom Sports Council

14 July 2004

14 July 2004

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 20 to 34, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 23 and 24.

RESPECTIVE RESPONSIBILITIES OF UK SPORT, THE CHIEF EXECUTIVE OFFICER AND THE AUDITORS

As described on page 14 UK Sport and the Chief Executive Officer of the Council, as the Accounting Officer, are responsible for the preparation of financial statements and for ensuring the regularity of financial transactions. The Chief Executive Officer and the Council are also responsible for the preparation of the Foreword and Annual Report. My responsibilities, as independent auditor, are established by statute and are guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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 and the directions there under made by the Secretary of State for Culture, Media and Sport, 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 and Annual Report is not consistent with the financial statements, if the Council has not kept proper financial records, or if I have not received all the information and explanations I require for my audit.

I review whether the statements on pages 15 to 18 reflect the Council's compliance with the Treasury's guidance 'Corporate Governance: 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 Council's corporate governance procedures or its risk and control procedures.

BASIS OF 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 Council and the Chief Executive Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the UK Sport Lottery Fund Distribution Account'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 UK Sport Lottery Fund distribution activities at 31 March 2004 and of the increase in funds available, 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 and the 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
13 September 2004

NATIONAL AUDIT OFFICE

157-197 Buckingham Palace Rd
Victoria, London SW1W 9SP

The maintenance and integrity of the United Kingdom Sports Council website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2004

	Note	2003/04 £'000	2002/03 £'000 Restated
INCOME			
Share of proceeds from the National Lottery	10	19,927	21,110
Investment returns from National Lottery Distribution funds	10	67	329
Interest Receivable		20	24
Grant refunds		27	-
		<u>20,041</u>	<u>21,463</u>
EXPENDITURE			
Hard commitments	11	9,404	15,198
Hard de-commitments	11	(1,674)	(1,637)
Hard de-commitments transferred to Grant in Aid Account	11	(11,659)	0
Staff costs	14	373	205
Depreciation - tangible assets	19	19	173
Other operating costs		468	691
Costs apportioned from UK Sport Grant in Aid Account		967	859
Notional Cost of Capital		-	28
Net Return on Pension Fund	23.4	(20)	14
		<u>(2,122)</u>	<u>15,531</u>
INCREASE IN LOTTERY FUNDS BEFORE TAXATION		22,163	5,932
Taxation	7	(4)	(5)
Reversal of Notional Cost of Capital		-	28
INCREASE IN LOTTERY FUNDS		22,159	5,955
Retained deficit on Lottery Funds brought forward		(32,862)	(38,814)
Effect of Prior Year adjustment		0	(3)
Fund balance as at 31 March		(10,703)	(32,862)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Note	2003/04 £'000	2002/03 £'000 As restated
Surplus for the Year		22,159	5,955
Surplus/(Deficit) on Pension Fund arising in the year	23.5	96	(152)
Total recognised gains and losses relating to the year		<u>22,255</u>	<u>5,803</u>
Prior year adjustment	23.6	(329)	
Total gains and losses recognised since last annual report		21,926	

There are no discontinued activities.

The notes on pages 23 to 34 form part of these accounts.

BALANCE SHEET AS AT 31 MARCH 2004

	Note	2003/04 £'000	2002/03 £'000 Restated
FIXED ASSETS			
Tangible Assets	19	80	82
CURRENT ASSETS			
Investments - balance in NLDF	10	3,785	3,620
Debtors and prepayments	20	13	-
Cash at bank and in hand		407	788
		<u>4,205</u>	<u>4,408</u>
CREDITORS			
Sundry creditors falling due within one year	21	(353)	(198)
Hard grant commitments falling due within one year	11	(13,065)	(20,579)
		<u>(13,418)</u>	<u>(20,777)</u>
NET CURRENT LIABILITIES			
		<u>(9,213)</u>	<u>(16,369)</u>
Hard grant commitments falling due after one year	11	(1,567)	(16,572)
Pension Liability	23.6	(233)	(329)
TOTAL ASSETS LESS ALL LIABILITIES		<u><u>(10,933)</u></u>	<u><u>(33,188)</u></u>
REPRESENTED BY:			
Deficit on Pension Reserve		(230)	(326)
Deficit on Lottery Funds		(10,703)	(32,862)
		<u>(10,933)</u>	<u>(33,188)</u>

Liz Nicholl

Acting Chief Executive Officer and Accounting Officer
of the United Kingdom Sports Council

14 July 2004

Sue Campbell

Chair of the United Kingdom Sports Council

14 July 2004

The notes on pages 23 to 34 form part of these accounts.

