

National Lottery Distribution Fund Account 2012-13

Annual Report and Accounts for the year ended 31 March 2013

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

Ordered by The House of Commons to be printed 15th July 2013

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Management Commentary

The 2012-13 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 nineteenth 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 an extension for a further four years awarded in March 2012.

The principal categories of income into the NLDF for the period to 31 March 2013 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.

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 10.

Prior to October 2010, the share of funds was apportioned so that the arts, sport and 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.

Following a reform in the allocation of the share of lottery income to the distributing bodies there was an increase to the share of income apportioned to the arts, sport and heritage to 60%. The implementation of this was split into two stages. The first stage change came into effect on 1 April 2011 and increased the arts, sport and heritage share of proceeds to 54% overall (18% each). On 1 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.

Financial Commentary

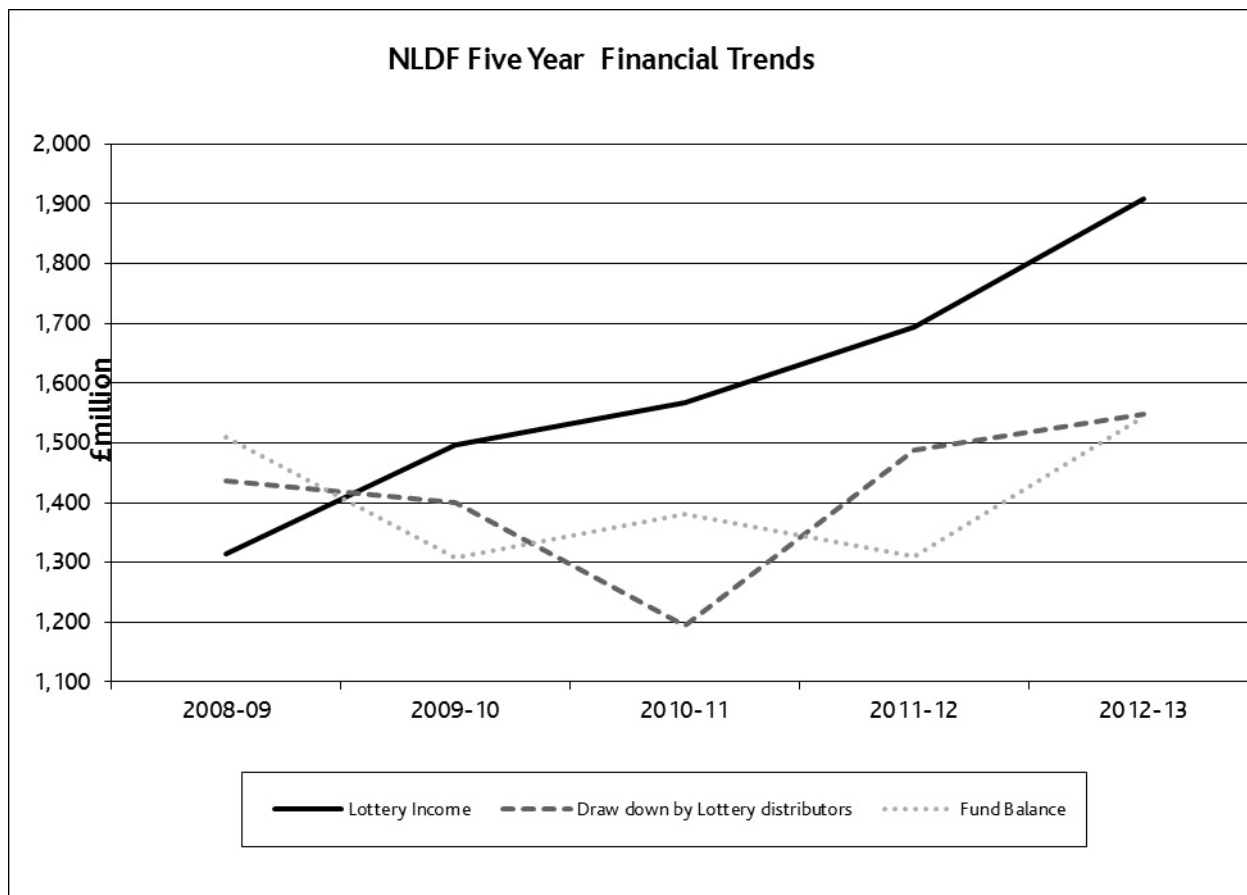
Income

By 31 March 2013, £28.9 billion had been raised for good causes since the launch of the National Lottery (including money raised by Olympic Lottery products), £1.9 billion of which was raised during 2012-13 (including an unclaimed prize of £64m). These figures include investment returns on the balance held in the National Lottery Distribution Fund. £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:	2008-09	2009-10	2010-11	2011-12	2012-13
Income	1,316	1,496	1,569	1,693	1,936
