

New Opportunities Fund Annual Accounts
2003/2004



Section nine

Annual accounts

New Opportunities Fund Annual Accounts for the Financial Year Ended 31 March 2004

Foreword to the Accounts

The New Opportunities Fund was established as a Lottery distributor by the National Lottery Act 1998 to make grants to education, health and environment projects under initiatives specified by the Government. The New Opportunities Fund is a UK-wide non-departmental public body, regulated in accordance with the Management Statement, Financial and Policy Directions issued by the Secretary of State for Culture, Media and Sport.

The governing Board of 12 members and the Chair are appointed by the Secretary of State for Culture, Media and Sport. Details of the members of the Board are contained elsewhere in this publication. All members of the Board have served for the whole of the year ended 31 March 2004.

In February 2003, the Secretary of State for Culture, Media and Sport asked the Community Fund (the operating name of the National Lottery Charities Board) and New Opportunities Fund to come together to create a new Lottery distributor, building on the strengths of both existing bodies. In November 2003, Stephen Dunmore was appointed Chief Executive of both bodies and started to put together a joint management team to lead the new distributor.

Results for the year

The New Opportunities Fund made a deficit for the year of £165 million (2002 £227 million). The New Opportunities Fund has a deficit on retained reserves of £353 million (2002 £189 million). This deficit increases to £406 million if all soft commitments at 31 March 2004 are accepted by grant applicants. This financial position was approved by the New Opportunities Fund's Board and endorsed by the Department for Culture, Media and Sport after taking into consideration the cash flow requirement of grant awards, a number of which are to fund three to five year projects. Cashflow projections are set out in Note 17 to the accounts.

In accordance with its policy the New Opportunities Fund's balance in the NLDF has continued to decline from £878 million at the beginning of the financial year to £737 million at the year end. The target NLDF balance is £240 million (see note 1.3).

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Review of activities and future developments

During 2003 the New Opportunities Fund continued to make awards, pay out grants and monitor grant recipients' compliance with terms and conditions of grant. Policy Directions were received providing funding for community sport facilities as part of the New opportunities for PE and sport in schools programme. The Fund also launched programmes to support projects that commemorate and remember the events of the Second World War, and opportunities for new generations to learn from the experiences of veterans.

The application date for a number of the Fund's programmes has now passed and programmes are fully committed. Full details are set out in section three of the Annual Report.

Wherever possible the New Opportunities Fund has made the best use of appropriate bodies for the delivery of specific services through use of its powers of delegation provided by the National Lottery Act 1998. A number of grant programmes are delegated to Award Partners, these schemes are listed on page 55 of these accounts. The Community Fund carries out grant assessment and management of the Out of school hours childcare programme and the new Childcare programme. The Highlands and Islands Enterprise manages the Scottish Land Fund programme. To deliver the small-scale grants scheme the New Opportunities Fund has joined the Awards for All schemes administered by the Community Fund in England, Wales, Scotland and Northern Ireland.

During the year the New Opportunities Fund has openly recruited 137 (2002 71) staff and has provided training to ensure that these staff understand the remit and operations of the Fund.

In the next financial year the New Opportunities Fund operating as the Big Lottery Fund will continue the delivery of the Fund's current initiatives. Future developments for the Big Lottery Fund are set out in the Chair's foreword to the annual report.

Fixed assets

The movements in fixed assets during the year are set out in Note 8 to the accounts. During the year fixed asset additions amounted to £0.5 million (2002 £1.0 million) which related to IT development.

Post balance sheet events

There have been no significant events having a financial impact on these annual accounts between 31 March 2004 and the signing of these financial statements. On 1 June 2004 the Big Lottery Fund was launched with a new Chair and Board of 16 members. The Big Lottery Fund is the joint operating name of the New Opportunities Fund and the Community Fund.

Employees, equal opportunities and consultation

As an employer, the New Opportunities Fund abides by equal opportunities legislation. This is described in further detail in the Annual Report.

The arrangements for pay and conditions have been based on best practice in the public sector and the New Opportunities Fund has established a range of employment policies that demonstrates its commitment to be a fair employer. The Board appreciates the importance of staff training and development and comprehensive arrangements have also been established. To encourage communication and good relations between the Board, management and staff at all levels the Prospect trade union has been recognised.

The nature of operations of the New Opportunities Fund means that a number of staff work closely with the senior management team and the Board, for example, through the development and evaluation of programmes. Many members of staff attend meetings of the Board which enables them to be aware of the thinking about the development of the New Opportunities Fund and its operations. Additionally, staff are consulted on the corporate plan and the revision of the strategic plan. The senior management of the New Opportunities Fund, through cascaded group meetings and their accessibility, ensures that matters of concern to staff are readily addressed.

Statement of payment policy and practice

The New Opportunities Fund aims to pay all its creditors within 30 days of receipt of an invoice, unless alternative terms and conditions have been negotiated. This is in accordance with the Better Payment Practice Guide. In the year under review 94 per cent (2002 93 per cent) of all creditors were paid within thirty days of receipt of an invoice.

Euro

The New Opportunities Fund has assessed the impact of the Euro on its operations. The introduction of the Euro is not expected to have a material effect on the New Opportunities Fund's operations or its relationships with customers and suppliers.

Auditors

Under the National Lottery Act 1998, the New Opportunities Fund is required to have its annual accounts examined and certified by the Comptroller and Auditor General. Hence the National Audit Office undertakes the external audit of the New Opportunities Fund. During this financial year the New Opportunities Fund contracted with PricewaterhouseCoopers for the provision of internal audit services.



Stephen Dunmore

Chief Executive and
Accounting Officer of the
New Opportunities Fund
11 October 2004



Sir Clive Booth

Chair of the New
Opportunities Fund

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Statement of Board's and Chief Executive's responsibilities

Under Section 35(3) of the National Lottery Act etc. 1993, (as amended by the National Lottery Act 1998), the New Opportunities 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 the Department for Culture, Media and Sport.

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

In preparing the accounts the Board Members are required to:

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

The Accounting Officer for the Department for Culture, Media and Sport has designated the Chief Executive of the New Opportunities Fund as the Accounting Officer for the New Opportunities Fund. The Chief Executive's relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances 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, 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.

Delegated responsibilities

As detailed in the Foreword to the Accounts the New Opportunities Fund has, wherever appropriate, sought to use the powers of delegation and solicitation provided by the National Lottery Act 1998. As a result of this other parties may be accountable for specific elements of programmes.