Cash Flow Statement

	Notes	2003/04 £'000	2002/03 £'000
OPERATING ACTIVITIES			
Cash drawn down from NLDF	10	19,829	25,842
Staff Costs	14	(373)	(216)
Operating Costs		(1,245)	(1,599)
Award payments	11	<u>(18,590)</u>	<u>(23,491)</u>
Net cash(outflow)/inflow from operating activities	24	(379)	536
RETURNS ON INVESTMENTS			
Interest received		20	24
TAXATION			
Corporation tax paid		(5)	(10)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets	19	(17)	-
(Decrease)/increase in cash	26	<u><u>(381)</u></u>	<u><u>550</u></u>

ACCOUNTING POLICIES

1. Accounting Convention

The financial statements have been prepared under the historical cost convention as modified by the inclusion of fixed assets at their fair value to the business and on the basis of the Accounts Direction issued by the Secretary of State for Culture, Media and Sport on 26 March 2002, a copy of which can be obtained from the Corporate Services team at 40 Bernard Street, London, WC1N 1 ST.

The Members consider that modified historical cost of fixed assets is not materially different from historical cost and as such reported fixed assets at their historical cost.

Without limiting the information given, the accounts meet the requirements of the Companies Act 1985, the Accounting Standards issued or adopted by the Accounting Standards Board, the Treasury guidance on the accounts of Non Departmental Public Bodies and the National Lottery etc. Act 1993 insofar as those requirements are appropriate to the UK Sport National Lottery Sports Fund.

The accounts have been prepared under the accruals convention and, as such, all income and expenditure is taken into account in the financial period to which it relates.

In compliance with section 35 of the National Lottery etc. Act 1993 the accounts cover the year to 31 March 2004.

Separate accounts have been prepared for the UK Sport operations funded from Grant in Aid, in accordance with the instructions issued by the Secretary of State. Consolidated accounts have not been prepared.

2. Hard and Soft Commitments

As required by the Secretary of State, a distinction is made in respect of Lottery awards between "hard" and "soft" commitments as follows:

- a "hard commitment" occurs where a firm offer of award has been made by the Council and this offer has been accepted, together with any conditions dependent upon which the award has been made; and
- a "soft commitment" occurs where a firm offer of award has been made by the Council but the offer and associated conditions have not yet been accepted.
- Only "hard commitments" are recognized in the Income and Expenditure accounts, soft commitments are detailed in Note 12.

3. Tangible Fixed Assets

The UK Sport Lottery Fund does not own any land or buildings. All tangible fixed assets are shown at cost less accumulated depreciation.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows :

Computer Hardware	3 years
Computer Software	3 years

4. Pension Costs

The accounting policy on Pensions Costs has been changed to accommodate the full reporting requirements of Financial Reporting Standard 17 on "Retirement benefits". We now charge the annual cost of the contributions to the scheme in the income and expenditure account as well as recognise any changes in the value of the fund in our reserve. A prior year adjustment has been made to reflect the effect of this change on last year's accounts.

Financial Reporting Standard 17 data is produced by the actuaries for the whole scheme and is not split between Exchequer and Lottery businesses. We effect this split by allocating the results of the valuation to each business as a proportion of cumulative contributions to date.

Details about the valuation of the pension fund and the recharges are in note 23.

5. Operating Leases

Rentals paid under operating leases are expended in the period to which the charge relates. There were no operating leases for the Lottery Fund during the year.

6. Charges to and from UK Sport

UK Sport is required to apportion between its Grant-in-Aid and National Lottery distribution activities the costs of services provided from its Grant-in-Aid budget that are directly and demonstrably used on UK Sport Lottery Fund functions and vice versa. The costs so apportioned to the National Lottery distribution activities are paid from the UK Sport Lottery Fund to the Grant-in-Aid account. The apportionment of the costs has been determined in the manner most appropriate to the particular service, for example staff numbers, staff time or floor space. In all cases the charges to the National Lottery distribution activity have been calculated on a full cost recovery basis in accordance with HM Treasury's "Fees and Charges Guide".

7. Taxation

Amounts of interest in the National Lottery Distribution Fund do not fall within the scope of Corporation Tax. Once drawn down into the nominated accounts of UK Sport interest thereon is subject to Corporation Tax and is fully provided in the period to which it applies.