Draw down by lottery distributors	1,436	1,399	1,194	1,488	1,547
Fund Balance	1,510	1,307	1,382	1,309	1,543

The fund balance in the table above is shown after the transfer to the Olympic Lottery of £136m (£292m in 2011-12) and operational costs of £2.2m (£5.1m in 2011-12).



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 £1.543 billion. Against this, distributors had made commitments of £2.297 billion, and expect that £1.044 billion would be drawn down by recipients within one year of 31 March 2013.

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 in the table below are based on amounts recorded in the National Lottery Distributors' draft unaudited 2012-13 accounts.

	Commitments falling due within one year £000	2013 Commitments falling due in over one year £000	Total £000	2012 Total £000
Arts Council of England	163,348	147,985	311,333	149,370
Arts Council of Wales	8,273	3,510	11,783	8,076
Creative Scotland*	12,506	-	12,506	13,439
Arts Council of Northern Ireland	3,791	-	3,791	4,434
British Film Institute	8,429	-	8,429	8,654
Sport England	119,289	40,190	159,479	194,787
Sports Council of Northern Ireland	7,338	264	7,602	4,966
Sport Scotland	11,521	1,503	13,024	13,575
Sports Council of Wales	4,313	121	4,434	2,997
UK Sport	40,169	93,797	133,966	44,015
Heritage Lottery Fund	296,077	444,115	740,192	625,940
Big Lottery Fund	369,632	521,478	891,110	979,457
	1,044,686	1,252,963	2,297,649	2,049,710
NLDF Balance Available			1,543,247	1,309,093
(Over committed)/Under committed Balance (see below)			(754,402)	(740,617)

At 31st March 2013, in addition to these hard commitments, the total level of 'soft'¹ and 'other'² commitments by all Distributors was around £727m (£258m at 31st March 2012).

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

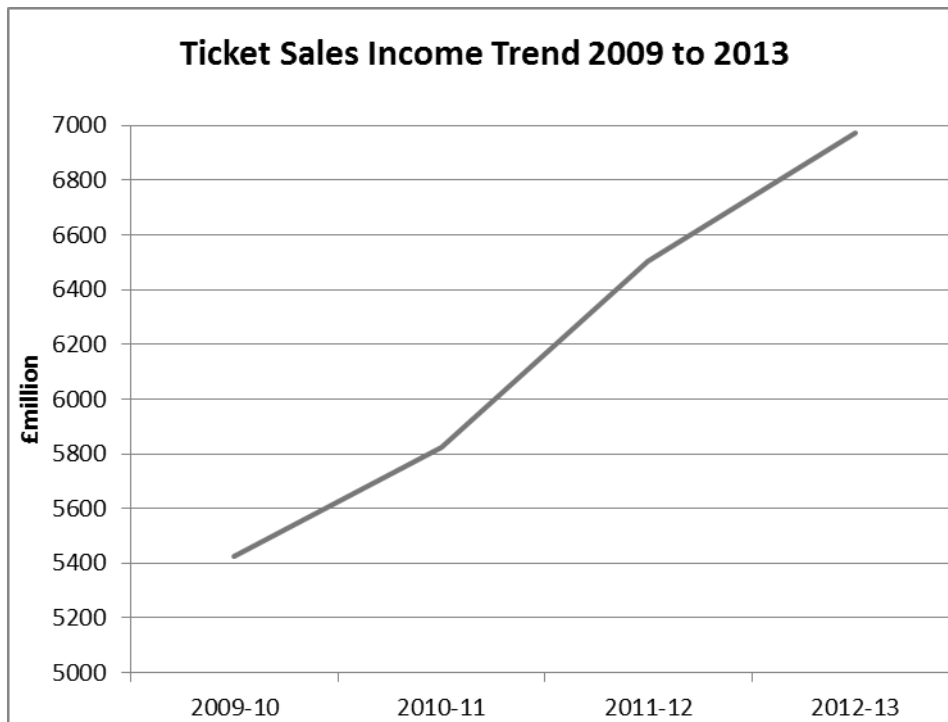
² - The term 'other commitments' includes:

- Stage 1 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 2013 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 2009 to 2013 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 £2.2 million for the year of which £1.8 million (£4.7 million in 2011-12) related to the NLC. The NLC reduction in operating costs is due the organisation relocating and utilising shared services and back office support; thereby reducing headcount and administrative spend. The table below provides a breakdown of costs. The NLC 2012-13 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

£million	2008-09	2009-10	2010-11	2011-12	2012-13
DCMS	0.2	0.2	0.3	0.3	0.2
National Lottery Commission	4.7	3.6	4.2	4.7	1.8
CRND	0.1	0.1	0.1	0.1	0.1

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

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 legal existence from 8 April 2005. The OLDF is the subject of a separate annual accounting process, and the Department for Culture, Media and 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 that it was agreed would 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 was to be transferred from the arts, sport and national heritage good causes and £425m was to be transferred 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, enabled £1,085m to be transferred as thirteen instalments of £73m each (paid quarterly), followed in 2012-13 by two instalments of £68m each. The first transfer was made on 2 February 2009. The last transfer took place on 1 August 2012. Any amounts remaining in the fund on its closure (expected in the summer 2014) will be transferred back to the NLDF. The current balance on the OLDF as at 31 March 2013 is £75.5m.

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 Financial Directions, supported by a 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 Secretary of State issued the Financial Directions for all distributors sponsored by DCMS, and, with the consent of the relevant Secretary of State or Minister, for the Big Lottery Fund and devolved distributors in Wales and Northern Ireland. The Secretary of State's consent is required for the issuing of Financial Directions to devolved distributors in Scotland by the relevant Secretary of State.

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 supporting information about Lottery Distributors' systems and their approach to financial and risk management from the distributors' sponsors in his own department, in Cabinet Office and in the relevant devolved administrations. This assurance reporting process is independently reviewed by 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 0.78%. 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 and transactions 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 in discharging the Secretary of State's functions under the National Lottery etc Act 1993, as amended.

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 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 16 to the accounts.

Signed:

11 July 2013

Sir Jonathan Stephens KCB
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 2012-13* which is subject to audit, and will be available, when published, on the DCMS website at www.culture.gov.uk

Signed:

11 July 2013

Sir Jonathan Stephens KCB
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 2013 which has led him to be satisfied that the payments to the National Lottery Distribution Fund during the year to 31 March 2013 are complete and accurate in all material respects.

Signed:

11 July 2013

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

Governance Statement

The Lottery Distribution Funds (comprising the Olympic Lottery Distribution Fund and the National Lottery Distribution Fund) are managed and run by staff employed by DCMS. The management of the Lottery Distribution Funds follows the normal processes for DCMS, and consequently the governance policies of the DCMS operate with regard to both the Olympic Lottery Distribution Fund (OLDF) and the National Lottery Distribution Fund (NLDF) in the same way.

Ministers

Rt Hon Jeremy Hunt MP	Secretary of State for Culture, Olympics, Media, and Sport (until 4 September 2012)
Rt Hon Maria Miller MP	Secretary of State for Culture, Media and Sport; and Minister for Women and Equalities (from 4 September 2012)
Rt Hon Hugh Robertson MP	Minister for Sport and Tourism (until 4 September 2012 Minister for Sport and the Olympics)
Ed Vaizey MP	Minister for Culture, Communications and Creative Industries
John Penrose MP	Minister for Tourism and Heritage (until 4 September 2012)
Helen Grant MP	Minister for Women and Equalities (from 4 September 2012), and also Minister for Victims and the Courts in the Ministry of Justice
Jo Swinson MP	Minister for Women and Equalities (from 4 September 2012), and also Minister for Employment Relations and Consumer Affairs in the Department for Business, Innovation and Skills