The New Opportunities Fund has the following framework agreements in place:

- Between the New Opportunities Fund and the Department of Health with regard to the Cancer Equipment and the CHD Diagnostic Equipment programmes in England which sets out the areas that the Accounting Officer of the Department of Health is accountable for, namely:
 - the assessment of need process
 - the solicitation of bids process
 - the recommendations made to the New Opportunities Fund's Board for equipment (and associated building works under the Cancer Equipment programme)

- the establishment, management and monitoring of central contracts to enable efficient procurement of equipment (or individual contracts to enable associated building works) within the approved budget.
- Between the New Opportunities Fund and the Department of Health with regard to the School Fruit pilot programme which sets out the areas that the Accounting Officer of the Department of Health is accountable for, namely:
 - the assessment of need process
 - the solicitation of bids process
 - the recommendations made to the New Opportunities Fund's Board for grant awards
 - the establishment, management and monitoring of central contracts to enable efficient procurement of fruit within the approved budget.
- Between the New Opportunities Fund and the Department for Education and Skills with regard to the Building neighbourhood nurseries programme in England which sets out the areas that the Accounting Officer of the Department for Education and Skills is accountable for, namely:
 - the Early Years Development and Childcare Partnerships endorsement of applications for funding, including viability of approved bodies, provided to the New Opportunities Fund
 - the opinion of sustainability on bids which are assessed centrally by the Department for Education and Skills.
- Between the New Opportunities Fund, Sport England, the Arts Council of England, the Department for Culture, Media and Sport and the Department for Education and Employment which sets out the accountability arrangements for each of the Accounting Officers in relation to the Spaces for Sports and Arts programme. Under this agreement the New Opportunities Fund's Accounting Officer is responsible for:
 - ensuring that Lottery funds allocated by the New Opportunities Fund for this programme are applied in accordance with the New Opportunities Fund's legal powers
 - the economic, efficient and effective use of Lottery funding allocated by the New Opportunities Fund to the programme
 - satisfying himself that the systems used for operating the programme are robust and fit for purpose
 - agreeing the mechanism for allocating the administrative costs of the programme between the participating Lottery Bodies.

The New Opportunities Fund has used the powers provided by the National Lottery Act 1998 to delegate to Award Partners the following grant schemes.

As part of the Green spaces and sustainable communities initiative:

- Barnardo's – Better Play
- BTCV – People's Places
- Countryside Agency – Doorstep Greens
- English Nature – Wildspace!
- Royal Society for Nature Conservation – SEED
- Scottish Natural Heritage and Forward Scotland – Fresh Futures

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- Wales Council for Voluntary Action – Enfys Scheme
- Northern Ireland Housing Executive – Creating Common Ground Consortium

As part of the Transforming communities initiative:

- Royal Society for Nature Conservation – Community Recycling and Economic Development
- Scottish Natural Heritage – Fresh Futures (Transforming Your Space)
- Forward Scotland – Transforming Waste in Scotland
- Wales Council for Voluntary Action – Cleanstream Recycling Fund – Transforming Waste in Wales
- Business in the Community (Northern Ireland) – Community Resource Consortium

As part of the New opportunities for health initiative:

- British Heart Foundation – Heart Failure Support Networks
- British Heart Foundation – National defibrillator programme
- British Heart Foundation – Cardiac rehabilitation programme

As part of the New opportunities for PE and sport in schools initiative:

- The Football Foundation – Grassroots Development for Schools

The grant offer between the New Opportunities Fund and the award partners sets out the responsibility of the Chief Executive of the award partner to ensure that the systems implemented to administer Lottery applications and process and monitor Lottery grants are acceptable and fit for purpose and that Lottery funds are distributed with due regularity and propriety.

Stephen Dunmore

Chief Executive

11 October 2004

Statement on internal control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the New Opportunities Fund's objectives while:

- safeguarding the public funds and assets for which I am personally responsible in accordance with the responsibilities assigned through Government Accounting
- ensuring compliance with the requirements of the New Opportunities Fund's Management Statement, financial directions and Statement of Financial Requirements.

The purpose of the system of internal control

The system of internal control is designed to manage to a reasonable level rather than eliminate all risk of failure to achieve policy directions and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the New Opportunities Fund's policy directions and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised. This process has been in place throughout the year ended 31 March 2004 and up to the date of the approval of the annual report and accounts and accords with Treasury guidance.

Capacity to handle risk

The Board has endorsed a risk management policy that establishes the Senior Management Team as the Risk Management Group. The Risk Management Group is responsible for establishing the risk appetite of the New Opportunities Fund. The Senior and Extended Management Teams have received briefing on risk management. This briefing identifies that risk and its management is a fundamental part of their role encompassing good management practice and common sense e.g. planning, setting objectives, establishing adequate financial and other controls and monitoring performance. The risk and compliance officer supports the Risk Management Group and the New Opportunities Fund's managers in all aspects of risk management.

Risk and control framework

Following on from previous work by Board members, management and staff, the New Opportunities Fund has identified the specific risks in achieving its objectives. The potential impact of each risk and the likelihood of it being realised has been assessed and appropriate controls to mitigate these risks have been determined. This has all been recorded in the corporate risk register, which is reviewed half-yearly by the Risk Management Group.

The New Opportunities Fund is currently merging with the Community Fund to form a new Lottery distributor, the Big Lottery Fund. The merger process has been identified as being a key risk and management and control frameworks have been put in place to ensure that the integration of functions is properly managed and controlled. A new corporate risk register is being developed for the Big Lottery Fund. This will incorporate new risks and those that are common to both organisations. Members of the Big Lottery Fund Board will endorse the new risk register.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors, the executive managers within the New Opportunities Fund 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 the review of the effectiveness of the system of internal control by the New Opportunities Fund's Finance and Audit Committee, and from 1 June 2004 by the Audit and Risk Committee of the Big Lottery Fund, which oversees the work of the internal auditor and receives reports from the risk and compliance manager and external audit. A plan to address weaknesses and ensure continuous improvement of the system is in place. Appropriate management action has been taken in response to the three recommendations raised in last year's external auditor's management letter.