8. Notional Costs

In accordance with Treasury Guidance, the Income and Expenditure Accounts include notional costs as well as those actually incurred so that the full costs of UK Sport's activities are disclosed in the accounts. UK Sport has included an assessment of the cost of capital employed. This is calculated by applying an interest factor to the net assets of the fund (excluding the NLDF and grant commitments), of 3.5% (2002/03 - 6%). The DCMS has agreed that Lottery distributing bodies no longer need to make this charge and as such we have not made the charge this year.

9. Investments

The funds attributable to the Lottery Sports Fund, whilst they are within the National Lottery Distribution Fund, are invested by the National Debt Commissioners, and interest accrued is credited to the balance available for distribution.

Capital sums are distributed in accordance with the provisions of the National Lottery etc. Act 1993. Interest earned on the sums invested is apportioned to each of the Lottery Distributors on the basis of their percentage share of the total remaining National Lottery Distribution Fund at the time the interest is received.

10. National Lottery Distribution fund

During the period under review the UK Sport Lottery Fund has received and drawn down the following sums:

	2003/04 £'000	2002/03 £'000
Balance brought forward	3,620	8,023
Share of net operator proceeds	19,927	21,110
Investment returns from National Lottery Distribution Fund	67	329
Available for distribution	<u>23,614</u>	<u>29,462</u>
Funds drawn down	<u>(19,829)</u>	<u>(25,842)</u>
Balance carried forward	<u><u>3,785</u></u>	<u><u>3,620</u></u>

Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Culture, Media & Sport. However, the share of these balances attributable to UK Sport as shown in the accounts and at the Balance Sheet date, has been certified by the Secretary as being available for distribution by the body in respect of current and future commitments.

Funds are withdrawn from the National Lottery Distribution Fund into the bank account of the UK Sport Lottery Fund in order to meet payments falling due from suppliers and awards to recipients on a monthly basis.

At 31 March 2004 the cost of the fund was £3,832K (2002/2003 - £3,639K), unrealised losses of £47K (2002/2003 - £19K) were charged to Investment Returns to leave the Market Value at £3,785K (2002/2003 - £3,620K).

11. Hard Commitments

	2003/04 £'000	2002/03 £'000
Hard commitments brought forward	37,151	47,081
Hard commitments made this year	9,404	15,198
Hard de-commitments	(1,674)	(1,637)
Hard de-commitments to GIA	See note 12 *	0
Total Hard commitments	<u>33,222</u>	<u>60,642</u>
Hard commitments met in the period	<u>(18,590)</u>	<u>(23,491)</u>
Hard commitments carried forward as at 31 March	<u><u>14,632</u></u>	<u><u>37,151</u></u>

Hard Commitments By Year

	2003/04 £'000	2002/03 £'000
Amounts falling due during 2003/04	-	20,579
Amounts falling due during 2004/05	13,065	14,670
Amounts falling due during 2005/06	1,542	1,902
Amounts falling due during 2006/07	25	-
	<u><u>14,632</u></u>	<u><u>37,151</u></u>

12. Soft Commitments

	2003/04 £'000	2002/03 £'000
Soft commitments brought forward	3,661	3,944
Soft commitments made	10,997	15,070
Soft commitments transferred to hard commitments	(9,404)	(15,198)
Soft de-commitments to GIA	(825)	0
Soft de-commitments	<u>(1,003)</u>	<u>(155)</u>
Soft commitments carried forward as at 31 March	<u>3,426</u>	<u>3,661</u>

The accounting policies applied for lottery funding require commitments to be recorded in the accounts when an offer has been made and accepted. Revenue can only be recognised when funds are made available within the National Lottery Distribution Fund. With effect from 2002/2003, and to provide appropriate financial security for grantees, UK Sport commits funds for a period of up to four years with the expectation that actual funds will be available from future lottery revenue to meet future years' expenditure.

*These de-commitments were made to address the long term forecast decline in lottery revenues. The liability will now be met in Exchequer accounts partly from lottery contributions to be made by the Home Countries Sport Councils.

