



The United Kingdom Sports Council

Lottery Distribution Fund

Report and Accounts for the Year Ended

31 March 2005

Presented pursuant to the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998), sections 14(3) and 35(5), and section 88 of the Scotland Act 1998.

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Lottery Accounts – year ended 31/03/05 Foreword

Introduction

The United Kingdom Sports Council, referred to hereafter as UK Sport, was established on 19th September 1996, and came into existence from 1st January 1997 by Royal Charter.

The mission of UK Sport is “To work in partnership to lead sport in the UK to world-class success”. Its overall goal is to help British athletes towards a top five finish in the medal table at the 2012 Olympic Games.

To achieve this, UK Sport focuses on World-Class Performance, ensuring athletes can access the support they need to compete and win at the highest level. This primary goal is supported by work in the areas of Worldwide Impact - building Britain’s reputation on the global sporting scene, and World-Class Standards - ensuring British athletes succeed fairly and cleanly.

Lottery distribution

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. Under this Act, 16.6% of the Lottery proceeds were made available for distribution for sport. Of this amount 9.2% is distributed by UK Sport. The distribution of such funds (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. UK Sport Lottery funding represents 1.533% of UK National Lottery Income. This income is variable as it depends on Lottery ticket sales.

Lottery strategy

UK Sport published its Lottery Strategy 2002-2005 in July 2002. 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 (refer to Contact Information section below).

Format of accounts

Commitments to athletes, governing bodies and events 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 Department for Culture, Media and Sport (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 Council

The Council is the equivalent of the Board of Directors. The Members are appointed by the Secretary of State for Culture, Media and Sport. Members of the Council during the period under review were:

Member	Start date	End date
Sue Campbell CBE (Interim Chair)	19.09.03	Term ended 18.3.05
(Chair)	19.03.05	4 years
Alistair Dempster**	01.07.98	3 years (extended to 30.06.05)
Professor Eric Saunders OBE	07.03.00	3 years (extended to 31.03.07)
Nick Bitel*	14.11.02	3 years
Louise Martin CBE*	14.11.02	3 years
Laura McAllister	14.11.02	3 years
Constance St Louis*	14.11.02	3 years
Lord Carter of Coles	27.11.02	3 years
Philip Carling	22.01.04	3 years
Tanni Grey-Thompson OBE	23.11.98	Term ended 22.11.04
Zahara Hyde-Peters	23.11.98	Term ended 22.11.04
Adrian Metcalfe OBE	23.11.98	Term ended 22.11.04
Gavin Stewart	23.11.98	Resigned 10.05.04
* Current members of the Audit Committee.		
** Member until 30 th June 2005.		

Declaration of Interests

Board members generally have an interest in sport. Where their interests may conflict with their responsibilities, therefore, they are required to declare an interest. The register of interests is publicly available on our web site (please refer to the Contact Information section).

The Panels

The Council's work is supported by a number of Panels, each chaired by a Council Member. The membership of the Audit Committee and Remuneration Panel comprises of Council Members only. Other Panels have a membership comprising both Council Members and other individuals of relevant expertise and experience. The Council ratifies all appointments to its Panels. The Panels report and make recommendations as appropriate to Council. At 31 March 2005, the following Panels were operational:

- Audit Committee – considers external and internal audit reports, oversees risk management processes and reviews the statutory accounts and other financial matters.
- Remuneration Panel – approves senior staff salaries and ensures that employment issues in UK Sport are dealt with professionally.
- Major Events Panel – makes recommendations to Council on Lottery (World-Class Events Programme) awards and related policy matters.
- Drug-Free Sport Panel – provides advice and guidance to UK Sport's Drug-Free Sport team.
- High Performance Group – a co-ordinating body driving the development of the world-class high performance system in the UK.

Contact information

Principal offices

UK Sport, 40 Bernard Street, London, WC1N 1 ST

www.uk sport.gov.uk

External Auditors

The Comptroller and Auditor General 157-197 Buckingham Palace Road, London, SW1 W9SP

Internal Auditors

Deloitte & Touche LLP, Hill House, 1 Little New Street, London, EC4A 4TR

Littlejohn Fraser*, 1 Park Place, London, E14 4HJ (National Governing Body Audits)

Solicitors

Moorhead James, Kildare House, 3 Dorset Rise, London, EC4Y 8EN

Bankers

Barclays Bank, Business Banking, P.O. Box 15161R, 50 Pall Mall, London, SW1A 1QA

Principal activities and review of the business

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.

World-Class Performance

UK Sport aims to support athletes to succeed in world-class events; to develop skilled people to support UK world-class athletes; and to drive the development of a world-class, high-performance system for the UK.

UK Sport works in partnership with the Home Country Sports Councils, the Home Country Institutes, the British Olympic Association, the British Paralympic Association and the priority UK governing bodies of sport to maximise our expertise and resources. World-class performance can only be delivered by world-class personnel and the challenge in the Beijing Olympiad is to further develop people with world-class skills and competencies to support our athletes.

UK Sport's Elite Coach Programme, aims to produce 60 elite British coaches by 2012. The first intake of eight coaches were inducted onto the scheme in 2004, with tailor made programmes developed for each of them covering not just technical skills but also leadership and other qualities required of 'world-class personnel'.