The key elements of this system of internal control – the control environment – is represented by the following:

- a senior Management Team which meets at least every three weeks to consider the plans and operations of the New Opportunities Fund and compliance with the management statement.
- a Board which meets at least every two months to consider the strategic direction of the New Opportunities Fund. The Board comprises a Chair and 12 non-executive members and is attended by the members of the Senior Management Team.

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- the Finance and Audit Committee, replaced from 1 June 2004 with the Audit and Risk Committee, whose terms of reference require the Committee to approve the internal audit programme, to endorse the risk register and to scrutinise the outcome of reports by internal and external audit. The Chair of the Committee reports to the Board on the matters discussed by the Committee
- the management of all forms of business risk as described above
- quarterly performance management reports to Senior Management Team reporting progress in achieving performance and service delivery targets. These targets have generally been met, as detailed in the Annual Report. Where targets have not been met action is being taken to improve efficiency and effectiveness
- a wide range of policies dealing, inter alia, with control issues for corporate governance, management accounting, financial reporting, project management, health and safety, training and development, information technology and risk management generally.

During the financial year the New Opportunities Fund purchased its internal audit function from PricewaterhouseCoopers. They are required to operate to standards defined in the Government Internal Audit Manual. The work of internal audit is informed by the corporate risk register and an analysis of the risk to which the New Opportunities Fund is exposed. The annual internal audit plans are based on this analysis. The review of risk and the internal audit plan was endorsed by the Finance and Audit Committee and approved by me. Internal audit meet regularly with me and at least annually, internal audit provide me with a report on internal audit activity in the New Opportunities Fund. The annual report includes their opinion on the adequacy and effectiveness of the systems that they have reviewed. This has been reviewed by the Audit and Risk Committee.

Compliance

The New Opportunities Fund maintains a Register of Interests for all Board and committee members and all Fund staff. A process to deal with conflicts of interest is in place for decision making committee meetings and procedures exist to prevent any member of staff from assessing a grant application from an organisation with which they are connected.

Losses of Lottery grant have been appropriately handled and where necessary notified to the Department.

It is my opinion that the New Opportunities Fund has made sufficient arrangements to ensure compliance with the requirements of our Management Statement, Policy and Financial Directions.

Stephen Dunmore

Chief Executive and Accounting Officer
of the New Opportunities Fund
11 October 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 61 to 83 under the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998). These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 64–66.

Respective responsibilities of the New Opportunities Fund, the Chief Executive and Auditor

As described on pages 54–56, the New Opportunities Fund and Chief Executive are responsible for the preparation of the financial statements in accordance with the National Lottery etc Act 1993 (as amended) and directions made thereunder by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury, and for ensuring the regularity of financial transactions. The New Opportunities Fund and Chief Executive are also responsible for the preparation of the Foreword and other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Lottery etc Act 1993 (as amended) and directions made thereunder, 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 New Opportunities Fund has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 56 to 58 reflects the New Opportunities Fund's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the New Opportunities Fund's corporate governance procedures or its risk and control procedures.

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Basis of audit opinion

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

Advances to partners

The accounting policy described in Note 1 to the accounts reflects distribution of Lottery money through certain partners under various schemes of delegation. Funds advanced to those partners have either been used in settlement of grant commitments or are held in balances, as detailed in Note 9 to the accounts. The amount recorded as committed in the income and expenditure account relates to the ICT training for teachers and school librarians initiative, some £7,458,000 (2002/2003 £23,330,000) is derived from the latest available audited returns of which the oldest dates back two financial years.

The previous financial year's figure was derived from statistical estimation based on interim and unaudited returns from 65 % of the Fund's partners in this initiative. Audited returns covering the proper use and recording of expenditure in 2003/2004 are due to be submitted to the New Opportunities Fund by 31 December 2004, significantly after these accounts have been signed. Any adjustments necessary will be reflected in subsequent years' accounts. I draw attention to this basis of accounting without qualifying my opinion.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the New Opportunities Fund at 31 March 2004 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998) and directions made thereunder by the Secretary of State for Culture, Media and Sport
- 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

Date: 14 October 2004

National Audit Office

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Income and expenditure account for the year ended 31 March 2004

	Note	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Income			
Proceeds from the National Lottery		433,023	458,948
Investment income from the National Lottery Distribution Fund		29,029	53,325
Decrease/(increase) on loss on revaluation of investment		(4,612)	574
Bank interest receivable		690	739
Recoveries of grant		4,621	2,310
Other income		236	139
Total Income		462,987	516,035
Expenditure			
In support of initiatives			
Grant commitments made	12	633,984	636,308
Less lapsed or revoked commitments	12	(39,929)	(18,747)
		594,055	617,561
Direct expenditure in support of initiatives	2	1,596	1,193
National Endowment for Science, Technology and the Arts	10	-	95,000
		595,651	713,754
Administration costs			
Employee remuneration costs	3	11,597	9,769
Other operating charges	4	20,233	19,024
		31,830	28,793
Total Expenditure		627,481	742,547
Deficit before taxation		(164,494)	(226,512)
Tax	7	(211)	(201)
Deficit for the period		(164,705)	(226,713)
Retained income			
Brought forward at 1 April 2003		(188,772)	37,941
Deficit for the period		(164,705)	(226,713)
Retained income at 31 March 2004		(353,477)	(188,772)

The New Opportunities Fund has no recognised gains and losses other than those above and consequently no separate statement of total recognised gains and losses has been presented. There are no discontinued activities.

The notes on pages 64 to 83 form part of these accounts.

Balance sheet as at 31 March 2004

	Note	31 March 2004 £'000	31 March 2003 £'000
Fixed assets			
Tangible fixed assets	8	3,181	4,003
Current assets			
Debtors and prepayments	9	27,212	66,000
Cash at bank and in hand		1,775	686
Investment balance in National Lottery Distribution Fund	10	737,276	877,836
		<u>766,263</u>	<u>944,522</u>
Creditors: amounts falling due within one year			
Creditors	11	(9,189)	(3,977)
Grants committed for payment	12	(485,121)	(553,736)
		<u>(494,310)</u>	<u>(557,713)</u>
Net current assets		<u>271,953</u>	<u>386,809</u>
Total assets less current liabilities		<u>275,134</u>	<u>390,812</u>
Creditors: amounts falling due after one year			
Creditors	11	(502)	(893)
Grants committed for payment	12	(628,109)	(578,691)
		<u>(628,611)</u>	<u>(579,584)</u>
Total net (liabilities)		<u>(353,477)</u>	<u>(188,772)</u>
Represented by:			
Retained income		<u>(353,477)</u>	<u>(188,772)</u>

Signed on behalf of the New Opportunities Fund Board who approved the annual accounts on 11 October 2004.