Senior staff

Sir Jonathan Stephens*	Permanent Secretary
Jeremy Beeton*	Director General, Government Olympic Executive (until 3 November 2012)
Jonathan Rees	Director General, Government Equalities Office (from 4 September 2012 until 31 January 2013)
Simon Judge*	Director, Finance (until 12 July 2012)
Samantha Foley*	Director, Finance (from 19 September 2012)
Rita French	Director (until November 2012)
David Brooker	Director
Helen MacNamara*	Director
Clare Pillman	Director
Jon Zeff*	Director
Debbie Gupta	Director, Government Equalities Office (from 4 September 2012 until 27 September 2012)
Rachel Clark	Director, Equalities (from 4 February 2013)

*Senior staff who are members of the DCMS Board

Non-executive board members

David Verey	Lead Non-Executive Board Member
Dr Tracy Long	Non-Executive Board Member; Chair of the Audit & Risk Committee
Sir Peter Bazalgette	Non-Executive Board Member (until 31 January 2013)
Lord Coe	Ex officio* (until 18 October 2012)
Ajay Chowdhury	Non-Executive Board Member (from May 2013)
Ruby McGregor-Smith	Non-Executive Board Member (from July 2013)

*By virtue of his position a Chair of LOCOG

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 Arm's Length Bodies (ALBs) are governed by their own independent Boards of Trustees and each has separate governance and internal assurance structures. With respect to the Lottery Distribution Funds, 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 Ministers, Senior Executives and Non-Executive Directors. Committees of the Board include:

- **Audit and Risk Committee:** 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. They met five times in 2012-13.
- **Pay Committee:** advises on decisions on senior remuneration and reward. They met once in 2012-13.

The Board is also supported by the:

- **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-committee relevant to the Lottery Distribution Funds is :
 - *Corporate Committee* – manages DCMS resources and infrastructure

1.3 Attendance of Board members at the 4 meetings in 2012-13 was:

Ministers		NEBMs		Officials	
Jeremy Hunt	2	David Verey	4	Jonathan Stephens	4
Maria Miller	2	Tracy Long	4	Jeremy Beeton	2
Hugh Robertson	4	Peter Bazalgette	1	Simon Judge	1
Ed Vaizey	3	Lord Coe	0	Samantha Foley	2
John Penrose	2			Rita French	0
Helen Grant	1			Helen MacNamara	4
Jo Swinson	0			Jon Zeff	2

1.4 During 2012-13 the boards and committees have been effective in delivering policy, projects/programmes and operational priorities. David Verey, the Lead NEBM, carried out the annual review of the Board's effectiveness in March 2013. It concluded that DCMS has been through a period of considerable change and, with the addition of 2 new non-executive directors to the board, there is the opportunity to build a new team and refocus on providing challenge and support to the department on direction setting, change, performance, strategic risk management and succession planning. To maximise board effectiveness, there are still significant improvements to be made around basic discipline (prioritising board meetings, having a clear operating framework) and ensuring that board can focus on the right issues in time to make a difference (high quality papers, clear and relevant management information).

1.5 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, especially the Olympics, audit plans and reports, and legal risks. No major weaknesses were identified. 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.

Appointment of head of the department and the DCMS board

1.6 The head of the department (the Permanent Secretary) and other executive members of the DCMS board are appointed on terms and conditions set out in the Civil Service Management Code. These members of staff have individual contracts of employment which specify the length of their appointment (if appropriate) and termination procedures.

Disclosure of senior staff salaries and production of organisation charts

1.7 As part of the Government's Transparency agenda, DCMS has published data on the remuneration of senior staff within their organisations as at 31 March 2013, as well as organisation charts which give senior staff structure and summary information for staff at junior levels. These can be found on the DCMS Transparency website www.transparency.culture.gov.uk/category/staff/

Directorships and other significant interests

1.8 No directorships or other significant interests were held by board members, which may have conflicted with their management responsibilities.

Ministers and board members' remuneration

1.9 The details of ministers' and board members' remuneration are set out in the remuneration report in the DCMS annual accounts.

2. COMPLIANCE WITH CORPORATE GOVERNANCE CODE

2.1 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, and is supported by the Senior People Development Committee.
- 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*.

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. 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 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 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 Distribution Funds, an overview of the governance arrangements is set out below:

- **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 – the Olympic Lottery Distribution Fund).

- **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 executive Non-Departmental Public Body) 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 until its closure on 31 October 2012), 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. The Secretary of State was a stakeholder in LOCOG and managed the Government's role as ultimate financial guarantor of the Games. The Secretary of State met LOCOG's Chair regularly; as did its Chief Executive. 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.