In February 2005, UK Sport announced its Investment Strategy for summer Olympic sports for the Beijing Games. A 'no compromise' approach will see support more focused on those competitors with a realistic medal chance. Overall investment totals £75 million in the Beijing Olympiad, an increase of £5 million on the four years leading up to the Athens Games.

Worldwide Impact

The aim is to establish the UK as an authoritative and leading player in world-class sport and to develop a sport-focused strategy for staging major international events across the UK.

UK Sport provides clear strategic support for sports to bid for and stage major events to enhance and support the development of world-class performance.

A total of 13 grants were awarded by UK Sport through its Lottery-funded World Class Events

Programme, which supports the bidding for and staging of major sporting events in the UK. The most significant awards made over the course of the year were:

- £950,000 to the 2008 World Short Course Swimming Championships in Manchester;
- £750,000 to the 2007 European Indoor Athletics Championships;
- £365,000 to the 2006 World Youth Sailing Championships in Weymouth;
- £350,000 to the 2005 Rowing World Cup in Eton; and
- £300,000 to the 2005 Paralympic World Cup in Manchester.

It was a successful year in terms of bidding for major events with a number of key successes, including Glasgow winning the right to host badminton's Sudirman Cup in 2007 and Manchester winning the battle for the 2008 World Short Course Swimming Championships.

Meanwhile, the economic benefits of hosting major events were confirmed in a report published by UK Sport. 'Measuring Success 2: The Economic Impact of Major Sports Events' analysed data from 16 World and European level events held in the UK between 1997 and 2003. It confirmed that staging major sporting events on home soil results in considerable, direct economic impacts on local communities, with nine of the 16 events studied generating additional expenditure in excess of £1.45 million.

National Audit Office report: UK Sport: Supporting Elite Athletes

The National Audit Office conducted a review during 2004/05 of the World-Class Performance Programme (WCPP), which underpins the nation's top athletes' hopes of Olympic and Paralympic success. The report was published on 27th January 2005 (HC 182-SE/2005/9 Session 2004–2005).

The review recognised that whilst UK Sport's high level target of a top ten finish in the Olympic medal table in Athens had been met, there was room for improvement both in the management of the programme and, ultimately, in performance.

The NAO report's conclusions acknowledged dramatic improvements in the support that the UK's top sportsmen and women now enjoy as a result of the WCPP, but make a series of recommendations to drive further progress. The recommendations suggest that to maximise return on future investment, UK Sport should consider whether the number of athletes and sports supported by the WCPP should be reduced and that UK Sport should be more challenging when assessing and agreeing performance targets with sports.

Many of the suggestions contained within the report have already been addressed by UK Sport's new 'Performance Investment Strategy' which will guide all the organisation's Olympic and Paralympic investment decisions for the next four years up to Beijing. The strategy will ensure that funding is targeted at those athletes who have a realistic chance of making the podium in 2008, with more resources being available to fewer athletes.

In addition, UK Sport has been through a restructuring process which has sought to put in place a team of staff whose skills and experience means that they are better able to challenge plans put forward by individual sports. With the margins of victory in Athens being extremely small, UK Sport's technical experts are exploring other scientific and technological innovations which could help to give the UK's athletes a competitive advantage.

Results

The UK Sport Lottery Fund had available to it, from National Lottery receipts and interest generated within the National Lottery Distribution Fund, £24.7m (2003/2004 - £23.6m) during the period covered by these accounts. (see note 1)

The result for the year is a deficit of £0.06m (2003/2004 £22.16m surplus) which brings the shortfall on the Lottery fund to £10.57m (2003/2004 - £10.70m). 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.

During the year to 31st March 2005 the UK Sport Lottery Fund made 1,112 (2003/2004 – 1,059) Hard Commitments (awards which had been accepted by the applicant) totalling £23.1m, (2003/2004 - £9.4m) and at the end of the period Soft Commitments (awards which were still awaiting acceptance or confirmation of compliance with specific conditions) numbered 58 (2003/2004 – 41 awards) and totalled £26.4m (2003/2004 - £3.4m).

Funding agreement and administrative targets

Performance against our set objectives is measured by a series of ministerial set targets and targets contained within our business plan for each of our key objective areas. Below is a summary of the details of UK Sport's performance against the targets set out in its funding agreement with the DCMS for the period from 2003-2006.

World-class performance

Criteria	Target	Actual
Olympic and Paralympic success:		
Summer Olympic 2004: Team GB place in final medal table as measured by number of gold medals	8 th -10 th	10 th
Summer Paralympic 2004: Team GB place in final medal table as measured by number of gold medals	1 st	2 nd
Rising number of athletes finishing in top three, top 10, top 20 of the highest level of competition	n.a.	Increasing trend towards category A athletes (world top 3) – 23.06% of WCPP athletes in Nov 2004 compared with 13.57% in Apr 2001.
World Champions in Olympic and Non-Olympic sports	12	14
Supporting winning athletes:		
Priority NGBs to have moved to a one-stop plan funding system as a result of a modernisation programme, including at least one in each home country by April 2006	10	10
Other modernisation programmes to have been implemented in NGBs between April 2003 and April 2006	40	126 –The target was originally based on the number of medium to large scale projects which was exceeded due to the introduction of a two tier application system for projects less than £35,000.
Number of management audit results offering either limited or no assurance of an NGB's organisational health by April 2006	Decrease of 75%	n.a.
Note – The number of World Champions will fluctuate from year to year depending on which events feature in the World Championship calendar for that year.		