Stephen Dunmore

Chief Executive and Accounting Officer of the
New Opportunities Fund

Sir Clive Booth

Chair of the
New Opportunities Fund

The notes on pages 64 to 83 form part of these accounts.

Cash flow statement to 31 March 2004

	Note	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Operating activities			
Funds drawn down from the National Lottery Distribution Fund		598,000	462,000
Recoveries of grant and cash from other sources		4,558	2,189
Payment to National Endowment for Science, Technology and the Arts		-	(95,000)
Payments to suppliers		(16,513)	(20,466)
Payments to and on behalf of employees		(11,240)	(9,747)
Payments to grant recipients		(614,823)	(347,143)
Cash paid and held by third parties		41,122	7,324
Net cashflow from operating activities	16	1,104	(843)
Returns on investments and servicing of finance			
Bank interest received		702	721
Capital expenditure			
Payments to acquire tangible fixed assets		(519)	(1,260)
Sale of tangible fixed assets		7	705
		1,294	(677)
Taxation			
Tax paid on interest received		(205)	(140)
Increase/(Decrease) in cash		1,089	(817)
Change in funds resulting from cashflow			
Cash at 31 March 2004		1,775	686
Less cash at 1 April 2003		(686)	(1,503)
Movement		1,089	(817)

The notes on pages 64 to 83 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current cost. The accounts have been prepared in a form directed by the Secretary of State for Culture, Media and Sport with the consent of Treasury in accordance with Section 43D(2) of the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998).^{*} Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act and Accounting Standards issued by the Accounting Standards Board insofar as they are appropriate.

1.2 Going concern

The annual accounts have been prepared on a going concern basis.

1.3 National Lottery Distribution Fund

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

The New Opportunities Fund aims to reduce its NLDF balances to £240 million as soon as possible, providing the New Opportunities Fund continues to have sufficient assurance that this will neither compromise existing commitment nor unreasonably constrain its ability to make future commitments in accordance with Policy Directions.

The New Opportunities Fund has agreed the following targets –

- by 31 March 2004 to aim for balances in the NLDF to be £736 million
- by 31 March 2005 to aim for balances in the NLDF to be £580 million
- by 31 March 2006 to aim for balances in the NLDF to be £308 million.

These targets are based on income forecasts provided by DCMS and allow for the impact of the proposed Olympic Lottery and reflect expenditure on current Policy Directions.

1.4 Fixed assets

Fixed assets are capitalised in the Balance Sheet at cost except for items costing less than £2,000 which are written off to the Income and Expenditure Account in the year of purchase.

Depreciation is provided at rates calculated to write off the valuation of the assets on a straight line basis over their estimated useful lives as follows:

Leasehold improvements	Over the life of the lease (6 to 20 years)
Grant systems	3 years
Office equipment, furniture and fittings	3 years
IT equipment	3 years
Assets in the course of development.	Depreciation is not charged

Fixed assets are revalued to reflect their value to the business by reference to their current cost.

^{*} A copy of the Accounts Directions issued by the Department for Culture, Media and Sport on 28 May 2002 are available on written request to the New Opportunities Fund, 1 Plough Place, London EC4A 1DE

1.5 Pension fund

Employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge on the PCSPS. The New Opportunities Fund pays a charge for each employee calculated on an accruing basis. Pension benefits are provided through the PCSPS. From 1 October 2002, staff who are members of the scheme can be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between membership of the premium scheme or can join a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account). The differences between the schemes can be found on the www.civilservice-pensions.gov.uk website.

1.6 Operating leases

The costs of operating leases held by the New Opportunities Fund are charged to the Income and Expenditure Account in the period to which they relate. The benefits of rent-free periods on leaseholds are apportioned over the period to the first rent review on a straight-line basis.

1.7 Expenditure on initiatives

The Lottery etc Act 1993 provides for the New Opportunities Fund to make grants to fund or assist in the funding of projects and to make or enter into arrangements which are designed to give effect to initiatives concerning health, education or the environment as directed by the Secretary of State.

Grant offers and commitments

The Accounts Direction issued by the Department for Culture, Media and Sport requires a distinction to be made between soft commitments and hard commitments.

Hard commitments are defined as the grant sum payable over the life of a scheme on which the New Opportunities Fund has a written contractual agreement with the applicant. Hard commitments are charged to the income and expenditure in the year that the contracts are signed. Hard commitments are shown on the Balance Sheet as a creditor, the balance being reduced as payments to grant recipients are released.

Soft commitments are defined as an agreement in principle by the New Opportunities Fund to fund a scheme and an offer of grant made to the applicant, which the applicant has yet formally to accept. These are shown as a note to the accounts but are not treated as part of the Income and Expenditure Account.

Direct expenditure on initiatives

The New Opportunities Fund records as direct expenditure on initiatives costs incurred in making initiatives more effective in accordance with its Section 43 Policy Directions for example provision of support structures and quality assurance for the direct benefit of grant recipients.

1.8 Grant management – delegated partners

The New Opportunities Fund has entered into agreements with a number of delegated bodies to carry out specified grant management processes. Funds advanced to delegated partners for the purpose of payment of hard commitments are recorded as a debtor until the New Opportunities Fund receives confirmation that grant commitments have been met.

Notes to the accounts

Under the conditions of the ICT for teachers and school librarians' scheme, both the administration of the formal acceptance of grant offers and the payment of grant commitments are administered, on the New Opportunities Fund's behalf, by Local Education Authorities in England and Wales, Education Authorities in Scotland and Education and Library Boards in Northern Ireland. The hard commitments recorded in the Income and Expenditure Account have been derived from those audited returns received from these administering bodies at the time of preparation of these accounts. All administering bodies are required to submit a return audited by their external auditors by 31 December 2004. Any adjustments arising from returns submitted after preparation of these accounts will be made in next year's annual accounts.

1.9 Grant management – joint schemes

Where the New Opportunities Fund has entered into a joint scheme, as defined in the National Lottery Act 1998, hard commitments made through the joint scheme are accounted for on the basis of the New Opportunities Fund's share in the scheme. Funds advanced to the joint scheme for the purpose of payment of hard commitments are recorded as a debtor until the New Opportunities Fund receives confirmation that the grant commitments have been met. Administration costs are included in the Income and Expenditure Account at the amount charged to the New Opportunities Fund.