The purpose of the system of internal control

3.6 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 2013 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

3.7 The Department maintains a "zero-tolerance" culture in respect of fraud, corruption and malpractice in 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, including lessons arising from fraud investigations, and inform the National Fraud Intelligence Bureau of frauds. No significant issues have arisen during the year relating to the lottery bodies covered by this report.

Capacity to handle risk

3.8 As Accounting Officer, my responsibility for high standards of corporate governance includes effective management of risk throughout the Department.

3.9 The Department's risk management system establishes Deputy Directors accountable for team risk registers, whilst the Corporate Committee has overall responsibility for improving management of risk, disseminating best practice and maintaining the Strategic Risk Register.

3.10 The Department's risk framework identifies risk management as a key role of the Board, the Executive Board and its sub-committees. Policy and guidance are available to staff on the intranet and risk management master-classes have been provided.

3.11 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, Committee. 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.
- Risks escalated by the Corporate Committee, 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.

3.12 An Internal Audit review of the Department's risk management systems carried out in March 2013 found that they provided reasonable assurance. It concluded that the key business risks for business as usual and programme activities are largely understood and being managed, however the overall framework for strategically monitoring and comparing risks is not sufficiently structured and consistent.

The risk and control framework

3.13 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 and the roles and responsibilities of staff.

3.14 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.

3.15 For the bodies associated with Olympic and Paralympic Games, my interests have been protected by the Government Olympic Executive (GOE) within DCMS; until its closure on 31 October 2012, following the games and thereafter by 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, alongside an extensive range of other bodies including: the Olympic Delivery Authority (ODA), the London Organising Committee of the Olympic and Paralympic Games (LOCOG) and other Government departments. Each of these bodies has their own governance arrangements. The governance arrangements introduced for the Games simplified control and decision-making and delivered greater integration across the programme. 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.

3.16 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. At that point the forecast anticipated final cost of the Olympic and Paralympic Programme was £8,921 million indicating a £377 million saving against the £9,298 million Public Sector Funding Package (PSFP). After subsequent reductions in the costs of venue-security, following LOCOG's settlement with G4S, further savings on security and policing outside the Olympic Park; and other savings by LOCOG, the revised forecast, as at end May 2013 is for an anticipated final cost of £8,770 million, indicating a £528 million saving against the PSFP.

3.17 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 relating to the Lottery bodies covered by this statement.

3.18 The following external review has been carried out on the Department, with its results published and with no significant outstanding recommendations:

- The NAO's report *The London 2012 Olympic Games and Paralympic Games : post Games review - 5 December 2012* - NAO found that :
 - By any reasonable measure the Games were a success and the big picture is that they have delivered value for money. LOCOG sold 1 million tickets and our athletes excelled. The contribution of the ceremonies and the volunteers was a huge part of the success and we do not underestimate the work involved. Crucially, the Games passed off without major transport disruption or security incident. The scale of the construction programme and the fact that it was completed on time and within budget is impressive. The government's preparations and management of the £9.3 billion Public Sector Funding Package have been led throughout by DCMS.
 - As the programme closes the Department must continue to keep tight financial control over remaining expenditure, with a view to maximising the final unspent figure.
 - The government should use the skills gained by officials who have worked on the Games, by deploying people to roles that use this experience.

3.19 The Government has shared the lessons of the Games with the planners of major events and in Summer 2013 will publish its final report of the meta-evaluation of the Games.

3.20 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 the organisational culture. Information Assurance maturity was independently assessed by the Internal Audit Services, who found DCMS compliant with the requirements of the Data Handling Review.

Review of effectiveness

3.21 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.

3.22 Despite all the systems, processes and controls that I have put in place, 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.

3.23 No significant control issues relating to the lottery funds merit mention in this statement.

3.24 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 2013, as a consequence of their work, IAS gave a substantial (amber-green) assurance on the adequacy and effectiveness of the system of internal control in DCMS over the course of the year.