Worldwide Impact

Criteria	Target	Actual
Staging world-class events in world-class style:		
Success rate in the number of events secured in an internationally competitive situation	50%	100%
Percentage of all bids and events funded by UK Sport that are evaluated by independent assessors	50%	20%
Note -The 2004 figure falls short of the target because the scale and nature of the events meant that UK Sport officer and NGB assessments were deemed to be the most efficient and cost effective means of evaluation.		

Lottery administrative efficiency

Target	Actual
Average time taken to process each Lottery funded application:	
Applications from national governing bodies for programme funding	In 2004/05, 44 (2003/04 - 15) applications were processed. Taking the time between recording the application and when the soft commitment was made, the average number of working days for each application was 60.00 working days (2003/04 – 60.01) or just over 12 weeks (2003/04 - 12).
Applications from athletes for athlete personal awards and education awards	1,102 (2003/04 - 1,015 applications) were dealt with, of which 853 (2003/04 - 800) were for athlete personal awards. These took an average of 8.6 working days (2003/04 – 8.1) to process.
Pre-applications from bodies wishing to bid for and/or stage events in the UK	In 2004/05, 12 (2003/04 - 34) pre-applications were received. These took an average of about 2.6 (2003/04 - 3) working weeks to process. Of these 6 (2003/04 - 16) were sent a full application form, and 4 (2003/04 - 17) 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.
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	10 full applications were received and approved in 2004/05 (2003/04 - 11). Average processing time for these applications from receipt to a decision was about 2.8 (2003/04 – 8.5) weeks. A lot of preliminary work between UK Sport officers and the organising body can take place before a formal application is submitted.
Average administrative cost per completed application	With an outturn of some £1.87m (2003/04 - £1.72m) of total Lottery administration costs and some 1,169 (2003/04 - 1,075) applications, the average administrative cost per application was calculated as £1,600 (2003/04 - £1,600).
<p>Note - Lottery applications are diverse in nature and do not lend themselves to a meaningful single target, which had been set at 12 weeks. UK Sport is processing applications in less than the average target application processing 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. All summer sport awards normally commence from 1st April, and decisions are normally made no later than the March Council meeting.</p>	

Future developments

World-class Performance

The focus for the forthcoming year is on working with the governing bodies to implement World Class Performance Programme plans for the Beijing Olympiad. The aim is to build on British Olympic and Paralympic success in Athens by reinforcing the best performing sports, supporting those that are developing and provoking positive change in those that are under-performing.

Worldwide Impact

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

- Orienteering World Cup in Guildford;
- Paralympic World Cup in Manchester;
- World Junior Wheelchair Basketball Championships in Birmingham; and
- Rowing World Cup in Eton.

Post Balance Sheet Events

On 1st July 2005 John Steele was appointed as the new Chief Executive Officer.

Research and development

UK Sport has a dedicated research resource for the organisation and external partners. It carries out, commissions and manages research projects as required by UK Sport. It also advises and assists staff and partners in the development of research proposals. Others across the Home Country Sports Councils liaise to co-ordinate research. The level of research and development expenditure in 2004/05 was £133k (2003/04 - £214k).

Employment

UK Sport ensures that disabled people are given opportunities for suitable employment and that they are not discriminated against on the grounds of disability. UK Sport is committed to the development of positive policies to promote equal opportunity in employment.

Currently within UK Sport 7.35% (2003/04 7.59%) of staff describe themselves as non white European; no staff members classify themselves as disabled.

UK Sport involves employees in decisions which may affect their welfare through bringing together representatives of the management and trade unions 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. During 2004/05, 98.03% (2003/04 75.4%) of invoices were paid on time.

Audit

The UK Sport Lottery Distribution Account is required to be audited by the Comptroller & Auditor General who is responsible for laying the Accounts before both Houses of Parliament at Westminster and the Scottish Parliament. The fee for the year is £19,000 (2003/04 £18,000).

John Steele	Sue Campbell
Chief Executive and Accounting Officer United Kingdom Sports Council	Chair United Kingdom Sports Council
13 th July 2005	13 th July 2005

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 Sports Council 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 UK Sport will continue in operation.

The Accounting Officer for the Department for Culture, Media and Sport (hereafter referred to as "DCMS") has designated the Chief Executive Officer of UK Sport as Accounting Officer for the Council. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the finances for which he 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.

John Steele	Sue Campbell
Chief Executive and Accounting Officer United Kingdom Sports Council	Chair United Kingdom Sports Council
13 th July 2005	13 th July 2005

Statement on internal control - 2004/05

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of departmental policies, aims and objectives, set by department's Ministers, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me 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 Panels of the Council of UK Sport work in close collaboration to achieve full compliance with the recommendations of the Combined Code on Corporate Governance where applicable to UK Sport.

I acknowledge my 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 I consider will infringe the requirements of regularity or propriety or which does not represent efficient or effective administration. I also acknowledge that under the terms of the UK Sport Financial Directions, neither the Chair nor the Council is permitted to give me instructions which conflict with my duties 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 National Governing Bodies (NGBs) who are key partners in achieving excellence in sport through the World-Class Performance Programmes. 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 in line with the performance investment strategy agreed by the Council at the beginning of each Olympic and Paralympic cycle. These awards are subject to annual review.

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.