1.10 Allocation of income and costs

Income is allocated to each programme to match the in-year costs of that programme. Income not allocated in the current year will be matched to future costs in following years. The New Opportunities Fund's Policy Directions set out how much income in total is to be allocated to each initiative.

Where possible, costs are charged directly to the relevant programme. Direct staff costs relate to the costs of staff who assess and monitor grant applications. Unallocated costs are apportioned to each programme in proportion to the value of that programme.

1.11 Notional cost of capital

From 1 April 2002, HM Treasury removed the requirement for a notional cost of capital charge to be calculated on assets funded by the Lottery.

2. Direct expenditure in support of initiatives

Costs relating to expenditure for the direct benefit of third party recipients are separately disclosed.

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Quality control of external training	49	660
Consultancy support provided directly to grant applicants and recipients	1,547	533
	<u>1,596</u>	<u>1,193</u>
Direct expenditure in support of initiatives analysed by each expenditure programme are:		
Healthy living centres	-	39
ICT training for teachers and school librarians	49	660
New opportunities for PE and sport	1,507	448
Out of school hours learning	40	46
	<u>1,596</u>	<u>1,193</u>

Notes to the accounts

3. Staff numbers and cost

The total salary cost, including Board members, was as follows:

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Wages and salaries	9,608	8,166
Social security costs	734	527
Pension costs	1,255	1,076
	<u>11,597</u>	<u>9,769</u>

As at 31 March 2004 332 staff were employed (2002/2003 300). The average number of employees (excluding temporary staff) working for the New Opportunities Fund during the year was made up as follows:

	Year ended 31 March 2004 Average no. of employees	Year ended 31 March 2003 Average no. of employees
Chief Executive's Office	11	8
Finance and Corporate Services	29	26
Policy and External Relations	60	60
Operations	156	167
Country offices	67	26
Merger team	2	-
	<u>325</u>	<u>287</u>

The salary and pension entitlement of the Senior Management Team of the New Opportunities Fund were as follows;

	Salary, including performance bonus, at 31 March 2004	Real increase in pension at 60	Total accrued pension at 60 as at 31 March 2004	Cash equivalent transfer value (CETV)	Real increase in CETV after adjustment for inflation and changes in market investment factors
2003 comparatives shown in brackets	£'000	£'000	£'000	£'000	£'000
Stephen Dunmore (Chief Executive)	90 – 95 (100 – 105)	5 – 7.5 plus 15 – 17 lump sum	40 – 45 plus 120 – 125 lump sum	711 (602)	75
Nicholas Allaway (Director of Finance and Corporate Services) to 4 January 2004	50 – 55 (70 – 75)	0 – 2.5 plus 0 – 2.5 lump sum	15 – 20 plus 55 – 60 lump sum	242 (223)	9
Ceri Doyle (Director, Wales) from 1 December 2003	15 – 20 (0)	0 – 2.5 plus 0 – 2.5 lump sum	5 – 10 plus 0 – 5 lump sum	58 (0)	3
Beverly Francis (Director, Scotland) from 1 December 2003 to 29 February 2004	35 – 40 (0)	0 – 2.5 plus 0 – 2.5 lump sum	5 – 10 plus 20 – 25 lump sum	77 (0)	5
Peter Grant (Director of Operations)	75 – 80 (70 – 75)	0 – 2.5	15 – 20	184 (161)	17
Adrienne Kelbie (Director, Scotland) from 1 March 2004	0 (0)	0	0	0 (0)	0
Gerald Oppenheim (Director, Planning and Performance) from 1 January 2004	0 (0)	0	0	0 (0)	0
Vanessa Potter (Director, Policy and External Relations)	80 – 85 (75 – 80) lump sum	0 – 2.5 plus 2.5 – 5	5 – 10 plus 20 – 25 lump sum	79 (64)	11
Walter Rader (Director, Northern Ireland) from 1 December 2003	15 – 20 (0)	0 – 2.5 plus 0 – 2.5 lump sum	5 – 10 plus 10 – 15 lump sum	60 (0)	4

Notes to the accounts

From 1 December 2003, the Chief Executive took on the role of joint Chief Executive of the Community Fund and New Opportunities Fund. His remuneration for the part of his service contract with the Community Fund is disclosed in that organisation's accounts. Pension entitlement disclosures are based on his total remuneration package. The Chief Executive's contract expires one day after appointment of the Chief Executive of the Big Lottery Fund. The Chief Executive is subject to the New Opportunities Fund's standard terms and conditions of employment.

During the year Directors were appointed to the Senior Management Team of the Big Lottery Fund, the joint management team for the Community Fund and New Opportunities Fund. Directors employed by the New Opportunities Fund are on permanent employment contracts, which allow for them to provide services to the Community Fund and which are subject to the New Opportunities Fund's standard terms and conditions of employment.

The Directors of Scotland and Planning and Performance are employed by the Community Fund under contracts that allow for them to provide services to the New Opportunities Fund. Their remuneration is disclosed in that organisation's accounts.

Pension benefits are provided through the Principal Civil Service Pension Scheme. Further pension disclosures are made in note 19. Column four of the above table shows the member's cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Column five reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003/04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETV's are calculated within the guidelines prescribed by the Institute and Faculty of Actuaries.

Board members remuneration

The Chair of the New Opportunities Fund's Board is a part-time appointment, two days per week.

Baroness Jill Pitkeathley stepped down as Chair of the New Opportunities Fund on 31 May 2004. Sir Clive Booth became the Chair of the Big Lottery Fund from 1 June 2004.

