

National Lottery Distribution Fund Account 2011-12

Annual Report and Accounts for the year ended 31 March 2012

Presented to Parliament pursuant to section 33(3) of the
National Lottery etc. Act 1993 as amended by the National Lottery Act 1998

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Contents

	Page
Management Commentary	3
Remuneration Report	10
Statement of Responsibilities of Secretary of State, Accounting Officer and the National Lottery Commission	11
Governance Statement	12
Certificate and Report of the Comptroller and Auditor General	19
Statement of Comprehensive Net Income for the Year	21
Statement of Changes in Amount Held	22
Statement of Financial Position	23
Statement of Cash Flows	24
Notes to the Financial Statements	25

Management Commentary

The 2011-12 financial statements

The National Lottery Distribution Fund (NLDF) was established in 1994 at the time the National Lottery was launched, to receive and hold monies generated by the National Lottery for good causes. Section 21 of the National Lottery etc Act 1993 places the Fund under the control and management of the Secretary of State for Culture, Media and Sport.

This is the eighteenth set of accounts to be prepared for the National Lottery Distribution Fund. These financial statements account to Parliament for the receipt of lottery income and its allocation and distribution to the distributing bodies. The Statement of Comprehensive Net Income shows income from the lottery and investments as well as the amounts drawn down and operating expenses for the year; the statement of financial position shows the position at the year-end, and the statement of cash flows shows the movement in cash over the year.

Where the money comes from

Camelot Group plc has held licences to operate the National Lottery since 1994. In 2007 Camelot successfully bid for the 3rd Lottery Licence that runs for ten years from 1 February 2009, with the possibility of an extension for a further five.

The principal categories of income into the NLDF for the period to 31 March 2012 comprise:

- a proportion of lottery ticket sales, as determined by the licence granted to Camelot Group plc;
- any prizes which are not claimed within 180 days of the draw date for National Lottery Games, or 180 days of the close of any Scratchcard or Interactive Instant Win game.
- income from National Lottery ancillary activities e.g. income from commercial transactions which utilise the existence of the National Lottery for profit. In this way the NLDF shares in the benefits of any commercial activities which are derived from their connection with the National Lottery; and
- interest earned on unclaimed prizes while they remain in the Players Trust Fund (a trust account which receives all prizes due and only reimburses Camelot when Camelot has paid out prizes to lottery participants), together with the reclaim of tax deducted on interest when received by the Fund's corporate Trustee.

Under the current licence, the main portion of the money passing to the NLDF is no longer linked directly to sales. Instead it is calculated as the major share of the pool that is left after deducting from sales the value of prizes, lottery duty, and a retention by Camelot. The Camelot retention includes an index-linked flat rate on the excess of annual sales over £4 billion. This aligns Camelot's interests with those of the NLDF.

Since 1 April 2007 interest received on investments is divided between distributors in the same fixed proportions as operator-related income to the NLDF.

Where the money goes

The share of funds to be received by each of the distributing bodies is set by statute and is shown in note 14

Prior to October 2010, the share of funds was apportioned so that the Arts, Sport and National Heritage good causes received 50% of the income. The other 50% was apportioned to The Big Lottery Fund, whose remit is to distribute funds to charitable, health, education and environment good causes.

On 15 October 2010 the Secretary of State announced a reform in the allocation of the share of lottery income to the distributing bodies increasing the share of income apportioned to sport, the arts and heritage to 60%. The implementation of this was split into two stages. The first stage change came into effect on 01 April 2011 and increased the arts, sport and heritage share of proceeds to 54% overall (18% each). This was the share in force during 2011-12, the period covered by these accounts. On 01 April 2012 the second stage came into effect, increasing arts, sport and heritage share of proceeds to 60% overall (20% each), as shown in Note 15 of these accounts.

From 01 April 2011, the British Film Institute (BFI) became the recipient of lottery funding previously paid to the UK Film Council.

Financial Commentary

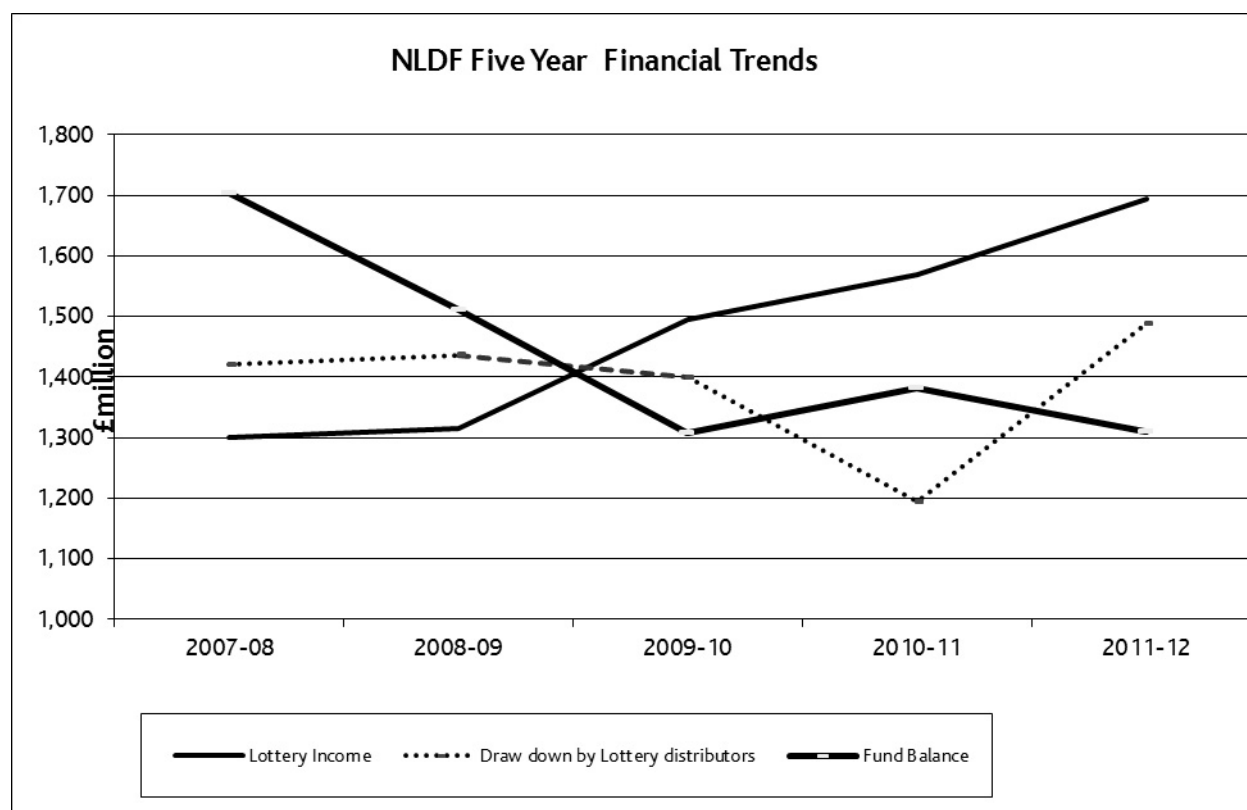
Income

By 31 March 2012, £27 billion had been raised for good causes since the launch of the National Lottery (including money raised by Olympic Lottery products), £1.7 billion of which was raised during 2011-12. These figures include investment returns on the unused balances. £1.5 billion was drawn down during the year to be passed to the good causes.

The trend over the last five years for income, expenditure and the fund balance are shown in the graph below. The transfer to the OLDF is disclosed below but not shown on the graph.

£million:	2007-08	2008-09	2009-10	2010-11	2011-12
Income	1,301	1,316	1,496	1,569	1,693
Draw down by lottery distributors	1,420	1,436	1,399	1,194	1,488
NLDF transfer to the Olympic Lottery Distribution Fund (OLDF)	N/A	73	292	292	292
Fund Balance	1,708	1,510	1,307	1,382	1,309

The fund balance is shown after the transfer to the Olympic Lottery.



Distributing Bodies Grant Commitments

In line with the government's December 2005 response to the Public Accounts Committee's report on NLDF balance management, the department has continued to work with the lottery distributing bodies to manage their NLDF balances to realise the public benefits of lottery funding more quickly. At the same time, balances must be maintained at a prudent level to ensure commitments already made by distributors can be met. At the year end the balance was £1.309 billion. Against this, distributors had made commitments of £2 billion, and expect that £1.55 billion would be drawn down by recipients within one year of 31 March 2012.