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 the risks to the achievement of departmental 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 UK Sport for the year ended 31 March 2005 and up to the date of approval of the annual report and

accounts, and accords with Treasury guidance.

Capacity to handle risk

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 three most significant ones are:

- The reliance of the organisation on third party bodies to deliver targets;
- Failure to play an appropriate part in international developments; and
- Reputational risk relating to those events that proceed without UK Sport funding.

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

The risk and control framework

The risk register contains an assessment of gross risk based upon likelihood and impact. Controls to mitigate each risk are identified. Senior management assess the adequacy and effectiveness of the controls thereby determining the net exposure.

We have set up an Operational Planning Group with the purpose of developing and monitoring the operational plan and embedding the risk register.

Review of effectiveness

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

The 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.

The Audit Committee

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

- Agree its internal audit strategy;
- Review with external and internal auditors and management the audit plan for the next year. Prioritisation of internal audit work is based upon level of risk;
- Review the Risk Register;
- Consider reports from management and both internal and external audit on the system of internal control and any material control weaknesses;
- Discuss with management the actions taken on problem areas identified by Council Members, Audit Committee Members and both external and internal audit reports; and

- Ensure the published financial statements are a true and fair reflection of the organisation's financial position.

Before producing this statement 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:

- The internal audit plan;
- 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; and
- 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.

Any other issues that impact upon internal control are reported to the Audit Committee.

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

- The internal audit plan covering the scope of work which changes from year to year and the internal audit resources required;
- Internal Audit's annual assurance statement which shows the overall level of assurance achieved in the internal audit programme undertaken by Deloitte and Touche for 2004/05. Of the 9 Internal audit reports 1 was given full assurance, 7 were given substantial assurance and 1 was given limited assurance. 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
- An annual report is presented to the Audit Committee on the NGB audit and compliance reviews performed by Littlejohn Frazer on behalf of UK Sport. A total of 8 NGB audit and compliance reviews were completed during the year. These did not result in any change in the existing assurance rating of a NGB. All funded priority sports have now been subject to an audit and compliance review at least once since 2001. Of these, 17 have a "reasonable" assurance rating and 9 have "limited" assurance, and all were considered fit to receive and manage public funding.

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

Internal audit

Internal Audit works to an audit plan based upon risk and agreed with the Audit Committee. It provides assurance reports to support the internal control process.

There are two established internal audit functions in operation:

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

Other explicit review and assurance mechanisms

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:

Management Processes

- Compliance with the DCMS Management Statement / Finance Directions and Accounts Directions;
- A new organisational structure following a detailed review, to support key business processes;
- 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. Processes are in place to ensure that all relevant employment legislation is incorporated within our staff policies;
- Compliance with all current health and safety legislation. This includes ongoing risk assessments throughout the organisation;
- 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;
- A fraud policy and response plan has been approved by the Audit Committee; and
- A conflict of interest register is in place and regularly updated.

Planning and budgeting

- A three year Funding Agreement with the DCMS, with performance against key targets reviewed regularly internally and with the DCMS;
- A thorough planning process to produce the Business Plan 2005/06 – 2008/09, followed by the development of an operational plan; and
- A 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.

Performance investment strategy

A new Performance Investment Strategy has been developed which sets out a series of proposals to guide UK Sport's performance investment for the period April 2005 – March 2009. The strategy provides an open, transparent, logical process for arriving at the level of investment to National Governing Bodies and athletes. The proposals have been developed with UK Sport's Business Plan and performance objectives as the foundation.

The Performance Investment Strategy has been approved by Council resulting in award decisions made at the January and February Council meetings being based on the new strategy.

Anti-doping

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. A new UK National Anti-doping Policy, Model Rules for Governing Bodies and Procedures Guide will be launched in April 2005 to achieve compliance with the World Anti-doping Code.

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).

An independent review of the Role of UK Sport as the National Anti-doping Organisation recommended changes to strengthen the management structure in the Drug-free Sport Directorate and to UK Sport's corporate governance to ensure the independence and transparency of this function. A new management and reporting structure has been agreed and is being implemented. An independent Scrutiny Panel is being set up for Drug-Free Sport which will report publicly. Its key role will be to review any potential conflicts of interest between UK Sport's Performance and Drug-Free Sport functions.

Compliance with Combined Code 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.

John Steele	Sue Campbell
Chief Executive and Accounting Officer United Kingdom Sports Council	Chair United Kingdom Sports Council
13 th July 2005	13 th July 2005

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 18 to 32 under the National Lottery etc. Act 1993 (as amended). These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 21 and 22.

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL, THE CHIEF EXECUTIVE AND THE AUDITOR

As described on page 11 the Council and the Chief Executive of the Council, as the Accounting Officer, are responsible for the preparation of financial statements, in accordance with the National Lottery Act 1993 and directions made thereunder by the Secretary of State for Culture, Media and Sport and for ensuring the regularity of financial transactions. The Chief Executive Officer and the Council are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with the National Lottery etc. Act 1993 and the directions made there under 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 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 12 to 16 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 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 in the preparation of the financial statements, and of whether the accounting policies are appropriate to the UK Sport Lottery Distribution Fund 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 Distribution Fund activities at 31 March 2005 and of the decrease 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 (as amended) 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
15th July 2005

NATIONAL AUDIT OFFICE
157-197 Buckingham Palace Rd
Victoria
London
SW1W 9SP

Note:

The maintenance and integrity UK Sport's web site 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 web site.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2005

	Note	2004/05 £'000	2003/04 £'000
INCOME			
Share of proceeds from the National Lottery	1	20,798	19,927
Investment returns from National Lottery Distribution funds	1	182	67
Interest Receivable		25	20
Grant refunds		50	27
		<u>21,055</u>	<u>20,041</u>
EXPENDITURE			
Hard commitments	2	23,116	9,404
Hard de-commitments	2	(969)	(1,674)
Hard de-commitments transferred to Grant in Aid Account	2	(2,909)	(11,659)
Staff costs	5	834	373
Depreciation - tangible assets	10	18	19
Other operating costs		249	468
Costs apportioned from UK Sport Grant in Aid Account		771	967
		<u>21,110</u>	<u>(2,102)</u>
		(55)	22,143
INCREASE/(DECREASE)IN LOTTERY FUNDS BEFORE TAXATION			
Net Return on Pension Assets/(Liabilities)	15.4	(7)	20
Taxation		(5)	(4)
		<u>(67)</u>	<u>22,159</u>
INCREASE/(DECREASE) IN LOTTERY FUNDS			

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Note	2004/05 £'000	2003/04 £'000
Increase/(Decrease) in Lottery Funds		(67)	22,159
Actuarial gain/(loss) recognised on the pension scheme	15.5	(158)	96
Total recognised gains and losses relating to the year		<u>(225)</u>	<u>22,255</u>
Prior year adjustment		-	(329)
Total gains and losses recognised since last annual report		<u>(225)</u>	<u>21,926</u>

There are no discontinued activities.

The notes on pages 23 to 32 form part of these accounts.

BALANCE SHEET AS AT 31 MARCH 2005

	Note	2004/05 £'000	2003/04 £'000
FIXED ASSETS			
Tangible Assets	10	63	80
CURRENT ASSETS			
Investments - balance in NLDF	1	7,690	3,785
Debtors and prepayments	11	10	13
Cash at bank and in hand		245	407
		7,945	4,205
CREDITORS			
Sundry creditors falling due within one year	12	(345)	(353)
Hard grant commitments falling due within one year	2	(7,077)	(13,065)
		(7,422)	(13,418)
NET CURRENT LIABILITIES		523	(9,213)
Hard grant commitments falling due after one year	2	(11,151)	(1,567)
Pension Liability	15.2	(560)	(233)
TOTAL ASSETS LESS ALL LIABILITIES		(11,125)	(10,933)
REPRESENTED BY:			
Pension Reserve	15.2	(560)	(230)
Revenue Reserve	14	(10,565)	(10,703)
		(11,125)	(10,933)

John Steele	Sue Campbell
Chief Executive and Accounting Officer United Kingdom Sports Council	Chair United Kingdom Sports Council
13 th July 2005	13 th July 2005

The notes on pages 23 to 32 form part of these accounts.

Cash Flow Statement

	Notes	2004/05 £'000	2003/04 £'000
OPERATING ACTIVITIES			
Cash drawn down from NLDF	1	17,075	19,829
Other Income		53	-
Staff Costs		(337)	(373)
Operating Costs		(1,332)	(1,245)
Award payments	2	<u>(15,642)</u>	<u>(18,590)</u>
Net cash(outflow)/inflow from operating activities	16	(183)	(379)
RETURNS ON INVESTMENTS			
Interest received		25	20
TAXATION			
Corporation tax paid		(4)	(5)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets	10	-	(17)
(Decrease)/increase in cash	18	<u><u>(162)</u></u>	<u><u>(381)</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 (except in relation to the recognition of commitments as detailed below), 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 Lottery 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.

The accounts cover the year to 31 March 2005, in compliance with section 35 of the National Lottery etc. Act 1993.

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 recognised in the Income and Expenditure accounts (and shown in note 2), soft commitments are detailed in Note 3.

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	3-9 years

4. Pension Costs

The pension liabilities and assets are recorded in line with FRS17, with a valuation undertaken by an independent actuary. FRS17 measures the value of pension assets and liabilities at the Balance Sheet date, determines the benefits accrued in the year and the interest on scheme assets and liabilities. The value of benefits accrued is used to determine the pension charge in the Income and Expenditure Account and the interest on scheme assets and liabilities is shown in the Income and Expenditure Account. The change in the value of the assets and liabilities arising from asset valuations, changes in benefits, actuarial assumptions or change in the level of deficit attributable to members, is recognised in the Statement of Total Recognised Gains and Losses. The resulting pension liability or asset is shown on the Balance Sheet.

Further information on the pension scheme is available in note 15 to the accounts.

Details about the valuation of the pension fund and the recharges are also in note 15.

5. 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".

6. 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.

7. Investments

The funds attributable to the Lottery 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.

NOTES TO THE ACCOUNTS

1. National Lottery Distribution fund

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

	2004/05 £'000	2003/04 £'000
Balance brought forward	3,785	3,620
Share of net operator proceeds	20,798	19,927
Investment returns from National Lottery Distribution Fund	182	67
Available for distribution	<u>24,765</u>	<u>23,614</u>
Funds drawn down	<u>(17,075)</u>	<u>(19,829)</u>
Balance carried forward	<u>7,690</u>	<u>3,785</u>

Balances held in the National Lottery Distribution Fund (NLDF) 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.