13. Lottery Grant Payments during the Year

	Related Party disclosures reference	2003/04 £'000	2002/03 £'000
To athletes:			
Amateur Rowing Association	2	912	790
Amateur Swimming Federation of Great Britain		883	862
British Amateur Gymnastic Association	5	263	274
British Canoe Union		280	316
British Cycling Federation		437	420
British Equestrian Federation		207	213
British Judo Association		186	231
British Tennis Federation		123	125
British Triathlon Association		215	185
Grand National Archery Society		97	111
Great Britain Wheelchair Basketball Association		287	236
Modern Pentathlon Association of Great Britain		127	122
Royal Yachting Association	3	520	516
UK Athletics	1	1,172	1,165
Other athletes		<u>551</u>	<u>529</u>
		6,260	6,095

13. Lottery Grant Payments during the Year (cont.)

	Related Party disclosures reference	2003/04 £'000	2002/03 £'000
To governing bodies:			
Amateur Rowing Association	2	304	1,667
Amateur Swimming Federation of Great Britain		2,220	2,217
British Amateur Gymnastic Association		1,324	1,279
British Canoe Union		875	855
British Cycling Federation		269	1,306
British Equestrian Federation		911	978
British Judo Association		845	820
British Paralympic Association		528	394
British Ski and Snowboard Federation		217	185
British Taekwondo Council		150	121
British Triathlon Association		595	429
British Water Ski Federation		230	199
Great Britain Target Shooting Federation		295	359
Great Britain Wheelchair Basketball Association		200	230
Modern Pentathlon Association of Great Britain		444	364
Royal Yachting Association	3	389	1,288
UK Athletics	1	823	2,540
World Class Support-Sport England		259	286
Other Governing Bodies	4	558	496
		<u>11,436</u>	<u>16,013</u>
For events:			
2003 World Badminton Championships		67	202
2003 World Indoor Athletic Championships		200	768
2008 European Football Joint Bid		0	250
Other events		627	163
		<u>894</u>	<u>1,383</u>
Total grant payments in the year		<u><u>18,590</u></u>	<u><u>23,491</u></u>

Related party disclosures above refer to the following members 1 Zahara Hyde-Peters [UK Athletics], 2 Gavin Stewart [Amateur Rowing Association], 3 Rod Carr [Royal Yachting Association], 4 Nick Bitel [Sports Dispute Resolution Panel], 5 Louise Martin [Scottish Gymnastics]

14. Staff costs

The aggregate payroll costs (staff and management) of the Lottery Sports Fund during the period under review were as follows:

	2003/04 £'000	2002/03 £'000
Wages and salaries	308	172
Social security costs	28	14
Other pension costs	37	19
Total Employee Costs	<u><u>373</u></u>	<u><u>205</u></u>

15. Staffing

The average number of staff employed, during the period were as follows:

	2003/04	2002/03
Operations/Planning/Development	9	7
Average Staff Numbers	<u>9</u>	<u>7</u>

16. Salary and pension entitlements of most senior members of UK Sport

		Age	Salary, including performance pay (£k)	Salary, including performance pay (£k)	Real increase in pension at 60 (£k)	Real increase in pension at 60 (£k)	Total Accrued pension at 60 (£k)	Total Accrued pension at 60 (£k)
			31/03/04	31/03/03	31/03/04	31/03/03	31/03/04	31/03/03
Richard Callicott	Former CEO*	57	80-85	80-85	0-2.5	0-2.5	0-5	0-5
Liz Nicholl	Acting CEO*	51	65-70	65-70	0-2.5	0-2.5	0-5	0-5
Neil Shearer	Director	48	65-70	60-65	0-2.5	0-2.5	0-5	0-5
John Scott	Director	52	65-70	60-65	0-2.5	0-2.5	20-25	15-20
Michele Verroken	Director*	49	55-60	50-55	0-2.5	0-2.5	10-15	10-15
Andrew Barnett	Head Comms.	36	55-60	50-55	0-2.5	0-2.5	0-5	0-5

A proportion of the remunerations of senior members is charged to the Lottery Fund accounts in accordance with agreed apportionment formulae as noted in policy note 6 above.

The former Chief Executive Officer of UK Sport, Richard Callicott was appointed on 23 August 1999. His remuneration for the year to 31 March 2004 was £84,300 (2002/2003 - £82,012). He is a member of London Pension Fund Authority Superannuation Scheme, to which UK Sport paid a contribution equivalent to 12.5% (2002/2003 - 12.5%) of salary.

*In December 2003 Liz Nicholl took over as Acting Chief Executive Officer and continued to fill this rôle as at 31 March 2004. On the same date Michele Verroken stepped down as Director in charge of Drug Free Sport.