The Lottery distributors are deemed to have 'committed' Lottery funds once they have a signed contract in place between themselves and a grant recipient. Once an award contract is signed, the Lottery distributor becomes legally obliged to pay over the funds on condition that the terms of the grant contract are met.

The figures shown are based on amounts recorded in the National Lottery Distributors' accounts. At the time of preparing these accounts, distributors figures marked * are from draft accounts, and not from final, signed accounts.

	Commitments falling due within one year £000	2012 Commitments falling due in over one year £000	Total £000	2011 Total £000
Arts Council of England	-	149,370	149,370	95,137
Arts Council of Wales	3,655	4,421	8,076	9,163
Creative Scotland	13,785	145	13,930	15,440
Arts Council of Northern Ireland*	-	4,434	4,434	8,225
British Film Institute	-	8,654	8,654	5,243
Sport England	-	194,787	194,787	214,295
Sports Council of Northern Ireland	4,469	497	4,966	6,504
Sport Scotland	8,022	5,553	13,575	7,352
Sports Council of Wales	2,910	87	2,997	5,593
UK Sport	-	44,015	44,015	81,265
Heritage Lottery Fund	262,895	363,045	625,940	554,485
Big Lottery Fund	473,063	506,394	979,457	897,727
	768,799	1,281,402	2,050,201	1,900,398
NLDF Balance Available			1,309,093	1,381,991
(Over committed)/Under committed Balance (see below)			(741,108)	(518,407)

At 31st March 2012, in addition to these hard commitments, the total level of 'soft'¹ and 'other'² commitments by all Distributors was around £258m (£548m at March 2011).

¹ - A soft commitment is where a distributing body has decided in principle to fund a project.

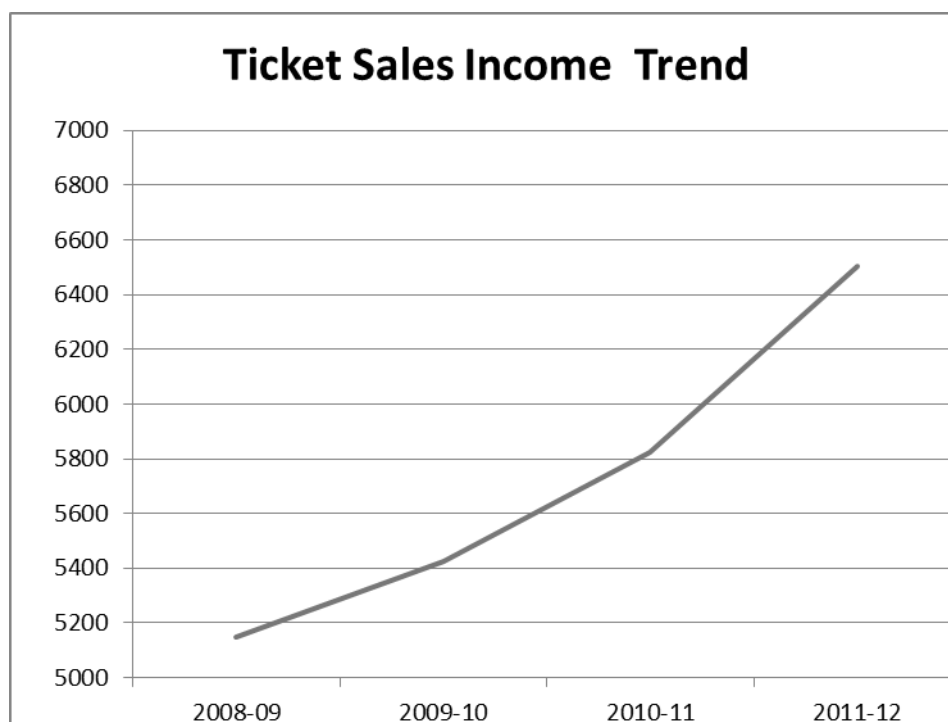
² - The term 'other commitments' includes:

- Stage one approvals which are likely (but not certain) to go on to receive approval for funding at stage 2. Stage 1 approvals more likely to fail at stage 2 are excluded.
- Money set aside by a distributing body to fund a specific future project in advance of a formal decision being taken.

* Where an estimate of the commitment value was used last year, this has been amended so that the actual value is now shown.

The balance on the fund at 31 March 2012 is held in investments by the Commissioners for the Reduction of the National Debt (CRND) as set out in Note 8 to these accounts. The allocation of these funds across the twelve distributing bodies can be seen in Note 10 to these accounts.

The income trend from the sale of tickets over the period 2008 to 2012 is shown in the table below.



Because of the complex operation of the lottery licence, there is not a linear relationship between ticket sales and income generated for the NLDF. Also the investment climate affects the levels of investment income achieved on the amounts waiting to be drawn down from the fund.

Operating costs

Expenses incurred in operating the fund by DCMS and CRND and by the National Lottery Commission (NLC) for regulating the National Lottery are met from the fund and totalled £5.1 million for the year of which £4.7 million related to the NLC. The table below provides a breakdown of costs. The NLC 2011-12 accounts provide further information on this as well as their continuing role as regulator of the lottery. These can be found on their website, www.natlotcomm.gov.uk

The Commissioners for the Reduction of National Debt (CRND) publish an annual report and account for the National Lottery Fund Investment Account, which it administers. Copies can be requested directly from CRND. Further information on the investment management role of the CRND can be found on their website, www.dmo.gov.uk

£million	2007-08	2008-09	2009-10	2010-11	2011-12
DCMS	0.2	0.2	0.2	0.3	0.3
National Lottery Commission	9.8	4.7	3.6	4.2	4.7
CRND	0.1	0.1	0.1	0.1	0.1

London Olympic and Paralympic Games 2012

The Horserace Betting and Olympic Lottery Act 2004 had provided for the creation of an Olympic Lottery Distribution Fund (OLDF) - to hold the proceeds of the new lottery games - and of a new Olympic Lottery distributing body. Following the success of London's bid for the 2012 summer Olympic and Paralympic Games, the OLDF came into existence from 7 July 2005. The OLDF is the subject of a separate annual accounting process, and the Department for Culture, Media & Sport (DCMS) prepares a separate set of financial statements for the OLDF which are presented to Parliament as a House of Commons paper.

In February 2008 a statutory Instrument (SI 2008 No.255 *The payments into the Olympic Lottery Distribution Fund etc.*) was passed which allowed for the transfer of up to £1,085m of future lottery income from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund in order to meet some of the costs of hosting the 2012 games. The transfer is in addition to £750m to be raised through dedicated Olympic lottery games and comprises £410m as originally envisaged when the government decided to support London's Olympic bid in 2003, and a further £675m arising from the establishment of the final public sector funding budget of £9.325 billion, announced by the Government in March 2007. Of the additional £675m, £250m will be transferred from the arts, sport and national heritage good causes and £425m from the funds currently allocated to the Big Lottery Fund.

The payments into the Olympic Lottery Distribution Fund etc. Order 2008 made on 2 February 2008, enables £1,085m to be transferred as thirteen instalments of £73m each (paid quarterly), followed by two instalments of £68m each. The first transfer was made on 2 February 2009. A total of £292m was transferred from the NLDF to the OLDF during 2011-12 (four payments of £73m). The last transfer took place on 01 August 2012

Governance of the Fund

Sound management of the NLDF plays a pivotal role in managing the flow of funds between Camelot - the operator of the National Lottery - and the distributing bodies which issue the funds to the good causes.

In managing the NLDF, the department works closely with the National Lottery Commission (NLC) which regulates the lottery and ensures, among other things, that the operator makes the correct payments to the NLDF. Within the framework of regulation set by the Government, the role of the NLC is to monitor and report on the performance of Camelot (the current operator) and to enforce the terms of its Section 5 licence. This includes ensuring that Camelot complies with licence terms relating to the banking, record keeping and security of monies received, as well as their remittance to the NLDF. The NLC also selects the operator of the lottery. It does not handle any applications for lottery funds or distribute any lottery money.

As part of the Government's ongoing commitment to increasing accountability and reducing the number of public bodies, the merging of the National Lottery Commission and the Gambling Commission was included as part of the Public Bodies Bill which received Royal Assent in December 2011. The new Act requires Ministers to consult on their proposals before laying draft legislation. A consultation document was published on 31 July 2012 <http://www.culture.gov.uk/consultations/9255.aspx>. The consultation closed on 23 October 2012. A formal announcement regarding the results of this consultation has yet to be made.