Signed:

11 July 2013

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

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 2013 under the National Lottery etc. Act 1993. These comprise the Statement of Comprehensive Net Income, the Statement of Changes in Amount Held for Distributing Body, 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 the Secretary of State, Accounting Officer and the National Lottery Commission, the Secretary of State for Culture, 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 read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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 recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements 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 2013 and of its net income 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

12 July 2013

Statement of Comprehensive Net Income for the Year Ended 31 March 2013

	Note	2012-13 £000	2011-12 £000
Income			
National Lottery	2	1,908,674	1,681,341
Investment Income	3a	9,418	12,064
Gain/(Loss) on Sale of Investments	3b	17,634	-
Total Income		1,935,726	1,693,405
Less: Operational Costs			
Department for Culture, Media and Sport	4	239	284
National Lottery Commission	5	1,847	4,716
Other Expenses	6	114	115
		2,200	5,115
Net Realised Income for Distribution		1,933,526	1,688,290
Amounts authorised for payment to Distributing Bodies	10	(1,546,675)	(1,487,997)
Transfer to OLDF		(136,000)	(292,000)
Increase/(decrease) in realised amount held for distributing bodies		250,851	(91,707)
Other comprehensive income:			
Fair value gains on revaluation of investments		937	18,809
Less: realised gains transferred to income		(17,634)	-
Other comprehensive income/(expenditure)	11	(16,697)	18,809
Total comprehensive income/(expenditure)		234,154	(72,898)

All transactions are in respect of continuing operations
The notes on pages 22 to 32 form an integral part of these accounts.

Statement of Changes in Amount Held for Distributing Bodies for the year ended 31 March 2013

	Note	£000
Amount held for distributing bodies at 1 April 2011		1,381,991
Total comprehensive income/(expenditure) for the year 2011-12		(72,898)
Amount held for distributing bodies at 31 March 2012		1,309,093
Total comprehensive income/(expenditure) for the year 2012-13		234,154
Amount held for distributing bodies at 31 March 2013	10	<u>1,543,247</u>

The notes on pages 22 to 32 form an integral part of these accounts.

Statement of Financial Position as at 31 March 2013

	Note	2012-13 £000	2011-12 £000
<u>Current Assets</u>			
Receivables	7	48,070	30,845
Investments held by CRND at fair value	8	1,495,598	1,278,706
Cash at Bank and in Hand		-	-
Total current assets		<u>1,543,668</u>	1,309,551
<u>Current liabilities</u>			
Payables: Amounts falling due within one year	8	(421)	(458)
Total assets less liabilities		<u>1,543,247</u>	<u>1,309,093</u>
 <u>Represented by:</u>			
Revaluation Reserve	11	-	16,697
Statement of comprehensive net income: realised amount held for distributing bodies		1,543,247	1,292,396
Amounts held for Distributing Bodies	10	<u>1,543,247</u>	<u>1,309,093</u>

The notes on pages 22 to 32 form an integral part of these accounts.

Signed:

11 July 2013

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

Statement of Cash Flows for Year Ended 31 March 2013

		2012-13	2011-12
<u>Cash flows from operating activities</u>	Note	£000	£000
Cash received from Lottery operator		1,891,448	1,668,478
Cash paid for operating expenses		(2,238)	(5,212)
Cash paid to OLDF		(136,000)	(292,000)
Cash paid to Distributing Bodies	10	(1,546,675)	(1,487,997)
Net cash inflow/(outflow) from operating activities	9	206,535	(116,731)
<u>Cash flows from investing activities</u>			
Cash Paid to CRND for Investment		(1,889,210)	(1,663,266)
Cash transferred by CRND to OLDF		136,000	292,000
Cash received from CRND for distribution		1,546,675	1,487,997
Net cash inflow/(outflow) from management of liquid resources		(206,535)	116,731
Change in cash		-	-

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

The notes on pages 22 to 32 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 Government Financial Reporting Manual.

The particular policies adopted by the fund are described below.

Basis of Preparation

These accounts have been prepared on a going concern basis.

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, 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, 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 2012 in respect of all draws within the year up to and including 31 March 2013.

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 £1,085m of future lottery income from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund (OLDF) 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 thereafter each quarter up to and including quarter 2 of 2012-13.

Transfers from NLDF are accounted for when each instalment becomes due and disclosed in the statement of Comprehensive Net Income. Any amounts remaining on OLDF upon its closure will be transferred back to NLDF.

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 2013, 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 IAS 7.

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.

Available for sale financial assets are adjusted to fair value annually 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 investment income (see Investments above).

Receivables are classified as loans and receivables and are recognised at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

Payables are short term and measured at amortised cost, which reflects the fair value of these liabilities as they fall due within one year.