The Chair received remuneration of £25,290 (2002 £24,736). The remaining Board members are paid a daily rate of £194 (2002 £190) and reimbursed for expenses incurred whilst undertaking the New Opportunities Fund's business. No Board member received contributions to pension. Total emoluments paid to Board members to 31 March 2004 was £71,054 (2002 £82,605), analysed as follows:

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Jill Barrow	9.3	5.1
Professor Eric Bolton	6.9	5.6
David Campbell	14.3	15.2
David Carrington	2.6	8.7
Tom Davies	5.4	6.1
Professor Briedge Gadd	9.8	10.2
Professor Siân Griffiths	1.8	6.2
Polly Hudson	2.8	3.3
Dugald Mackie	6.9	7.6
Professor Allan Patmore	4.0	4.4
Barbara Stephens	2.7	3.0
Geoff Thompson	4.7	7.2

Notes to the accounts

4. Other operating costs

Included in other operating costs are:

	Year ended 31 March 2004 £'000		Year ended 31 March 2003 £'000	
Agency staff		529		435
Board expenses		13		11
Travel and expenses				
Staff	525		491	
Board members	47	572	40	531
Auditors fees				
External Audit	33		33	
Internal Audit	114	147	97	130
Grant delivery costs		3,312		5,317
Operating leases				
Property	3,465		3,582	
Equipment	55	3,520	58	3,640
Write off of grant payments		-		400
Write down fixed assets		129		35
Depreciation				
Current cost	838		1,367	
Diminution in value	379	1,217	136	1,503
Other costs		10,794		7,022
		<u>20,233</u>		<u>19,024</u>

5. Total operating expenses

Operating expenses analysed by each expenditure programme are:

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Healthy living centres	3,007	3,080
Out of school hours learning	2,479	2,251
Out of school hours childcare	2,895	2,507
ICT training for teachers and school librarians	1,677	1,590
ICT training for public library staff	226	262
Digitisation of learning materials	700	698
Cancer equipment	1,014	978
Community access to lifelong learning	2,215	1,931
Green spaces and sustainable communities	1,324	1,269
New opportunities for PE and sport	8,226	6,487
Activities for young people	625	536
Reducing the burden of CHD, cancer and stroke	1,767	1,490
Palliative care	934	811
Transforming communities	1,314	1,400
Childcare	1,379	1,556
Small scale grant schemes	1,605	1,504
Fair Share	443	443
	31,830	28,793

6. Financial performance indicator

The New Opportunities Fund aims to keep operating costs to between 5–7 % of income received over the lifetime of the Fund. This target continues to be achieved; operating costs are 5.2% of income (2003/2004 4.8 %). The increase in this indicator is due to the fall in income from the Lottery resulting from declining ticket sales and investment income and increased cost arising from the delivery of current grant programmes particularly New opportunities for PE and sport in schools.

7. Corporation tax

The New Opportunities Fund pays corporation tax on bank interest received. The tax payable is £210,818 (2002/2003 £201,121). Monies held and invested by the National Lottery Distribution Fund on the New Opportunities Fund's behalf are not taxable.

Notes to the accounts

8. Tangible fixed assets

	Leasehold improvement	IT	Office equipment furniture and fittings	Grant Systems	Total
	£'000	£'000	£'000	£'000	£'000
Current cost					
At 1 April 2003	2,422	164	73	2,327	4,986
Additions	220	17	-	294	531
Disposals	(205)	-	-	-	(205)
Diminution in Value	-	-	-	(379)	(379)
At 31 March 2004	2,437	181	73	2,242	4,933
Current depreciation					
At 1 April 2003	256	148	68	511	983
Charge for the year	182	17	4	635	838
Disposal	(69)	-	-	-	(69)
At 31 March 2004	369	165	72	1,146	1,752
Net current cost					
At 31 March 2004	2,068	16	1	1,096	3,181
At 31 March 2003	2,166	16	5	1,816	4,003

The diminution in value on Grant Systems represents the revaluation of these assets using the ONS indices for computer equipment. The current cost of other asset categories was not considered materially different from historic cost.

9. Debtors and prepayments

	As at March 2004 £'000	As at 31 March 2003 £'000
Held by delegated partners for payment of grant commitments	25,166	64,445
Other	728	391
repayments	1,318	1,164
	<u>27,212</u>	<u>66,000</u>

In accordance with the New Opportunities Fund's accounting policy the payment of grant commitments administered by delegated partners on the New Opportunities Fund's behalf will not be recorded until the New Opportunities Fund has received an audited return from these bodies stating the amount of grant paid.

Balances held by delegated partners include £15,993,000 (2002 £60,312,000) held by Local Education Authorities in England and Wales, Education Authorities in Scotland and Education and Library Boards in Northern Ireland for payment of grants awarded under the ICT Training for teachers and school librarians programme. Audited returns are due from these delegated partners by 31 December 2004.

£40,030,000 of the 2002/2003 ICT training for teachers and school librarians debtor of £60,312,000 has subsequently been confirmed as grant payments as at that date. This is reflected in note 12 of these accounts.

10. Balance held by the National Lottery Distribution Fund

	£'000
Cost as at 1 April 2003	882,377
Distribution from the National Lottery	433,023
Investment income earned	29,029
Cash drawn down	(598,000)
Cost as at 31 March 2004	<u>746,429</u>
Unrealised loss on investment	(9,153)
Market value at 31 March 2004	<u>737,276</u>

At 31 March 2004, the market value of the New Opportunities Fund's balance held by the National Lottery Distribution Fund (NLDF) was £737,275,837 (2002 £877,835,830).

The New Opportunities Fund receives a share of the monies paid by Camelot Group plc to the NLDF after deduction for the costs of the Secretary of State for Culture, Media and Sport in exercising her functions under the Lottery Act, the costs of the regulator (the National Lottery Commission) and the costs of the investment manager (the National Debt Commissioners).

Notes to the accounts

11. Creditors: amounts falling due within one year

	As at 31 March 2004 £'000	As at 31 March 2003 £'000
Trade creditors	2,784	1,176
Accruals and deferred income	3,700	2,347
Other	2,705	454
	<u>9,189</u>	<u>3,977</u>

Creditors: amounts falling due in more than one year

	As at 31 March 2004 £'000	As at 31 March 2003 £'000
Deferred income	<u>502</u>	<u>893</u>

12. Hard commitments

The administration of the formal acceptance of grant offers for the ICT training for teachers and school librarians programme is carried out by Local Education Authorities in England and Wales, Education Authorities in Scotland and Education and Library Boards in Northern Ireland. The administering bodies provide the New Opportunities Fund with returns that show the amount of new commitments entered into during the year. These returns are not required to be audited until 31 December 2004. The New Opportunities Fund has included new commitments recorded on audited returns provided by administering bodies at the time of preparing these accounts. See accounting policy note 1.8.

Adjustments to prior years' commitments arising from audited returns are reported as part of the current year figures, within the "grant commitments made" figure in the table below. At the date of the signing of these accounts the cumulative actual grant commitment for the period to 31 March 2003 is £204 million (estimated figure was £207 million).