In addition, the department works with the Commissioners for the Reduction of the National Debt (CRND) whose role is to invest the funds held in the NLDF, in accordance with directions issued by HM Treasury, until such time as they are required by the bodies to make payments to successful grant applicants (or to meet administrative expenses). The department distributes funds to the bodies on request and accounts to Parliament for the flow of funds.

The statement of financial requirements for each distributor establishes a financial framework within which their lottery distribution activities are to be conducted. Individual distributors are sponsored either by DCMS or by one of the devolved administrations in Scotland, Wales or Northern Ireland. From 01 April 2011 the Cabinet Office assumed the role of sponsor to the Big Lottery Fund. The statement of financial requirements is issued by the relevant Secretary of State or by Ministers in the devolved administrations. Statements issued by a Minister in a devolved administration also require the consent of DCMS. Statements issued by DCMS to distributors with responsibilities covering Scotland, Wales or Northern Ireland also require the consent of the relevant Minister in the devolved administration.

The accounting officer of the NLDF seeks annual assurances from the accounting officer of each lottery distributor that they have in place adequate systems of internal control for the efficient, effective and equitable distribution of lottery monies. In particular, distributing bodies' accounting officers are expected to satisfy themselves on an annual basis that the body has complied with its current lottery financial directions; has adequate internal and external audit arrangements in place; has adequate arrangements for detecting and responding to inefficiency, conflict of interest and fraud and for minimising losses of lottery grant, and maintains risk assessment and control procedures and risk registers.

The accounting officer of the NLDF obtains independent confirmation of the reliability of the assurances provided by each accounting officer on the adequacy of their systems from the work of his department's sponsor branches, from liaison with sponsors in the relevant devolved administrations, and from the department's internal audit unit.

Liquidity Risks

The NLDF receives its income from the National Lottery and from returns accruing on funds, which have not been drawn down by distributors. The income into the NLDF is available to the distributors for drawdown to pay grant commitments, less any operating expenses. Distributors can only draw down funds which are in their apportioned share of the portfolio. The investment strategy for the fund is informed by the department's review of quarterly returns from distributors on their forward commitment profiles. As a result of the policies and procedures outlined above, the department considers that all significant liquidity risks are appropriately managed.

Interest Rate Risks

The financial assets of the NLDF are invested with the CRND which manages its investments. The investments made by the CRND are made in accordance with directions made by HM Treasury. The average return on the investments in the financial year was 2.26%. The Department does not consider that the NLDF is exposed to any significant interest rate risks because of the nature of the assets held.

Foreign Currency Risks

The NLDF is not exposed to any foreign exchange risks, as all the NLDF holdings are in sterling.

Investment risk

HM Treasury has directed CRND that NLDF may hold investments specified in the Trustee Investments Act 1961. This restricts investments to mainly government issues such as gilt edged stock and limits the amount that can be invested outside cash and cash equivalents.

DCMS strategy is to avoid negative income returns over a three month period and each quarter DCMS reviews its investments in partnership with CRND.

Staffing and Organisation

DCMS staff engaged on NLDF matters are charged to the NLDF in proportion to the amount of time staff spend on NLDF duties.

During the financial year, the NLDF invested its funds with the Commissioners for the Reduction of the National Debt (CRND) whose operations are carried out by the UK Debt Management Office (DMO). The CRND make a charge for their investment management, shown in Note 6 of these financial statements.

DCMS is an equal opportunities employer, which does not discriminate against staff or eligible applicants for posts on the grounds of gender, marital status, race, colour, nationality, ethnic origin, religion, disability, age or sexual orientation.

Disclosure of Relevant Audit Information

As Accounting Officer, I am not aware of any relevant audit information of which the fund's auditors are unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the fund's auditors are aware of that information.

Reporting of personal data related incidents

In the Cabinet Office Interim Progress Report on Data Handling Procedures, published on 17 December 2007, Official Report, column 98WS, government made a commitment that departments would cover information risk management in their annual reporting:

"Government should commit to enhanced transparency with Parliament and the public about action to safeguard information and the results of that action. Departments should cover information assurance issues in their annual reports."

As the NLDF is managed and operated within DCMS full disclosure will be found in the 2011 DCMS Annual Report and Accounts which are available on the DCMS website at <http://www.culture.gov.uk>.

Protected personal data is defined as data that meets the definition of the minimum scope of protected personal data or data that departments consider should receive a similar level of protection because it would put those affected at significant risk of harm or distress.

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Important events which have occurred since the year end

These are shown in note 15 to the accounts.

Signed:

23rd January 2013

Jonathan Stephens
Permanent Secretary and Accounting Officer,
Department for Culture, Media and Sport

Remuneration Report

REMUNERATION POLICY

Administration of the National Lottery Distribution Fund (NLDF) is undertaken on a part-time basis by a small number of officials in the Department for Culture, Media and Sport (DCMS), whose costs are reimbursed by the NLDF. DCMS does not recharge the NLDF for the remuneration costs of Departmental Ministers or the DCMS Board.

Management and control of the NLDF is vested in the Secretary of State. Details of the composition of the DCMS Ministers and Board and remuneration information may be found in the Remuneration Report of the *DCMS Annual Report and Accounts 2011-12* which is subject to audit, and will be available on the DCMS website at www.culture.gov.uk

Signed:

23rd January 2013

Jonathan Stephens
Permanent Secretary and Accounting Officer,
Department for Culture, Media and Sport

Statement of Responsibilities of Secretary of State, Accounting Officer and the National Lottery Commission

Under section 33(1) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998), the Secretary of State for Culture, Media and Sport is required to prepare a statement of accounts for each financial year in the form and on the basis directed by the Treasury. A copy of the Accounts Direction may be obtained from the finance team, within the Department for Culture, Media and Sport. The accounts are prepared on an accruals basis and must give a true and fair view of the National Lottery Distribution Fund's state of affairs at the year-end and of its income and expenditure and cash flows for the period.

In preparing the accounts the Secretary of State is required to:

- observe the Accounts Direction issued by the Treasury, 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 financial statements; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the fund will continue in operation.

The Treasury has appointed me as the Permanent Secretary of the Department for Culture, Media and Sport to be the Accounting Officer for the National Lottery Distribution Fund. My relevant responsibilities as Accounting Officer, including my responsibility for the propriety and regularity of public finances and for the keeping of proper records, are set out in *"Managing Public Money"* – during the year of account the standards in force were set out in the Accounting Officers' Memorandum issued by the Treasury and published in the *"Financial Reporting Manual"*.

My responsibilities over the National Lottery Distribution Fund extend to the receipt of lottery revenues from Camelot Group plc, their placement with the Commissioners for the Reduction of the National Debt and disbursements to the lottery distributing bodies. The National Lottery Commission is responsible, using the powers set out in the National Lottery etc. Act 1993, as amended by the National Lottery Act 1998, and in the licence granted to Camelot Group plc under section 5 of the 1993 Act, for ensuring that Camelot Group plc meet their obligations under the licence, including their financial obligations to the National Lottery Distribution Fund. I have no locus in operational matters related to the licence.

The Department is notified of amounts due to be paid to the National Lottery Distribution Fund by Camelot; this is overseen by the National Lottery Commission. The National Lottery Commission's Commissioners are also required to report after the end of each financial year to the Secretary of State on the exercise of their functions during the year. The Accounting Officer of the National Lottery Commission has provided me with a Statement of Assurance and in this he outlines the compliance work undertaken at Camelot Group plc during the year ended 31 March 2012 which has led him to be satisfied that the payments to the National Lottery Distribution Fund during the year to 31 March 2012 are complete and accurate in all material respects.

Signed:

23rd January 2013

Jonathan Stephens
Permanent Secretary and Accounting Officer,
Department for Culture, Media and Sport

GOVERNANCE STATEMENT

The NLDF is managed and run by staff employed by DCMS. The management of the NLDF follows the normal processes for DCMS, and consequently the governance policies of the DCMS operate with regard to the NLDF.

1. GOVERNANCE STRUCTURE

1.1 The governance structure set out below applies to the core Department, also referred to as DCMS in this statement. The Department's ALBs are governed by their own independent Boards of Trustees and each has separate governance and internal assurance structures, whose details can be found in its individual annual report and accounts (which are all individually reviewed as part of the process of preparing the Group Accounts). There are greater levels of independence for the public corporations and public broadcasting authorities. With respect to the National Lottery, both the Department and the National Lottery Commission (the independent regulator) exercise appropriate controls.