The market value carried forward at 31 March of £7,690K (2003/04 £3,785K) represents the cost of the fund of £7,719K (2003/04 £3,832K) less unrealised losses of £29K (2003/04 £47K) which are charged against Investment Returns.

In 2004 the NAO produced a report – “Managing Lottery Distribution Fund Balances” (HC 875 Session 2003/2004: 21st July 2004.) In this report UK Sport was the most over-committed Lottery Distributor with commitments as a percentage of NLDF balance as at the end of March 2004 of 477%. Whilst the NLDF balance has increased as at 31 March 2005 to £7.7m this represents 580% commitments as a percentage of NLDF balance.

2. Hard Commitments

	2004/05 £'000	2003/04 £'000
Hard commitments brought forward	14,632	37,151
Hard commitments made this year	23,116	9,404
Hard de-commitments	(969)	(1,674)
Hard de-commitments to GIA *	<u>(2,909)</u>	<u>(11,659)</u>
Total Hard commitments	33,870	33,222
Hard commitments met in the period	<u>(15,642)</u>	<u>(18,590)</u>
Hard commitments carried forward as at 31 March	<u>18,228</u>	<u>14,632</u>

Hard Commitments by Year

	2004/05 £'000	2003/04 £'000
Amounts falling due during 2004/05	-	13,065
Amounts falling due during 2005/06	7,077	1,542
Amounts falling due during 2006/07	4,455	25
Amounts falling due during 2007/08	<u>6,696</u>	<u>-</u>
	<u>18,228</u>	<u>14,632</u>

Hard commitments made in the year are shown as expenditure, but during the year some commitments will be made and paid in the same year, hence the difference between outstanding hard commitments at 31 March 2004 and actual amount paid in 2005.

*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 contributions made by the Home Countries Sport Councils.

3. Soft Commitments

	2004/05 £'000	2003/04 £'000
Soft commitments brought forward	3,426	3,661
Soft commitments made	46,232	10,997
Soft commitments transferred to hard commitments	(23,116)	(9,404)
Soft de-commitments to GIA	-	(825)
Soft de-commitments	(168)	(1,003)
Soft commitments carried forward as at 31 March	<u>26,374</u>	<u>3,426</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.

4. Lottery Grant Payments during the Year

	Related Party disclosures reference	2004/05 £'000	2003/04 £'000
To athletes:			
Amateur Rowing Association		786	912
Amateur Swimming Federation of Great Britain		1,007	883
British Amateur Gymnastic Association	1	207	263
British Canoe Union		280	280
British Cycling Federation		458	437
British Equestrian Federation		204	207
British Judo Association		188	186
British Tennis Federation		129	123
British Triathlon Association		237	215
Grand National Archery Society		88	97
Great Britain Wheelchair Basketball Association		282	287
Modern Pentathlon Association of Great Britain		110	127
Royal Yachting Association		473	520
UK Athletics		1,062	1,172
Other athletes		555	551
		<u>6,066</u>	<u>6,260</u>

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

	Related Party disclosures reference	2004/05 £'000	2003/04 £'000
To governing bodies:			
Amateur Rowing Association		-	304
Amateur Swimming Federation of Great Britain		1,260	2,220
British Amateur Gymnastic Association	1	1,247	1,324
British Canoe Union		365	875
British Cycling Federation		70	269
British Equestrian Federation		322	911
British Judo Association		245	845
British Olympic Association		800	-
British Paralympic Association		869	528
British Ski and Snowboard Federation		208	217
British Taekwondo Council		149	150
British Triathlon Association		391	595
British Water Ski Federation		180	230
Great Britain Target Shooting Federation		99	295
Great Britain Wheelchair Basketball Association		200	200
Modern Pentathlon Association of Great Britain		126	444
Grand National Archery Society		143	-
Royal Yachting Association		-	389
UK Athletics		777	823
World Class Support-Sport England		-	259
Other Governing Bodies		779	558
		8,230	11,436
For events:			
Rowing World Cup 2005		236	-
World Rowing Championship 2006		318	-
Irish Football Association		100	-
2003 World Badminton Championships		-	67
2003 World Indoor Athletic Championships		-	200
2008 European Football Joint Bid		70	-
Other events		622	627
		1,346	894
Total grant payments in the year		15,642	18,590

¹Related party disclosures above refer to the following member of the Major Events Steering Group: Brian Stocks (British Gymnastics).

5. Staff costs

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

	2004/05 £'000	2003/04 £'000
Wages and salaries	441	290
Social security costs	38	28
Pensions: Current service cost	89	55
Past service costs	39	-
Impact on settlement and curtailments	216	-
Temporary and agency staff	11	-
Total Employee Costs	834	373

6. Staffing

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

	2004/05	2003/04
Operations/Planning/Development	11	9
Average Staff Numbers	11	9

7. Salary and pension entitlements of 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)
		31/03/05	31/03/04	31/03/05	31/03/04	31/03/05	31/03/04	
Liz Nicholl	Acting CEO*	52	80-85	65-70	0-2.5	0-2.5	5-10	0-5
Neil Shearer	Director	49	65-70	65-70	0-2.5	0-2.5	5-10	0-5
John Scott	Director	53	80-85	65-70	2.5-5	0-2.5	20-25	20-25
Tim Hollingsworth	Director**	37	5-10	-	0-2.5	-	0-5	0-5
Andrew Barnett	Head Comms**	37	70-75	55-60	0-2.5	0-2.5	0-5	0-5

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

In December 2003 Liz Nicholl took over as Acting Chief Executive Officer and continued to fill this role as at 31 March 2005. Her remuneration for the year to 31 March 2005 was £ 82,078. She is a member of the London Pension Fund Authority Superannuation Scheme, to which UK Sport paid a contribution equivalent to 16.2% (2003/2004 - 12.5%) of salary.