The payment of grant commitments administered by delegated partners for the ICT training for teachers and school librarians programme are recognised on receipt of audited returns. Grant commitments met for this programme represent payments notified to the New Opportunities Fund relating to previous financial years (see debtors note 9).

12. Hard commitments

	Grant commitments brought forward at 1 April 2003	Grant commitments made	Lapsed or revoked grant commitments	Grant commitments met	Grant commitments carried forward at 31 March 2004
	£'000	£'000	£'000	£'000	£'000
Healthy living centres	225,245	1,672	14	43,101	183,802
Out of school hours learning	119,662	10,915	2,703	49,926	77,948
Out of school hours childcare	75,948	167,685	10,153	99,111	134,369
ICT training for teachers and school librarians	86,552	7,458	-	67,667	26,343
ICT training for public library staff	4,388	-	-	2,723	1,665
Digitisation of learning materials	22,658	1,110	90	15,423	8,255
Cancer equipment	44,664	922	189	22,763	22,634
Community access to lifelong learning	124,555	5,613	3,650	80,508	46,010
Green spaces and sustainable communities	92,440	865	3	44,755	48,547
New opportunities for PE and sport	85,750	194,204	676	27,454	251,824
Activities for young people	29,387	21,263	4,360	22,854	23,436
Reducing the burden of CHD, cancer and stroke	93,362	88,478	5,336	47,486	129,018
Palliative care	58,560	20,010	500	12,778	65,292
Transforming communities	68,260	49,068	12,227	11,281	93,820
Small scale grant scheme	996	14,821	28	15,522	267
Fair Share	-	49,900	-	49,900	-
	1,132,427	633,984	39,929	613,252	1,113,230

The hard commitment balance at the year end represents amounts due to recipients in the following periods:

	At 31 March 2004 £'000	At 31 March 2003 £'000
Grants committed for payment within one year	485,121	553,736
Grants committed for payment in more than one year	628,109	578,691
	1,113,230	1,132,427

Notes to the accounts

13. Soft commitments

Soft commitments represent grant offers that have yet to be formally accepted in writing by the applicant. As such, these offers are not recognised as a financial commitment within these accounts.

	Offers brought forward at 1 April 2003	Offers made	Lapsed or revoked offers	Offers made transferred to grant commitments	Offers carried forward at 31 March 2004
	£'000	£'000	£'000	£'000	£'000
Healthy living centres	670	1,602	-	1,672	600
Out of school hours learning	2,783	8,132	-	10,915	-
Out of school hours childcare	12,917	161,272	1,804	167,685	4,700
ICT Training for teachers and School librarians	13,800	-	-	7,458	6,342
ICT Training for public library staff	-	-	-	-	-
Digitisation of learning materials	271	839	-	1,110	-
Cancer equipment	-	922	-	922	-
Community access to lifelong learning	-	5,649	-	5,613	36
Green spaces and sustainable communities	3	1,269	304	865	103
New opportunities for PE and sport	25,052	179,193	669	194,204	9,372
Activities for young people	-	21,263	-	21,263	-
Reducing the burden of CHD, cancer and stroke	9,908	78,570	-	88,478	-
Palliative care	10,617	9,393	-	20,010	-
Transforming communities	59,360	21,406	-	49,068	31,698
Small scale grant scheme	-	14,821	-	14,821	-
Fair Share	49,900	-	-	49,900	-
	185,281	504,331	2,777	633,984	52,851

The administration of the formal acceptance of grant offers for the ICT training for teachers and school librarians programme is carried out by Local Education Authorities in England and Wales, Education Authorities in Scotland and Education and Library Boards in Northern Ireland. The figure for offers made transferred to grant commitments on this scheme has been derived from audited returns received from administering bodies at the time of preparation of these accounts. See note 1.8.

14. Joint schemes

Included within the hard commitments for the New Opportunities for PE and Sport initiative is £200,000 of new grant commitments and £12.0 million of grant commitments carried forward at 31 March representing the New Opportunities Fund's contribution to grants made as part of the Spaces for Sports and Arts joint scheme. The New Opportunities Fund has signed a Memorandum of Agreement with Sport England, The Arts Council of England, the Department for Culture, Media and Sport and the Department for Education and Employment to fund a programme for providing space for sports and arts within primary schools in England. The New Opportunities Fund will contribute £25 million to the total funding of £130 million. This scheme is administered by Sport England on behalf of all parties to the agreement.

A separate financial report for the Space for Sport and Arts Programme is attached to Sport England's annual accounts for the financial year ended 31 March 2004. A copy of this document is available from Sport England, 3rd Floor Victoria House, Bloomsbury Square, London WC1B 4SE.

The New Opportunities Fund has signed a Memorandum of Agreement with Community Fund, Sport England, The Arts Council of England and the Heritage Lottery Fund to fund, from 1 April 2002, a joint pot for the small grants programme. Included within the hard commitments for the small grants scheme are £11.4 million of new grant commitments and £57,000 of grant commitments carried forward at 31 March representing the New Opportunities Fund's contribution to the Awards for All, England joint scheme. This scheme is administered by the Community Fund on behalf of all parties to the agreement.

15. Fair Share

In 2002/2003 the New Opportunities Fund entered into a grant contract with the Community Foundation Network (CFN) to administer an expendable endowment to provide funding to meet the objectives of the Fair Share Policy Directions. In August 2003 the Fund paid £50 million into the Fair Share Trust established by CFN.

At 31 March 2004, CFN have reported that the Fair Share Trust balance stands at £49.0 million and that there is an unrealised capital gain of £930,000. During this first year, expenditure reflects the setting up and management costs of CFN, the investment manager and the local agents managing the programme in the Fair Share areas; the first grants will be awarded in 2004/2005. The Trust's audited accounts are available from CFN, Arena House, 66 - 68 Pentonville Road, London N1 9HS.

Further information about the progress of the scheme is provided in the annual report.