1.2 DCMS has enhanced its Departmental Board ('the Board'), which provides advice and challenge to the Department and its Ministers on strategic and operational issues. The Board is chaired by the Secretary of State and is composed of an equal number of Ministers, Senior Executives and Non-Executive Directors. Committees of the Board include:

- Audit and Risk Committee: this reports to and advises the Departmental Board on governance, risk management and control; comprises a Non-Executive Board Member (NEBM) as chair, plus one other NEBM and two other independent members.
- Pay Committee: advises on decisions on senior remuneration and reward.

The Departmental Board is also supported by :

- Executive Board: provides corporate leadership to the Department and ensures delivery of the business plan in support of the Ministers' objectives. In addition, the sub-committees are:
 - *Corporate Committee* – manages DCMS resources and infrastructure
 - *Policy Committee* – provides project/programme assurance and allocates the flexible resourcing pool
 - *Investment Committee* – approves and monitors major capital projects (Department and its Arm's Length Bodies [ALBs]).

1.3 In 2011/12 the new governance structures described above were set up and significant progress was made in bedding them down. David Verey, the Lead NEBM, carried out a review of the Board's effectiveness in March 2012. It concluded that the Board collectively had a clear understanding of DCMS's work and strategy, but that it was too soon to quantify the value added by the Board. It also found that further work was needed in developing the agendas and papers for the Board. Overall, the boards and committees have been effective in delivering policy, projects/programmes and operational priorities. There has been real progress in providing the right management information to the boards and committees and developing its flow through the Department. Next year the focus and format of board and committee meetings will improve, especially flow of risks and issues through the structure.

- 1.4 The Audit and Risk Committee (ARC) met five times during the year, one of which was with chairs of DCMS ALB Audit Committees. In line with the ARC's Terms of Reference to support the Accounting Officer and the DCMS Board in their responsibilities for governance, risk management and control, the ARC focused its attention primarily on high risk and high profile items. No major weaknesses were identified. In addition, the ARC commissioned a high-level review of the Department's Internal Audit service – the review was positive, and its recommendations are being taken forward. In discharging her responsibility, the ARC Chair meets regularly with the Finance Director, members of the Executive Board, Internal Audit and the NAO, and holds a strategic risk workshop with senior management bi-annually.

2. COMPLIANCE WITH CORPORATE GOVERNANCE CODE

- 2.1 In line with the new Corporate Governance Code 2011, the Department set up a new enhanced Board, which included the appointment of a Lead NEBM. DCMS fully complies with the Code of Corporate Governance with the following variations:
- The Pay Committee, which comprises the Permanent Secretary and two NEBMs, fulfils the role of the Nominations and Governance Committee, focusing primarily so far on scrutinising the incentive structure.
 - The Head of Internal Audit attends the Audit and Risk Committee, but has not been invited to Board meetings. The Chair of the Audit Committee regularly reports to the Board on key issues.

3. INTERNAL CONTROLS, RISK MANAGEMENT AND ASSURANCE

Scope of responsibility

- 3.1 As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Culture, Media and Sport's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*. That also applies across the DCMS Group, within the context of the governance arrangements applicable to each body within the Group.
- 3.2 The Department is undertaking an ambitious four year change programme to meet public sector spending challenges and best manage other changes in the sectors for which we have responsibility. This includes halving running costs by 2014-15 and developing into a model Government Department with a highly motivated and talented workforce, while prioritising critical deliverables - notably the 2012 Olympic and Paralympic Games - and absorbing major new responsibilities for the digital and telecoms sectors. When considering the Department's control systems and risk management I have taken into account the impact of this major change. Staff are closely involved in the change process and receive regular communication to help reduce the associated risks.
- 3.3 I work closely with Ministers, meeting them to discuss significant matters individually or at the Board. I alert them promptly to risks, especially those strategic to DCMS or its major policies and to potential regularity, propriety or value for money implications of their decisions.
- 3.4 The Department is also responsible for some advisory NDPBs; unclassified bodies that receive Exchequer funding; public corporations and public broadcasting authorities – which have greater levels of independence; and other Arm's Length Bodies (ALBs) that receive DCMS grant funding. In addition, the Department has oversight of the National Lottery and exercises appropriate controls, working with the National Lottery Commission (the independent regulator). In view of the

significance of the preparations for the 2012 Olympic and Paralympic Games, additional arrangements were in place to ensure effective internal control and risk management.

- 3.5 For those areas material to the Lottery accounts, an overview of the governance arrangements is set out below:
- a) National Lottery – income is collected by the operator, Camelot, and overseen by the National Lottery Commission, a DCMS ALB; it is passed to the National Lottery Distribution Fund (and Olympics equivalent), which Note 13 to these Accounts explains are DCMS related parties, and for which I hold a separate Accounting Officer responsibility.
 - b) The Olympics – appropriate arrangements were in place during the year to ensure effective internal control and risk management in respect of the Olympic Delivery Authority (ODA – an ALB), and the London Organising Committee of the Olympic Games and Paralympic Games (LOCOG – a company limited by guarantee). For the ODA, the Government Olympic Executive (GOE – part of DCMS) was represented at Audit Committee and Board meetings, and also on the Olympic Project Review Group, which also included members from other relevant Government Departments. For LOCOG the Secretary of State is a stakeholder in the company, managed the Government’s role as ultimate financial guarantor of the Games, met LOCOG’s Chair regularly (as did I its Chief Executive) and nominates a member of the LOCOG Board (who also sits on its Audit Committee). The GOE was also responsible for oversight and assurance of the arrangements for delivery of the whole Olympic and Paralympic Games programme, including programme and risk management arrangements that cover an extensive range of Government Departments and other bodies.
- 3.6 In 2011-12 and during the rest of the current Spending Review period the Department is undertaking a major programme of reform to its ALBs, including abolitions, mergers and transfers to other public bodies. Associated risks are being identified and managed. This programme is expected to deliver increased accountability, greater transparency and increased value for money.

The purpose of the system of internal control

- 3.7 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 on-going 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 the Department for the year ended 31 March 2012 and up to the date of approval of the Accounts, and accords with Treasury guidance. Similarly, individual Accounting Officers and Boards are responsible for maintaining adequate systems of internal control within their own organisations.

Managing the risk of fraud in the DCMS

- 3.8 The Department maintains a "zero-tolerance" culture in respect of fraud, corruption and malpractice in the Department and its ALBs, who are required to report all incidences of fraud or suspected fraud promptly to the Department. In line with the cross-Government initiative, DCMS has a Fraud, Error & Debt Champion, supported by an Alerts System Coordinator. They keep up with and disseminate good practice across DCMS and its ALBs, including lessons arising from fraud investigations, and inform the National Fraud Intelligence Bureau of frauds. No significant issues have arisen during the year.

Capacity to handle risk

- 3.9 As Accounting Officer, my responsibility for high standards of corporate governance includes effective management of risk throughout the Department.
- 3.10 The Department's organisational structure changed in 2011/12, and the risk management structure and guidance were reviewed accordingly. Meanwhile, the Department continued with its previous risk management system: Deputy Directors were accountable for team risk registers and the Finance Team maintained overall responsibility for improving management of risk, disseminating best practice and maintaining the Strategic Risk Register.
- 3.11 A new risk framework was introduced in March 2012 and approved by the Audit and Risk Committee; it identifies risk management as a key role of the Board, the Executive Board and its sub-committees. Responsibility for the risk management system moved to the Corporate Committee. Policy and guidance are available to staff on the intranet and risk management masterclasses have been provided.
- 3.12 The Risk Management framework consists of three management levels at which risks are managed: Local/Project, Committee, and Board levels.
- At the Local level, risk is managed and risk registers maintained by policy and operational teams and by project and programme teams across the Department.
 - At the Committee level risk is managed by the Corporate, Policy and Investment Committees. The Corporate Committee maintains its own risk register and manages red rated operational risks within the corporate area. Senior Responsible Officers and project/programme boards monitor individual policy and programme risks. The Policy Committee maintains an overview of collective project and programme red risks across the Department's portfolio. The Investment Committee considers the financial implications of and risks inherent in individual large DCMS and ALB capital projects.
 - Risks escalated by these Committees, and Department-wide operational, delivery and strategic risks are managed by the Executive Board, which also discusses risk at six-monthly workshops facilitated by the Chair of the Audit and Risk Committee.
- 3.13 The Department has also developed a new risk-based approach to its engagement with its ALBs, which focuses resources on higher risk organisations. This approach has been highlighted by the NEBM network as best practice and is being adopted by other Departments. Individual ALBs are responsible for their own risk management, in line with best practice.
- 3.14 An Internal Audit review of the Department's risk management systems carried out in March 2012 found that they provided reasonable assurance. It concluded that the Department was moving in the right direction with the new risk framework and approach but that the system had not yet been fully effected.