17. Chair

Sir Rodney Walker was appointed as Chair of UK Sport on 6 July 1998. The appointment was extended from 3 to 5 years and ended on 18 September 2003 and carried a non-pensionable salary of £39,623 (2002/2003 £38,751) in return for working on average, 3 days per week.

On 19 September 2003, Sue Campbell took over from Sir Rodney Walker to become Interim Reform Chair for a period of 18 months on a non-pensionable annual salary of £25,835

18. Members remuneration

UK Sport pays members remuneration of £190 per day (2002/2003 - £190 per day) for attendance at meetings (£95 for half day meetings (2002/2003 - £95); changes to the old rate took effect from April 2003. Members cannot receive more than 12 payments a year in respect of Lottery Awards Panel meetings. These amounted to £760 (2002/2003 - £1,420) during the year as follows:

	£ 2003/04	£ 2002/03
Gavin Stewart	-	280
Eric Saunders	760	1,140
	<u>760</u>	<u>1,420</u>

19. Tangible Fixed Assets

	Computer Software and Equipment 2003/04 £'000	Computer Software and Equipment 2002/03 £'000
Cost at 31 March	518	521
Additions	17	-
Disposals	-	(3)
Cost at 31 March	<u>535</u>	<u>518</u>
Accumulated depreciation at 31 March	(436)	(266)
Charge for the year	(19)	(173)
Disposals	-	3
Accumulated depreciation at 31 March	<u>(455)</u>	<u>(436)</u>
Net book value at 31 March	<u><u>80</u></u>	<u><u>82</u></u>

20. Debtors

	2003/04 £'000	2002/03 £'000
Prepayments	13	-
	<u>13</u>	<u>-</u>
All amounts fall due within one year		

21. Creditors

	2003/04 £'000	2002/03 £'000
Trade Creditors	39	60
Accruals	310	133
Corporation tax	4	5
	<u>353</u>	<u>198</u>
All amounts fall due within one year		

22. Lottery Funds

	2003/04 £'000	2002/03 £'000
The Lottery fund is stated after charging for:		
External Auditors' remuneration	18	18
Panel members travel, subsistence and hospitality	2	1
Corporation tax on interest received	4	5

23. Superannuation Scheme

The majority of staff of UK Sport (Exchequer and Lottery) are members of the London Pension Fund Authority (LPFA) Superannuation Scheme. UK Sport is one of several employers whose staff participate in the scheme, and data given in this note refers to the whole scheme and to the identified UK Sport portion of it. There is a generic scheme for staff covered by the policy in note 4 above.

All staff are contractually employed by UK Sport. Whether they work on Lottery related matters or not does not affect the terms and conditions of their employment or of their pension entitlement. If in the long term they were still employed by UK Sport but the lottery accounts continued with Pension Fund deficits, then the employees, regardless of the Lottery nature of their employment, would still be entitled to look to the Grant-in-Aid accounts to ensure their pension entitlement was met. However under FRS 17 it is the economic entity which suffers the charge to its Income statement that must make disclosure of that relevant portion of the shared fund.

The pension is the defined benefit type and is funded by employees and employers at actuarially determined rates.

Employer's contribution in the year amounted to £37,000 or 12.5% of pensionable pay (2002/03-£19,000 or 12.5% of pensionable pay). The employer's contribution is reverting to 16.2% from April 2004. The share charged to these accounts is a proportion of the amount paid by UK Sport in total.

The scheme is subject to triennial valuations by the consulting actuaries to the LPFA and the latest valuation was carried out as at 31 March 2001, and published in January 2002. The actuarial method used is market related, based on average yields and market values in the 12 months leading up to the valuation date.

Financial Reporting Standards 17 (FRS17) issued by the Accounting Standards Board requires that the following information, which has been prepared for us by Hymans Robertson (the Consulting Actuaries to the LPFA) for this purpose, be disclosed in these accounts with respect to the scheme:

23.1 Balance Sheet disclosure as at 31 March 2004¹

	2004 Long term return % p.a.	Fund Value at 31/03/04 £'000	2003 Long term return % p.a.	Fund Value at 31/03/03 £'000	2002 Long term return % p.a.	Fund Value at 31/03/02 £'000
Equities	7.70%	216,068	8.00%	169,708	7.50%	224,371
Bonds	5.10%	32,946	4.80%	29,146	5.50%	33,516
Property	6.50%	9,880	6.00%	0	6.00%	0
Cash	4.00%	4,161	4.00%	6,308	4.00%	7,391
	7.30%	<u>263,055</u>	7.40%	<u>205,162</u>	7.10%	<u>265,278</u>