Notes to the accounts

16. Reconciliation of income and expenditure to net cash inflow from operating activities

	Year ended 31 March 2004 £'000	Year ended 31 March 2003 £'000
Deficit before tax	(164,494)	(226,512)
Depreciation of fixed assets	837	1,367
Loss on disposal of fixed assets	129	35
Diminution in value of fixed assets	379	136
Interest income	(702)	(721)
Net cost from operating activities	(163,851)	(225,695)
Decrease in debtors	38,788	6,037
Decrease/(Increase) in NLDF balance	140,560	(50,847)
Increase/(Decrease) in creditors	4,804	(756)
(Decrease)/Increase in provision for grant commitments	(19,197)	270,418
Net cash inflow/ (outflow) from operating activities	<u>1,104</u>	<u>(843)</u>

17. Financial risks

The New Opportunities Fund is required to disclose the effect that financial instruments have had during the period in creating or changing the risks the New Opportunities Fund faces in undertaking its role.

Liquidity risks

In the year ended 31 March 2004, £433 million (94 per cent) of the New Opportunities Fund's income derived from the National Lottery. The remaining income derived from investment returns from the balance held with the National Lottery Distribution Fund £24 million (5 %), and from bank interest and other income £6 million (1%).

At 31 March 2004, the New Opportunities Fund had net liabilities of £354 million and soft commitments of £53 million. Although the New Opportunities Fund has made commitments in excess of its assets, the Board does not consider that the New Opportunities Fund is exposed to significant liquidity risks. They are satisfied that taking into consideration the cash flow requirement of grant awards, the majority of which are to fund three to five year projects and the forecast income from the National Lottery, the New Opportunities Fund has sufficient liquid resources to cover all current contracted commitments.

	£'000
Liquid assets at 31 March 2004	
Market value of NLDF investments	737,276
Cash	1,775
	<u>739,051</u>
Forecast cashflows during 2004/2005	
Income from the National Lottery	443,370
Administration cost payments	(47,750)
Grant payments	(553,830)
Forecast liquid assets at 31 March 2005	<u>580,841</u>

The income forecast assumptions are based upon guidance provided by the Department for Culture, Media and Sport. The forecast grant payments are based upon estimated grant draw down profiles submitted by grant recipients at the time of award.

Interest rate risks

The financial assets of the New Opportunities Fund are invested in the NLDF, which invests in a narrow band of low risk assets such as government bonds and cash. The Board has no control over the investment of funds in the NLDF. At the Balance Sheet date the market value of investment in the NLDF was £737 million. In the year the average return on these investments was 3.1%. Cash balances which are drawn down from the New Opportunities Fund to pay grant commitments and operating costs are held in instant access variable rate bank accounts which on average carried an interest rate of 3% in the year. The cash balance at the year-end was £1.8 million. The Board considers that the New Opportunities Fund is not exposed to significant interest rate risks.

Foreign currency risk

The New Opportunities Fund is not exposed to any foreign exchange risks.

18. Financial commitments

Commitments under operating leases

At 31 March 2004, the New Opportunities Fund had the following annual commitments under operating leases.

	Office equipment	Land and buildings	As at 31 March 2004 £'000	As at 31 March 2003 £'000
Expiring in less than 1 year	8	57	65	64
Expiring in 1-5 years	43	-	43	46
Expiring in more than 5 years	-	3,946	3,946	3,731
	<u>51</u>	<u>4,003</u>	<u>4,054</u>	<u>3,841</u>

Capital commitments

	As at 31 March 2004 £'000	As at 31 March 2003 £'000
Authorised in respect of capital expenditure for operating purpose but not contracted	<u>-</u>	<u>125</u>

Notes to the accounts

19. Pension scheme

Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants from 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

For 2003, employers' contributions of £1,255,346 were payable to the PCSPS (2002 £1,075,452) at one of four rates in the range 12-18.5 % of pensionable pay, based on salary bands (as shown below). Rates will remain the same for the next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Bands	Year ended 31 March 2004
£17,000 and under	12%
£17,001 - £35,000	13.5%
£35,001 - £60,500	16.5%
£60,500 and over	18.5%
Bands	Year ended 31 March 2003
£16,500 and under	12%
£16,501 - £34,000	13.5%
£34,001 to £59,000	16.5%
£59,001 and over	18.5%

20. Cash losses and special payments

During the year £2,630 (2002 £399,669) of grant payments to one grant recipient was written off as irrecoverable.

21. Related party transactions

The New Opportunities Fund is a non-departmental public body sponsored by the Department for Culture, Media and Sport (DCMS). The DCMS is considered to be a related party. During the year, the New Opportunities Fund has had various material transactions with the DCMS and other bodies for which the DCMS is regarded as the sponsor Department: the Arts Council of England, British Library, Community Fund, English Heritage, National Maritime Museum, National Museums and Galleries on Merseyside, Sport England, Tate Gallery, Resource.

In addition, the New Opportunities Fund has a number of material transactions with Government departments and bodies that regard other Government departments as their sponsor department:

- Teacher Training Agency and British Educational Communications and Technology Agency sponsored by Department for Education and Skills
- Countryside Agency and English Nature sponsored by Department for Environment, Food and Rural Affairs
- Health Development Agency sponsored by the Department of Health
- National Library of Wales and the National Assembly of Wales
- The Public Record Office.

Board members

As a matter of policy and procedure, Board Members maintain publicly available registers of interests and declare any direct interests in grant applications made to the New Opportunities Fund and commercial relationships with the New Opportunities Fund. They exclude themselves from the relevant grant appraisal, discussion and decision processes within the New Opportunities Fund. The same records are maintained for staff members.

David Campbell, the New Opportunities Fund's Board Member for Scotland, had interest in the following transactions during the year: David Campbell holds less than 2% of the issued share capital of Procession Ltd in an independent trust. He is not a director of the firm and does not take any part in its management. Until 31 August 2003 the New Opportunities Fund contracted directly with Procession Ltd for maintenance support license for the grant management application. In the financial year, payments or liabilities for £5,863 (2002/03 £159,744) have arisen in connection with the above service. David Campbell was not involved in the decision to appoint Procession Ltd, or in any matters relating to the framing or operation of the contract.

In addition, a number of other Board members have declared interests with public, voluntary and charitable bodies with which the New Opportunities Fund has non-material business interests.

Officers

Nicholas Allaway, the New Opportunities Fund's Director of Finance and Corporate Services until 4 January 2004, is a Committee member of a registered charity the Friends of Hornsey Church Tower. In 2002/03 BTCV awarded a grant of £9,901 to the Friends of Hornsey Church Tower under the People's Places initiative. BTCV are an Award Partner. Nicholas Allaway was not involved in the decision to award the grant.