The risk and control framework

- 3.15 The Department's Risk Management Policy Statement and Guidance defines what "risk" and "risk management" mean and outlines the key principles underpinning our approach to risk management, the hierarchy for managing risks, the risk identification and management process, the roles and responsibilities of staff etc.
- 3.16 The Department aims to be an organisation that assesses and manages risk effectively. The combined impact and likelihood scores provide a risk rating scale of green, amber-green, amber and red. Risk tolerance is amber-green, above which all risks must be actively monitored.

- 3.17 In line with the scope of my responsibility, the Department has agreements with funded ALBs setting out the Department's expectations in return for the public funds supplied, and associated financial arrangements or accountability lines. Lottery Distributors have similar agreements relating to their own circumstances.
- 3.18 I make Accounting Officers of all these bodies aware of the continual importance of managing risks proportionately, maintaining a sound internal control system and ensuring propriety, regularity and value for money in all aspects of governance, decision-making and financial management. To provide me with assurance at the year end, they must incorporate a governance statement in their accounts and notify me of significant internal control weaknesses or issues arising during the financial year (or after the year end and before the Department's accounts are signed). I take prompt follow up action as necessary on any matters identified from these governance statements or notifications. Matters of sufficient significance are considered for disclosure in this statement. In addition, the Department's ALBs have their own Audit Committees.
- 3.19 For the bodies associated with Olympic and Paralympic Games, my interests have been protected by the Government Olympic Executive (GOE) within DCMS. GOE was responsible for oversight and assurance of the programme and risk management arrangements for delivery of the whole Olympic and Paralympic Games programme, including an extensive range of other bodies such as the Olympic Delivery Authority (ODA) and the London Organising Committee of the Olympic and Paralympic Games (LOCOG) – the principal delivery bodies, who each have their own governance arrangements, and many other Government departments. Improved governance arrangements introduced for the Games simplified control and decision-making and delivered greater integration across the programme during 2011-12. The Cross Programme Finance Group monitored all financial risks and requests for use of contingency funds. These measures ensured that the Games were ultimately delivered on time, within budget and to universal plaudits. Focus since the Games has switched to enabling the successful management of risks to the post-Games transformation works and delivery of the Legacy programme.
- 3.20 The last GOE quarterly economic report, published in October 2012, for the period up to 30 September 2012, confirmed that the Olympic and Paralympic Games programme was delivered on time and within budget. The forecast anticipated final cost of the Olympic and Paralympic Programme is £8,921 million. If confirmed this would represent a saving of £377 million against the Public Sector Funding Package of £9,298 million.
- 3.21 Assurance reporting exercises supplement the Department's risk management process. Senior managers and Directors must report six-monthly on their compliance with internal control procedures and must identify any significant exceptions. Those responsible for key internal control systems must indicate what main risks exist and their responses to them. The exercises are audited and reported to the Audit and Risk Committee. No major concerns were identified.
- 3.22 The Department has large portfolio of projects and programmes. Staff are trained to take a rigorous project management approach in line with best practice, including management of risk. The Department has a good strategic relationship with the Efficiency Reform Group and a number of high profile programmes and projects were subject to Gateway reviews during the year.
- The NAO's report *Preparations for the London 2012 Olympic and Paralympic Games: Progress report December 2011* – NAO found that:

- The ODA remained on track to deliver its work on the Olympic Park on time, within budget and to the standard required.
- Good progress was being made across almost all of the operational work streams but some new operational requirements and risks to delivery had emerged including a 13,700 increase in the number of security guards and a near doubling of venues security costs.
- The likelihood that the Games could still be funded from within the Public sector Funding Package was finely balanced and almost the whole Package of £9.298 billion was likely to be required.

The Department notes that, in practice, the Games were delivered on time, within budget and with the security risk being successfully managed.

- The Department also makes every effort to respond to PAC recommendations within realistic timescales.

3.24 The Department holds very little personal data; its information risks have been identified and are mitigated in line with Cabinet Office requirements. DCMS has continued its programme of work to improve management of information risk, embedding this within organisational culture. During the year Information Assurance maturity was independently assessed by Internal Audit Services, who found DCMS compliant with the requirements of the Data Handling Review.

Review of effectiveness

3.25 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control, key elements of which are set out above. My review is informed by:

- Key elements of the Department's governance structure: the DCMS Ministerial Board, the Executive Board and the Audit and Risk Committee
- The work of the internal auditors and all executive managers within the Department who have responsibility for the development and maintenance of the internal control framework
- Comments made by the external auditors in their management letter and other reports
- Relationships with DCMS's ALBs, including reviews of their own individual accounts.

3.26 Despite all the systems, processes and controls that I have put in place, which Accounting Officers appointed for the Department's ALBs should similarly have established, exceptions do occur, and I have emphasised that I need to be promptly alerted to any significant ones. I consider all such control issues for potential inclusion in this statement and for wider dissemination to minimise the likelihood of similar occurrences.

3.27 No significant control issues relating to Lottery bodies merit mention in this statement.

3.29 Internal Audit Services (IAS) operates to Government Internal Audit Standards, and is provided by the Department for Communities and Local Government. IAS discusses its programme of

work with the Department to focus it most efficiently on key Departmental risks. IAS submits regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of arrangements for risk management, control and governance, plus actions for

improvement agreed with management. Implementation within agreed timescales of these actions is monitored by IAS but is a management responsibility. For the year ended 31 March 2012, although IAS identified significant control weaknesses in the Security Policy Framework systems and processes, it did not consider these to be pervasive in their effect on the system of internal control. On that basis, and as a consequence of their work, it gave a substantial (amber-green) assurance on the adequacy and effectiveness of the system of internal control over the course of the year.

Signed and approved

Jonathan Stephens
Accounting Officer

23rd January 2013

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of the National Lottery Distribution Fund for the year ended 31 March 2012 under the National Lottery etc. Act 1993. These comprise the Statement of Comprehensive Net Income, the Statement of Changes in Amount Held for Distributing Bodies, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Secretary of State, Accounting Officer and auditor

As explained more fully in the Statement of Responsibilities of Secretary of State, Accounting Officer and the National Lottery Commission, the Secretary of State for Culture, Olympics, Media and Sport is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the National Lottery etc. Act 1993. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Lottery Distribution Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the National Lottery Distribution Fund; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the National Lottery Distribution Fund's affairs as at 31 March 2012 and of its decrease in funds available for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 and HM Treasury's directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road

28th January 2013

Statement of Comprehensive Net Income for the Year Ended 31 March 2012

	Note	2011-12 £000	2010-11 £000
Income			
National Lottery	2	1,681,341	1,550,950
Investment Income	3a	12,064	11,686
Net gain (loss) on Sale of Investments	3b	-	6,301
Total Income		1,693,405	1,568,937
Less: Operational Costs			
Department for Culture, Media and Sport	4	284	292
National Lottery Commission	5	4,716	4,217
Other Expenses	6	115	116
		5,115	4,625
Net Realised Income for Distribution		1,688,290	1,564,312
Amounts authorised for payment to Distributing Bodies	10	(1,487,997)	(1,194,317)
Transfer to OLDF		(292,000)	(292,000)
Increase/(decrease) in realised amount held for distributing bodies		(91,707)	77,995
Other comprehensive income:			
Fair value gains on revaluation of investments	11	18,809	3,257
Less: realised gains transferred to income		-	(6,302)
Net gain/(loss) on revaluation of investments		18,809	(3,045)
Total comprehensive income/(expenditure)		(72,898)	74,950

All transactions are in respect of continuing operations.
The notes on pages 25 to 36 form an integral part of these accounts.

Statement of Changes in Amount Held for Distributing Bodies for the year ended 31 March 2012

	Note	£000
Amount held for distributing bodies at 1 April 2010		1,307,041
Increase/(decrease) in realised amount held for distributing bodies for the year 2010-11		77,995
Other comprehensive income/(expenditure) for the year 2010-11		(3,045)
Amount held for distributing bodies at 31 March 2011		1,381,991
Increase/(decrease) in realised amount held for distributing bodies for the year 2011-12		(91,707)
Other comprehensive income/(expenditure) for the year 2011-12		18,809
Amount held for distributing bodies at 31 March 2012	10	1,309,093

The notes on pages 25 to 36 form an integral part of these accounts.