23.2 Net Pension assets for UK Sport

	31/03/2004 £' 000	31/03/2003 £' 000	31/03/2002 £' 000
Estimated Assets	508	393	402
Present value of scheme liabilities ²	(741)	(722)	(577)
Present value of unfunded liabilities ³	0	0	0
Total value of liabilities	(741)	(722)	(577)
Net Pension Assets/(Liabilities)	(233)	(329)	(175)
Assumptions	31/03/2004 % p.a.	31/03/2003 % p.a.	31/03/2002 % p.a.
Price increases	2.90%	2.50%	2.80%
Salary increases	4.40%	4.00%	4.30%
Pension increases	2.90%	2.50%	2.80%
Discount rate	6.50%	6.10%	6.40%

¹ In order to assess the actuarial value of the London Pensions Fund Authority Pension Fund's liabilities as at 31 March 2004, Hymans Robertson have rolled forward the actuarial value of the liabilities reported as at 31 March 2001, allowing for changes in financial assumptions as prescribed under FRS 17. In addition, they have also considered the effect of contributions paid into, and estimated benefits paid from, the Fund by UK Sport and its employees.

² Hymans Robertson estimate that this liability comprises of approximately £3,156,700, £908,600 and £0 (2002 - £2,725,000, £884,000 and £0) in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2004. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable for certain types of employer. However, they are satisfied that the approach used leads to reasonable estimates for the aggregate liability figure.

³ It is assumed that all unfunded pensions are payable for the remainder of the member's life. On death of the member, any spouse will receive a pension equal to 50% (2002- 50%) of the member's pension as at the time of death of the member.

Note that these figures exclude the capitalised cost of any early retirements or augmentations, which may occur during 2003/04.

23.3 Amount Charged to Operating Profit

	Year to 31/03/2004 £'000	Year to 31/03/2004 % of Payroll	Year to 31/03/2003 £'000	Year to 31/03/2003 % of Payroll
Service Cost	55	9.10%	46	9.30%
Past Service Costs	-	-	-	-
Curtailement and Settlements	-	-	-	-
Decrease in irrecoverable surplus	-	-	-	-
Total Operating Charge (A)	55	9.10%	46	9.30%

23.4 Projected Amount Credited to Other Finance Income

	Year to 31/03/2004 £'000	Year to 31/03/2004 % of Payroll	Year to 31/03/2003 £'000	Year to 31/03/2003 % of Payroll
Expected Return on Employer Assets	45	7.40%	33	6.70%
Interest on Pension Scheme Liabilities	<u>(65)</u>	(10.70%)	<u>(47)</u>	(9.60%)
Net Return (B)	<u>(20)</u>	(3.30%)	<u>(14)</u>	(2.90%)
Net Revenue Account Cost (A)-(B)	<u>75</u>	12.40%	<u>60</u>	12.20%

23.5 Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses.

	Year to 31/03/2004 £'000	Year to 31/03/2003 £'000
Actual return less expected return on pension scheme assets	98	(181)
Experience gains and losses arising on the scheme liabilities	(2)	29
Changes in financial assumptions underlying the present value of the scheme liabilities	<u>0</u>	<u>0</u>
Actuarial gain/(loss) in pension plan	96	(152)
Increase/(decrease) in irrecoverable surplus from membership fall and other factors	<u>0</u>	<u>0</u>
Actuarial gain/(loss) recognised in STRGL	<u>96</u>	<u>(152)</u>

23.6 Movement in Surplus/(Deficit) during the Year

	Year to 31/03/2004 £'000	Year to 31/03/2003 £'000
Surplus/(deficit) at beginning of the year	(329)	(174)
Current Service Cost	(55)	(46)
Employer contributions	75	57
Other income	0	0
Other outgo (e.g. expenses, etc)	0	0
Past service costs	0	0
Impact of settlements and curtailments	0	0
Net return on assets	(20)	(14)
Actuarial gains/(losses)	96	(152)
Surplus/(deficit) at end of year	<u>(233)</u>	<u>(329)</u>

23.7 History of Experience Gains and Losses

	Year to 31/03/2004 £'000	Year to 31/03/2003 £'000
Difference between the expected and actual return on assets	98	(181)
Value of assets	508	393
Percentage of assets	19.2%	(46.0%)
Experience gains/(losses) on liabilities	(2)	29
Present value of liabilities	(741)	(722)
Percentage of the present value of liabilities	0.2%	(4.0%)
Actuarial gains/losses recognised in STRGL	96	(152)
Present value of liabilities	(741)	(722)
Percentage of the present value of liabilities	(13.0%)	21.0%

The Actuarial Valuation for FRS 17 purposes has been allocated between the Lottery and Exchequer (GIA) accounts in accordance with note 4.