**In December 2004 Andrew Barnett left his post as Head of Communications. In March 2005 Tim Hollingsworth joined UK Sport as Director of Communications.

8. Chair

On 19 September 2003, Sue Campbell was appointed Interim Reform Chair for a period of 18 months on a non-pensionable annual salary of £25,835. The appointment was made permanent on 19 March 2005 and carried a non-pensionable salary of £36,705 (2003/2004 £26,352) in return for working on average, 3 days per week.

9. Members remuneration

UK Sport pays members remuneration of £200 per day (2003/04-£190 per day) for attendance at meetings (£100 for half day meetings (2003/04-£95)). Members cannot receive more than 36 payments a year; these amounted to £14,285 (2003/04 - £9,310) during the year as follows:

Council meetings:	£	£
	2004/05	2003/04
Nick Bitel	1,600	1,045
Lord Carter of Coles	-	190
Alastair Dempster	200	-
Phillip Carling	1,000	-
Tanni Grey-Thompson	200	190
Zahara Hyde Peters	200	855
Constance St. Louis	6,585	2,850
Laura McAllister	1,100	380
Louise Martin	1,600	380
Adrian Metcalfe	400	1,330
Eric Saunders	1,400	950
Gavin Stewart	-	1,140
	<u>14,285</u>	<u>9,310</u>

A proportion of remunerations above are charged to the lottery accounts in accordance with agreed apportionment formulae as noted in accounting policy note 5 above.

For 2003/04, £760 relating to the Awards Panel was charged directly to the Lottery. UK Sport has now a clear Performance Investment Strategy and Funding Model which makes it unnecessary to continue with an Awards Panel.

10. Tangible Fixed Assets

	Computer Software and Equipment 2004/05 £'000
Cost	
At 1 April 2004	535
Additions	-
Disposals	-
At 31 March 2005	<u>535</u>
Depreciation	
At 1 April 2004	(454)
Charge for the year	(18)
Depreciation on Disposals	-
At 31 March 2005	<u>(472)</u>
Net book Value	
At 31 March 2005	<u><u>63</u></u>
At 1 April 2004	<u><u>80</u></u>

11. Debtors

	2004/05 £'000	2003/04 £'000
Prepayments	<u>10</u>	<u>13</u>
All amounts fall due within one year		

12. Creditors

	2004/05 £'000	2003/04 £'000
Trade Creditors	181	39
Accruals	159	310
Corporation tax	5	4
	<u>345</u>	<u>353</u>

All amounts fall due within one year

13. Lottery Funds

	2004/05 £'000	2003/04 £'000
The Lottery Fund is stated after charging for:		
External Auditors' remuneration	19	18
Panel members travel, subsistence and hospitality	1	2
Corporation tax on interest received	5	4

14. Revenue Reserve

	2004/05 £'000	2003/04 £'000
Income and Expenditure Account		
Opening Balance	(10,703)	(32,862)
Increase/(Decrease) in Lottery Fund	(67)	22,159
Transfer from Pension Reserve *	205	-
Fund balance as at 31 March	<u>(10,565)</u>	<u>10,703</u>

* This relates to the difference between the actual contributions paid and the net present value of pension costs as valued by the actuaries in line with FRS17.

15. Superannuation Scheme

The majority of staff of UK Sport (Grant-in-Aid 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 £61,000 or 16.2% of pensionable pay (2003/04-£37,000 or 12.5% of pensionable pay). 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:

15.1 Balance Sheet disclosure as at 31 March 2005¹

Whole Pension fund assets

	2005 Long term return % p.a.	Fund Value at 31/03/05 £'000	2004 Long term return % p.a.	Fund Value at 31/03/04 £'000
Equities	79%	1,215,800	81%	1,134,500
Bonds	11%	166,500	12%	166,800
Property	7%	109,800	6%	80,400
Cash	3%	51,700	2%	23,700
	100%	<u>1,543,800</u>	100%	<u>1,405,400</u>

15.2 Net Pension assets for UK Sport

	31/03/2005 £' 000	31/03/2004 £' 000	31/03/2003 £' 000
Estimated Assets	1,123	508	393
Present value of scheme liabilities ²	(1,683)	(741)	(722)
Present value of unfunded liabilities ³	0	0	0
Total value of liabilities	<u>(1,683)</u>	<u>(741)</u>	<u>(722)</u>
Net Pension Assets/(Liabilities)	<u>(560)</u>	<u>(233)</u>	<u>(329)</u>
Assumptions	31/03/2005 % p.a.	31/03/2004 % p.a.	31/03/2003 % p.a.
Price increases	2.90%	2.90%	2.50%
Salary increases	4.40%	4.40%	4.00%
Pension increases	2.90%	2.90%	2.50%
Discount rate	6.50%	6.50%	6.10%

1 In order to assess the actuarial value of the London Pensions Fund Authority Pension Fund's liabilities as at 31 March 2005, 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 £1,090,824, £ 449,304 and £115,032 (2003 - £3,156,700, £908,600 and £0) in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2005. 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. It is further assumed that 80% of pensioners are married at death and that their spouse will receive will receive a pension equal to 50% of the member's pension as at the date of the member's death.