Statement of Financial Position as at 31 March 2012

	Note	2011-12 £000	2010-11 £000
<u>Current Assets</u>			
Receivables	7	30,845	17,981
Investments held by CRND at fair value	8	1,278,706	1,364,565
Cash at Bank and in Hand		-	-
Total current assets		<u>1,309,551</u>	1,382,546
<u>Current liabilities</u>			
Payables: Amounts falling due within one year	8	(458)	(555)
Total assets less liabilities		<u>1,309,093</u>	<u>1,381,991</u>
 <u>Represented by:</u>			
Revaluation Reserve	11	16,697	(2,112)
Statement of comprehensive net income: realised amount held for distributing bodies		1,292,396	1,384,103
Amounts held for Distributing Bodies	10	<u>1,309,093</u>	<u>1,381,991</u>

The notes on pages 25 to 36 form an integral part of these accounts.

Signed:

23rd January 2013

Jonathan Stephens
Permanent Secretary and Accounting Officer,
Department for Culture, Media and Sport

Statement of Cash Flows for Year Ended 31 March 2012

		2011-12	2010-11
Cash flows from operating activities	Note	£000	£000
Cash received from Lottery operator		1,668,478	1,552,071
Cash paid for operating expenses		(5,212)	(4,150)
Cash paid to OLDF		(292,000)	(292,000)
Cash paid to Distributing Bodies	10	(1,487,997)	(1,194,317)
Net cash inflow/(outflow) from operating activities	9	(116,731)	61,604
Cash flows from investing activities			
Cash Paid to CRND for Investment		(1,663,266)	(1,547,921)
Cash transferred by CRND to OLDF		292,000	292,000
Cash received from CRND for distribution		1,487,997	1,194,317
Net cash inflow/(outflow) from management of liquid resources		116,731	(61,604)
Change in cash		-	-

All investment income is re-invested by the Commissioners for the Reduction of the National Debt.

The notes on pages 25 to 36 form an integral part of these accounts.

Notes to the Financial Statements

1. Statement of Accounting Policies

Basis of Accounting

These accounts have been prepared in accordance with the Accounts Direction given by the Treasury. This Direction has been applied consistently in dealing with items that are considered material to the accounts. The accounting policies apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector by the 2011-12 Government Financial Reporting Manual.

The particular policies adopted by the fund are described below.

Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of assets at fair value,

Nature of Account Balances

Balances held in the NLDF remain under the stewardship of the Secretary of State for Culture, Olympics, Media and Sport. The share of the fund attributable to each Distributing Body at the date the Statement of Financial Position was signed, and shown in these accounts, has been certified by the Secretary of State for Culture, Olympics, Media and Sport as being available for distribution by each body in respect of current and future commitments.

Recognition of Lottery Income

Proceeds from the lottery due to the NLDF from the operator, Camelot Group plc, are calculated on an annual basis as set out in the Section 5 Licence. Payments are made to the NLDF each week on the basis of actual sales and prizes. The amounts recognised in these accounts for the Lottery Primary Contribution include income receivable on ticket sales from 1 April 2011 in respect of all draws within the year up to and including 31 March 2012.

Actual prizes, together with lottery duty and an element of Camelot's fixed costs relating to sales, are deducted from weekly sales. The balance is pooled, to be shared between Camelot and the good causes.

Camelot must seek the NLC's approval for any promotional events, such as 'Superdraws' with guaranteed jackpot prize levels, that may reduce the net weekly proceeds into the NLDF. The NLC will only permit these promotions if they are satisfied that they are likely to increase proceeds for the good causes over a longer period.

The Lottery Primary Contribution also includes income due to the NLDF from the sale of Scratchcards. Under the terms of the licence, income is collected by Camelot and paid to the NLDF on packs of cards once a pack becomes settled. The retail value of each pack is £120. This occurs 30 days after a pack is activated or once 60% of the low tier prizes have been won, whichever is the sooner.

The Secondary Contribution relates to the profits of Camelot. When Camelot makes a profit, greater than the one that it had predicted in its bid, it will share these profits with the Good Causes. The amount is based on a formula that varies depending on how much the actual profit before interest and tax varies from the forecast. This secondary contribution is recognised when it becomes payable.

Lottery prizes that remain unclaimed for 180 days after a draw, or closure of a scratchcard game or Interactive Instant Win game, are paid to the NLDF. Accruals have been made for prizes expiring on or before 31 March but not yet paid to NLDF.

Interest on the Players Trust Fund is recognised in the accounts on an accruals basis. Tax refunded on this is recognised when the refund is receivable.

Payments for ancillary activities and adjustments for the National Lottery Promotion Unit are recognised when the cash is receivable by the department.

Transfer of funds to the Olympic Lottery Distribution Fund

In February 2008 a statutory instrument (SI 2008 No. 255 *The Payments into the Olympic Lottery Distribution Fund etc.*) was passed, which allowed for the transfer of up to £1,085 m of future lottery income from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund (OLDLF) in order to meet some of the costs of hosting the London 2012 Games. This transfer consists of thirteen instalments of £73m (paid quarterly), followed by two instalments of £68m.

The first transfer was made on 2 February 2009 and the last will be on or after 1 August 2012.

Transfers from NLDF are accounted for when each instalment becomes due and disclosed in the statement of Comprehensive Net Income.

Recognition of Amounts Drawn by Distributors

The amounts recorded as drawn down by the Distributing Bodies represent their actual cash claims.

Investments

Investments are available for sale financial assets

Investments held by the Commissioners For The Reduction of National Debt (CRND) are valued in these accounts at market value at 31 March 2012, these accounts only disclose the cash flows for the movement of cash between CRND, NLDF and the lottery distributors.

HM Treasury has directed CRND, under sections 32(1) and 32 (2) of the 1993 Act that the NLDF may be invested in those investments specified in paragraphs 1, 2, 3, 5, 5A, 5B, 9 and 9A of Part II of Schedule 1 of the Trustee Investments Act 1961 in such manner as CRND shall, at their absolute discretion, determine.

Having taken account of DCMS's wish to avoid negative income returns over a 3-month period, but without prejudice to their absolute discretion, CRND intend to exercise their investment powers in accordance with the investment framework.

Each quarter, DCMS reviews the investments in partnership with CRND.

Investment income

Investment income is recognised when it is receivable.

Cash and cash equivalents

Cash and cash equivalents are cash in hand and cash at bank. It is the policy of the NLDF to hold a nil cash balance whenever possible and to transfer all funds to the CRND for investment on the day of the receipt. For the purpose of the cash flow statement highly liquid cash equivalents are treated as an investment rather than cash in accordance with IAS7.

Financial Instruments

The fund accounts for financial instruments in accordance with IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments: Disclosures.

A financial instrument is any contract that gives rise to a financial asset in one entity, and a financial liability in another. Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. IAS 39 requires financial instruments to be measured in a way that reflects the fair value of the asset or liability.

Balances held at the NLDF are adjusted to fair value with any revaluation posted to a revaluation reserve. Any premium or discount on cost is amortised in the Statement of Comprehensive Net Income as an adjustment to the interest account (see Investments above).

Receivables are recognised at carrying value, reduced by appropriate allowances for estimated irrecoverable amounts. Payables are short term and are stated at carrying value in recognition that these liabilities fall due within one year.

Impact of new IFRS and Financial Reporting Manual Amendments

The following new, revised or amended IFRS and FReM amendments will become effective for future reporting periods, and have not been adopted early in these financial statements:

- IFRS 9 Financial Instruments (effective date 1 January 2013)

Under IFRS9 financial assets should be classified on the basis of the entity's business model for their management and their contractual cash flow characteristics. They should be measured at fair value and subsequently at either fair value or amortised cost. IFRS9 simplifies the clarification and measurement of financial assets, removing the numerous categories of financial assets specified in IAS 39 and resulting in one impairment method.

There are no other standards and interpretations in issue but not yet adopted that the department anticipates will have a material effect on future reporting periods.

2 Income from Lottery Activities

	2011-12 £000	2010-11 £000
Basic contribution from lottery operator under licence	1,580,352	1,462,760
Less adjustments relating to :		
Camelot adjustments ¹	(7,240)	(6,091)
National Lottery Promotion Unit	(666)	(1,679)
Primary contribution (see note below)	<u>1,572,446</u>	<u>1,454,990</u>
Secondary contribution	1,277	2,521
Unclaimed prizes ²	102,653	89,110
Interest on Players Trust Fund	698	2,460
Income from ancillary activities and other items	<u>4,267</u>	<u>1,869</u>
	<u>1,681,341</u>	<u>1,550,950</u>

¹ This adjustment was made in accordance with the conditions of the third licence competition. Flexibility around recharge arrangements was included in the tender contract to ensure a fair competition, and with the aim of enhancing future yields to maximise value to good causes. Further details can be found in the tender document for the third licence, available at

www.natlotcomm.gov.uk/assets-uploaded/documents/Invitationtoapplyforthethirdlicence

² Unclaimed prizes has increased due to a combination of increased sales and larger prizes.