24. Reconciliation of Operating Deficit to net cash inflow/(outflow) from Operating Activities

	2003/04 £'000	2002/03 £'000
Operating surplus	22,163	5,942
Depreciation of tangible assets	19	173
(increase)/Decrease in debtors	(13)	2
Decrease in creditors	(22,363)	(9,978)
Interest receivable	(20)	(24)
(Increase)/Decrease in NLDF	(165)	4,393
Notional Interest on capital	-	28
	Note 8	
Net cash (outflow) / inflow from operating activities	(379)	536

25. Reconciliation of net cash flow to movement in Net Funds

	2003/04 £'000	2002/03 £'000
(Decrease)/Increase in cash	(381)	550
Movement in liquid resources	169	(4,394)
Increase in net funds	(212)	(3,844)
Net funds brought forward	4,419	8,263
Net funds at 31 March	4,207	4,419

26. Change in cash and cash equivalents during the year

	2003/04 £'000	2002/03 £'000
Opening cash balance	788	238
Net cash (outflow) /inflow	(381)	550
Cash and bank balances as at 31 March	407	788

27. Financial Instruments

FRS 13 Derivatives and other financial instruments, require disclosure of the rôle, which financial instruments have had during the period, in creating or changing the risks the UK Sport Lottery Fund faces in undertaking its rôle.

Liquidity Risks

In 2003/04 £19.9m or 99.77% (2002/2003 - £21.1m or 99.88%) of the UK Sport Lottery Fund's income was derived from the National Lottery. The remaining income derived from Interest on Deposits and Sundry Income. In previous reports, the Members considered that the UK Sport Lottery Fund's ability to meet the Award Commitments and other liabilities in the short and longer term is dependent on adequate sales revenue from the National Lottery and on the contingency arrangements in place with the DCMS in the event that the National Lottery revenue falls short of the amounts required.

Interest Rate Risks

The financial assets of the Fund are invested in the National Lottery Distribution Fund, which invests in a narrow band of low risk assets such as government bonds and cash. UK Sport has no control over the investment of Funds in the National Lottery Distribution Fund.

At the balance sheet date the Market Value of UK Sport's share of investment in the National Lottery Distribution Fund was £3.79m (2002/2003 - £3.62m). In the year the average return on these investments was 2.3% (2002/2003 - 5.2%). Cash balances which are drawn down from the Fund to pay grant commitments and operating costs are held in a deposit account which on average carried an interest rate of 1.65% (2002/2003 -1.7%) in the year. The cash balance at the year-end was £407k (2002/2003 - £788k) The Members consider that the Fund is not exposed to significant interest rate risks.

Foreign Currency Risk

The Fund is not exposed to any foreign exchange risks.

28. Contingent Liabilities

There were no contingent liabilities as at 31 March 2004 (2003 – Nil).

29. Capital Commitments

As at 31 March 2004, the Lottery Sports Fund had made no commitments to purchase further capital equipment (2003 - NIL).

30. Related Party Transactions

The Department for Culture, Media and Sport is the sponsoring department for the UK Sport, and is regarded as a related party of the Council. During the year the UK Sport had a number of material transactions with the Department.

None of the council members, key managerial staff or other related parties has undertaken any material transactions with the UK Sport during the year.

As a matter of policy and procedure, Council members, Lottery Awards Panel members and staff maintain publicly available registers of interests and declare any direct interests in grant applications made to the Lottery Sports Fund and any commercial relationships of the Council. If any member has an interest in an application, they exclude themselves from the relevant grant appraisal, discussion and decision process within the Council.

With respect to the Lottery Fund business, the following transactions are considered to be disclosable Related Party Transactions:

Awards Panel

Panel Date	Council Date	Lottery Award	Benefiting Organisation	Panel Member	Relationship
27 October 2003	10 November 2003	£188,000	British Gymnastics	Louise Martin	Past President and Life Member of Scottish Gymnastics