15.3 Amount Charged to Operating Profit

	Year to 31/03/2005 £'000	Year to 31/03/2005 % of Payroll	Year to 31/03/2004 £'000	Year to 31/03/2004 % of Payroll
Service Cost	89	13.70%	55	9.10%
Past Service Costs	39	6.0%	-	-
Curtailment and Settlements	216	33.4%	-	-
Total Operating Charge (A)	<u>343</u>	53.1%	<u>55</u>	9.10%

15.4 Projected Amount Credited to Other Finance Income

	Year to 31/03/2005 £'000	Year to 31/03/2005 % of Payroll	Year to 31/03/2004 £'000	Year to 31/03/2004 % of Payroll
Expected Return on Employer Assets	74	7.40%	45	7.40%
Interest on Pension Scheme Liabilities	(81)	(10.70%)	(65)	(10.70%)
Net Return (B)	<u>(7)</u>	(3.30%)	<u>(20)</u>	(3.30%)
Net Revenue Account Cost (A)-(B)	<u>350</u>	12.40%	<u>75</u>	12.40%

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

	Year to 31/03/2005 £'000	Year to 31/03/2004 £'000
Actual return less expected return on pension scheme assets	33	98
Experience gains and losses arising on the scheme liabilities	217	(2)
Changes in financial assumptions underlying the present value of the scheme liabilities	(408)	-
Actuarial gain/(loss) in pension plan	<u>(158)</u>	96
Increase/(decrease) in irrecoverable surplus from membership fall and other factors	-	-
Actuarial gain/(loss) recognised in STRGL	<u>(158)</u>	96

15.6 Movement in Surplus/(Deficit) during the Year

	Year to 31/03/2005 £'000	Year to 31/03/2004 £'000
Surplus/(deficit) at beginning of the year	(233)	(329)
Current Service Cost	(89)	(55)
Employer contributions	182	75
Past service costs	(39)	-
Impact of settlements and curtailments	(216)	-
Net return on assets	(7)	(20)
Actuarial gains/(losses)	(158)	96
Surplus/(deficit) at end of year	<u>(560)</u>	<u>(233)</u>

15.7 History of Experience Gains and Losses

	Year to 31/03/2005	Year to 31/03/2004
	£'000	£'000
Difference between the expected and actual return on assets	33	98
Value of assets	1,123	508
Percentage of assets	2.95%	19.2%
Experience gains/(losses) on liabilities	217	(2)
Present value of liabilities	(1,683)	(741)
Percentage of the present value of liabilities	(-12.87%)	0.2%
Actuarial gains/losses recognised in STRGL	(158)	96
Present value of liabilities	(1,683)	(741)
Percentage of the present value of liabilities	9.41%	(13.0%)

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

16. Reconciliation of Increase in lottery funds before taxation to net cash inflow/(outflow) from Operating Activities

	2004/05 £'000	2003/04 £'000
Increase/(decrease) in lottery funds before taxation	(55)	22,143
Depreciation of tangible assets	18	19
(Increase)/Decrease in debtors	3	(13)
Decrease in creditors	3,586	(22,363)
Interest receivable	(25)	(20)
(Increase)/Decrease in NLDF	(3,905)	(165)
Pension scheme: non cash movement	195	20
Net cash (outflow) / inflow from operating activities	<u>(183)</u>	<u>(379)</u>

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

	2004/05 £'000	2003/04 £'000
(Decrease)/Increase in cash	(162)	(381)
Movement in liquid resources	3,901	169
Increase in net funds	<u>3,739</u>	<u>(212)</u>
Net funds brought forward	4,207	4,419
Net funds at 31 March	<u>7,946</u>	<u>4,207</u>

18. Change in cash and cash equivalents during the year

	2004/05 £'000	2003/04 £'000
Opening cash balance	407	788
Net cash (outflow) /inflow	(162)	(381)
Cash and bank balances as at 31 March	<u>245</u>	<u>407</u>

19. Financial Instruments

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

Liquidity Risks

In 2004/05 £20.8m or 99.78% (2003/2004 - £19.9m or 99.77%) 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, UK Sport considered that the 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 £7.69m (2003/2004 - £3.79m). In the year the average return on these investments was 2.37% (2003/2004 - 2.3%). 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 2.38% (2003/2004 -1.65%) in the year. Cash on deposit is gross of corporation tax. The cash balance at the year-end was £245k (2003/2004 - £407k) 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.

20. Contingent Liabilities

There were no contingent liabilities as at 31 March 2005 (2004 - Nil).

21. Capital Commitments

As at 31 March 2005, the Lottery Fund had made no commitments to purchase further capital equipment (2003/04- NIL).

22. 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: (Major Events Steering Group ref. 1 - see note 4.)

Panel Date	Council Date	Lottery Award	Benefiting Organisation	Panel Member	Relationship
21 April 2004	19 May 2004	£202,000	British Gymnastics	Brian Stocks	President of British Gymnastics, Head of Sport & International Events, Birmingham City Council.
9 June 2004	14 July 2004	£750,000	Birmingham City Council	Brian Stocks	Head of Sport & International Events, Birmingham City Council.