3	Investment income		
		2011-12	2010-11
		£000	£000
3a	<u>Investment Income</u>		
	Interest Received on investments	<u>12,064</u>	<u>11,686</u>
3b	<u>Net gain on sale of investments</u>		
	Gain on sales of investments	-	6,301
	(Losses) on sales	<u>-</u>	<u>-</u>
		<u>-</u>	<u>6,301</u>

The NLDF's objective is to provide for the distributing bodies' liquidity needs, and to maximise returns over the medium term. The range of permitted investments is restricted to those contained within a direction made by HM Treasury, and is implemented by CRND.

Gilts purchased by CRND are normally intended to be held until their redemption dates. Profits and losses realised on the disposal of gilts reflect the differences between the original market prices paid and the disposal/redemption values.

In March 2010 a total of £250m was placed in 2 gilts with maturity dates of March 2014 and January 2015. In December 2010 these holdings were switched by CRND for 2% Treasury Gilts maturing in 2016. There has been no sale or purchase of gilts in 2011-12.

The investment stance of the fund will remain under review by CRND and DCMS.

4 Operational Costs: Department for Culture, Media and Sport

	2011-12	2010-11
	£000	£000
Staff costs	153	161
Accommodation and central services	57	41
IT, consultancy, and training	28	31
Charge for the use of DCMS assets	21	26
Internal and external auditor's remuneration	23	30
Bank of England charges	2	3
	<u>284</u>	<u>292</u>

The external auditor's remuneration for the year 2010-11 was charged in year by DCMS and is included as part of DCMS 2011-12 charges. The external auditor's remuneration for 2011-12 will be £23k and will form part of DCMS charges in 2012-13 and be disclosed in those accounts. The external auditor's remuneration for 2010-11 was £23,500, (2010 - £26,500 including £2,500 for IFRS) including £2,000 (2010 - £1,100) for Whole of Government Accounts work.

In 2011-12 eight members of DCMS Finance Division and Programmes Team were engaged on NLDF matters for a proportion of their time. Their staff costs are charged to the NLDF in proportion to the amount of time they spend on NLDF duties.

A share of the accommodation costs of the building occupied by DCMS has been charged to the NLDF, on the basis of the floor area occupied by DCMS staff engaged on NLDF matters as a proportion of the building as a whole. Similarly a share of the Central Service Costs incurred by DCMS has been charged on the basis of the number of DCMS staff engaged on NLDF matters as a proportion of the total number of DCMS staff.

5 Reconciliation of National Lottery Commission Operational Costs

DCMS recover the net costs of running the National Lottery Commission (NLC) from the NLDF and the Olympic Lottery Distribution Fund (OLDF). The net cost consists of the grant in aid paid to NLC less the licence fee income received by NLC and surrendered to DCMS in appropriations-in-aid.

The licence fee income is the sum of payments made by the lottery operator, Camelot, for each new Section 6 licence granted for new lottery games. In 2011-12, licence fee income of £45,900 relating to new NLDF games was received by DCMS.

	2011-12 £000	2010-11 £000
Gross share of costs	4,762	4,255
Lottery Operator licence fee income	(46)	(38)
Amount payable to DCMS	<u>4,716</u>	<u>4,217</u>

The total grant in aid paid to the National Lottery Commission was £5,100k; with a total of £46k received by DCMS in operator licence fee income. The split between the NLDF and the OLDF is as follows:

	NLDF £000	OLDF £000	Total £000
Grant in aid paid to NLC by DCMS	4,762	338	5,100
Lottery operator licence fee income	(46)	-	(46)
Amount recoverable by DCMS	<u>4,716</u>	<u>338</u>	<u>5,054</u>

6 Other expenses:

	2011-12 £000	2010-11 £000
Commissioners for the Reduction of the National Debt (CRND)*	115	116

*The above represents the amounts paid to the CRND for management of the NLDF Investment Fund Account.

7 Receivables

	2011-12 £000	2010-11 £000
Ticket sales income due as a result of draws prior to year end	30,845	17,981
	<u>30,845</u>	<u>17,981</u>

Intra-government balances

Balances with bodies external to government	30,845	17,981
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8 Investments held by CRND at fair value

	at 31 March 2012		at 31 March 2011	
	Cost	Fair Value	Cost	Fair Value
	£000	£000	£000	£000
Investments held by the CRND	1,262,009	1,278,706	1,366,677	1,364,565
Receivables (note 7)	30,845	30,845	17,981	17,981
Payables	(458)	(458)	(555)	(555)
Balance held	1,292,396	1,309,093	1,384,103	1,381,991

Payables: Intra-government Balances

Other central government bodies	(458)	(458)	(555)	(555)
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Payables are in respect of accruals for DCMS recharges and the NLC fees.

A summary analysis of the investments held on behalf of the NLDF at 31 March 2012, is shown below.

	Fair Value £000
Cash held in CRND ways and means account ⁽¹⁾	1
Call notice deposits ⁽¹⁾	992,789
Fixed deposits	-
Subtotal – “cash funds”	992,790
UK Government Gilts classified as available for sale - due within 1-5 years - non marketable	285,916
Subtotal – gilts	285,916
Total balance invested with CRND	1,278,706

⁽¹⁾ Under s32 of the National Lottery etc Act 1993, all monies held by the CRND are regarded as “Investments by the Secretary of State”.

The call notice deposits are demand deposits with the Debt Management Account & the National Loans Fund (NLF).

Funds held by CRND in ways and means and call notice deposits would meet the definition of cash under IAS 7 if they were held directly under the control of the Secretary of State as they are repayable on demand within one working day.

The funds are held at arm’s length by CRND in a revolving investment fund i.e. investment returns re-invested directly into the fund.

For further details on the investing activities of CRND please refer to the National Lottery Distribution Fund Investment Account published by CRND.

9 Reconciliation of decrease in Amounts Held for Distributing Bodies as disclosed in Income and Expenditure Account with Net Cash Outflow from Operating Activities.

	2011-12	2010-11
	£000	£000
Decrease in realised amounts held for distributing bodies	91,707	77,995
Investment income	12,064	(11,686)
(Gain) / Loss on Sale of Investments	-	(6,301)
	103,771	60,008
(Increase)/decrease in lottery operator receivables	12,863	1,121
Increase/(decrease) in payables for operating expenses	97	475
Net cash outflow from operating activities	116,731	61,604

10 Amounts Available to Distributing Bodies at 31st March 2012

BENEFICIARY SECTORS	Arts	Sports	Heritage Lottery Fund	Big Lottery Fund	TOTAL
	£000	£000	£000	£000	£000
National Lottery proceeds					
Share of income from lottery	302,641	302,642	302,642	773,416	1,681,341
Less share of operational costs	(921)	(921)	(921)	(2,352)	(5,115)
	301,720	301,721	301,721	771,064	1,676,226
Amount authorised for payment to distributing bodies	(191,762)	(302,501)	(255,780)	(737,954)	(1,487,997)
Transfer to OLDF	(43,388)	(33,495)	(43,388)	(171,729)	(292,000)
Investment Income	2,172	2,171	2,172	5,549	12,064*
(Loss) on sale of investments	0	0	0	0	0
Increase/ (decrease) in balance available	68,742	(32,104)	4,725	(133,070)	(91,707)
Amounts held for distributing bodies at market value at 1 April 2011	212,304	279,064	367,218	523,405	1,381,991
Revaluation Reserve	3,386	3,386	3,386	8,651	18,809*
Amounts held for distributing bodies at market value at 31 March 2012	284,432	250,345	375,327	398,990	1,309,093

*The total additional income from investments is comprised of £18,809k on revaluation which is the value of gilts held and £12,064k from interest earned, totaling £30,873k.

Reconciliation of Amounts Available to Distributing Bodies at 31st March 2012 (continued)

ARTS BODIES	Arts Council of England £000	Creative Scotland £000	Arts Council of Wales £000	Arts Council of N. Ireland £000	British Film Institute £000	SUBTOTAL ARTS £000
National Lottery proceeds						
Share of income from lottery	211,183	26,935	15,132	8,474	40,917	302,641
Less share of operational costs	(643)	(82)	(46)	(26)	(124)	(921)
	210,540	26,853	15,086	8,448	40,793	301,720
Amount authorised for payment to distributing bodies	(115,069)	(23,101)	(11,746)	(10,319)	(31,527)	(191,762)
Transfer to OLDF	(30,276)	(3,862)	(2,169)	(1,215)	(5,866)	(43,388)
Investment Income	1,515	193	109	61	294	2,172
(Loss) on sale of investments	0	0	0	0	0	0
Increase/ (decrease) in balance available	66,710	83	1,280	(3,025)	3,694	68,742
Amounts held for distributing bodies at market value at 1 April 2011	125,457	29,388	14,120	7,664	35,675	212,304
Revaluation Reserve	2,363	301	169	95	458	3,386
Amounts held for distributing bodies at market value at 31 March 2012	194,530	29,772	15,568	4,734	39,827	284,432

SPORTS BODIES	Sports Council of England £000	Scottish Sports Council £000	Sports Council of Wales £000	Sports Council of N. Ireland £000	UK Sports Council £000	SUBTOTAL SPORTS £000
National Lottery proceeds						
Share of income from lottery	187,638	24,514	13,619	7,869	69,002	302,642
Less share of operational costs	(571)	(75)	(41)	(24)	(210)	(921)
	187,067	24,439	13,578	7,845	68,792	301,721
Amount authorised for payment to distributing bodies	(206,800)	(21,057)	(11,400)	(7,438)	(55,806)	(302,501)
Transfer to OLDF	(26,901)	(3,514)	(1,952)	(1,128)	0	(33,495)
Investment Income	1,346	176	98	56	495	2,171
(Loss) on sale of investments	0	0	0	0	0	0
Increase/ (decrease) in balance available	(45,288)	44	324	(665)	13,481	(32,104)
Amounts held for distributing bodies at market value at 1 April 2011	183,308	49,214	11,928	9,850	24,764	279,064
Revaluation Reserve	2,099	274	152	88	772	3,385
Amounts held for distributing bodies at market value at 31 March 2012	140,119	49,532	12,404	9,273	39,017	250,345

Some totals in this note may not agree precisely to figures shown elsewhere in the accounts due to different roundings arising from the use of percentages in allocating National Lottery proceeds to the distributing bodies.

11 Revaluation reserve	2011-12			2010-11
	£000			£000
Balance at 1st April	(2,112)			933
Realised gains transfer to income		(6,302)		-
Fair value adjustment: gain/(loss)	18,809	3,257		(3,045)
Balance at 31st March	16,697			(2,112)

Gains and losses arising from changes in fair value are recognised in the revaluation reserve until sale when the cumulative gain or loss is transferred to Statement of Comprehensive Net Income.

The cumulative gain or loss is the net of realised gain and the fair value adjustment.

12 Financial Instruments

IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7: Financial Instruments: Disclosure, have been applied. IFRS 7 requires disclosures that allow users of the accounts to evaluate the significance of financial instruments for the entity's financial position and performance, and the nature and extent of risks arising from financial instruments during the period.

Short term Receivables/Payables

As permitted by IFRS 7, receivables and payables which mature or become payable within 12 months of the balance sheet date have been omitted from this note.

13 Related Party Transactions

The NLDF is maintained under the control and management of the Secretary of State for Culture, Media and Sport. DCMS is considered to be a related party. During the year, a number of staff employed by DCMS worked on NLDF related activities and the NLDF used a number of the assets owned by DCMS. These costs were recharged to the NLDF by DCMS and are reflected in Note 4 of the accounts.

DCMS is also the sponsoring Department of the UK wide and English based lottery distributors.

OLDF is maintained under the control and management of the Secretary of State for Culture, Media and Sport. During the year the NLDF transferred £292,000 to the OLDF. OLDF is considered to be a related party.

CRND, which is ultimately part of HM Treasury, is also considered a related party.

The NLC, whose role is to monitor and provide assurance that the payments to the NLDF during the year are complete and accurate in all material respects, is a related party.

The Cabinet Office began the sponsor department of The Big Lottery Fund with effect from 01 April 2011 and hence is considered a related party.

No Minister, Board member, key manager or other related parties has undertaken any material transactions with the NLDF during the year.

For further details please see the DCMS Annual Report and Accounts.

14 Distributing Body share of Fund

The percentages received by each Distributing Body were set out in sections 22 and 23 of the National Lottery etc. Act 1993, as amended by section 6 of the 1998 Act and section 7 of the 2006 Act and subsequent secondary legislation, as follows:

	1.12.06 to 31.03.11	01.04.2011 to 31.03.12
The Arts	16.6666667	18.0000000
Sports	16.6666667	18.0000000
The National Heritage	16.6666667	18.0000000
Charitable expenditure	-	
Millennium projects	-	
Health, education and the environment	-	
Charitable, health, education and the environment	50	46

Arts	01.04.07 to 31.03.10	01.07.10 to 31.03.11	01.04.11to 31.03.12
Arts Council of England	11.6300000	11.6300000	12.5604000
Creative Scotland	-	1.4833333	1.6020000
Arts Council for Wales	0.8333333	0.8333333	0.9000000
Arts Council of Northern Ireland	0.4666667	0.4666667	0.5040000
British Film Institute	-	-	2.4336000
UK Film Council	2.2533333	2.2533333	-
Scottish Screen	0.1933333	-	-
Scottish Arts Council	1.29	-	-

Sports	01.04.06 to 31.03.11	01.04.2011 to 31.03.2012
English Sports Council	10.3333333	11.1600000
Scottish Sports Council	1.35	1.4580000
Sports Council for Wales	0.75	0.8100000
Sports Council of Northern Ireland	0.4333333	0.4680000
UK Sports Council	3.8	4.1040000

15. Important events which have occurred since the year end

From 01 April 2012 the second stage of the Government's commitment to reform the National Lottery, so that more money goes into sport, the arts and heritage so that their combined share of lottery funding increases to 60%, came into effect.

	Apportionment to 31 st March 2011	Apportionment from 1 st April 2011	Apportionment from 1 st April 2012
Big Lottery Fund	50.0000001%	46.0000000%	40.0000000%
Heritage Lottery Fund	16.6666667%	18.0000000%	20.0000000%
Arts Council England	11.6300000%	12.5604000%	13.9560000%
Creative Scotland	1.4833333%	1.6020000%	1.7800000%
Arts Council Wales	0.8333333%	0.9000000%	1.0000000%
Arts Council Northern Ireland	0.4666667%	0.5040000%	0.5600000%
UK Film Council	2.2533333%	2.4336000%	2.7040000%
Sport England	10.3333333%	11.1600000%	12.4000000%
Scottish Sports Council	1.3500000%	1.4580000%	1.6200000%
Sports Council of Wales	0.7500000%	0.8100000%	0.9000000%
Sports Council of Northern Ireland	0.4333333%	0.4680000%	0.5200000%
UK Sport	3.8000000%	4.1040000%	4.5600000%
TOTAL	100.0000000%	100.0000000%	100.0000000%

On 01 August 2012 the final transfer of £68m from NLDF to OLF took place completing the cycle of quarterly transfers from NLDF to OLF totalling £1,085m instituted in order to meet some of the costs of hosting the 2012 Olympic & Paralympic games.

The Olympic Games took place 28 July to 12 August 2012
The Paralympic Games took place 29 August to 09 September 2012

In compliance with the Public Bodies Act 2011, a consultation document on the proposed merger of the National Lottery Commission (NLC) and the Gambling Commission was issued on the 31 July 2012 and inviting comment by 31 October 2012.

The practicalities of a proposed merger between Sport England and UK Sport after the London 2012 Games are currently being examined. Work has already begun on strengthening strategic co-ordination between the two organisations.

On 04 September 2012 the Rt Hon Maria Miller replaced the Rt Hon Jeremy Hunt as the Secretary of State Culture, Media and Sport and has assumed the responsibilities attributed to the Secretary of State as laid out in these accounts from that date.

On 05 September 2012 it was announced that Sir Peter Bazalgette had been appointed chairman of the Arts Council England. He will succeed Dame Liz Forgan, on 31 January 2013.

On 24 September 2012 the NLDF holding of 2% Treasury Gilts due to mature in 2016 was sold.

12 Events after the reporting period

From 01 April 2012 The London Legacy Development Corporation replaced The Olympic Park Legacy Company Limited and assumed responsibility for planning, developing and maintaining the Olympic Park and those facilities it will own after the London 2012 Games. The London Legacy Development Corporation is a body under the auspices of the Mayor of London.

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These accounts were authorized for issue by the Accounting Officer on the date the audit opinion was signed.



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