Impact of New IFRS and Financial Reporting Manual Amendments

There are no other standards and interpretations in issue yet to be adopted that the Department anticipates will have a material effect on future reporting periods.

2 Income from Lottery Activities

	2012-13 £000	2011-12 £000
Primary contribution ¹	1,728,394	1,572,446
Secondary contribution	3,668	1,277
Unclaimed prizes ¹	175,692	102,653
Interest on Players Trust Fund	-	698
Income from ancillary activities and other items	920	4,267
	<u>1,908,674</u>	<u>1,681,341</u>

¹ Primary contribution and unclaimed prizes have increased due to a combination of increased sales and larger prizes.

3 Investment Income

	2012-13 £000	2011-12 £000
3a <u>Investment Income</u>		
Interest Received on investments	<u>9,418</u>	<u>12,064</u>
3b <u>Gain on sale of investments</u>		
Gain on sales of investments	17,634	-
(Losses) on sales	-	-
	<u>17,634</u>	<u>-</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.

Profits and losses realised on the disposal of gilts reflect the differences between the original market prices paid and the disposal/redemption values.

In September 2012 all the remaining gilts previously purchased by CRND were sold. The total net realised gain for the year was £16,697k (£17,634k realised gain less £937k fair value gain on revaluation).

4 Operational Costs: Department for Culture, Media and Sport

	2012-13 £000	2011-12 £000
Staff costs	105	153
Accommodation and central services	63	57
IT, consultancy, and training	34	28
Charge for the use of DCMS assets	12	21
External auditor's remuneration	23	23
Bank of England charges	2	2
	<u>239</u>	<u>284</u>

The external auditor's fee of £23k for 2011-12 is included as part of DCMS 2012-13 charges. The external auditor's fee for 2012-13 is £32k and will be included in the 2013-14 NLDF accounts.

In 2012-13 five members of DCMS 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 2012-13, licence fee income of £49,500 relating to new NLDF games was received by DCMS.

	2012-13 £000	2011-12 £000
Gross share of costs	1,897	4,762
Lottery Operator licence fee income	(50)	(46)
Amount payable to DCMS	<u>1,847</u>	<u>4,716</u>

The total grant in aid paid to the National Lottery Commission was £1,958k; with a total of £49.5k 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	1,897	61	1,958
Lottery operator licence fee income	(50)	-	(50)
Amount recoverable by DCMS	<u>1,847</u>	<u>61</u>	<u>1,908</u>

6 Other Expenses

	2012-13	2011-12
	£000	£000
Commissioners for the Reduction of the National Debt (CRND)*	114	115

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

7 Receivables

	2012-13	2011-12
	£000	£000
Ticket sales income due as a result of draws prior to year end	48,070	30,845
	48,070	30,845

Intra-government balances

Balances with bodies external to government	48,070	30,845
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Receivables include an adjustment of £257k relating to an underpayment of primary contribution to NLDF that was paid to OLF in error. The 2012-13 OLF account is showing the corresponding payable.

8 Reconciliation of Investments held by CRND at Fair Value to Amounts Held for Distributing Bodies

	at 31 March 2013		at 31 March 2012	
	Cost	Fair Value	Cost	Fair Value
	£000	£000	£000	£000
Investments held by the CRND	1,495,598	1,495,598	1,262,009	1,278,706
Receivables (note 7)	48,070	48,070	30,845	30,845
Payables	(421)	(421)	(458)	(458)
Balance held	1,543,247	1,543,247	1,292,396	1,309,093

Payables: Intra-government balances

Other central government bodies	(421)	(421)	(458)	(458)
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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 2013, is shown below.

	Fair Value £000
Call notice deposits ⁽¹⁾	1,495,598
Fixed deposits	-
Subtotal – “cash funds”	<u>1,495,598</u>
UK Government Gilts classified as available for sale - due within 1-5 years - non marketable	-
Subtotal – gilts	<u>-</u>
Total balance invested with CRND	<u><u>1,495,598</u></u>

⁽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 and the National Loans Fund (NLF).

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 Amounts Held for Distributing Bodies as disclosed in the Statement of Comprehensive Net Income with Net Cash Inflow/(Outflow) from Operating Activities

	2012-13 £000	2011-12 £000
Increase/(decrease) in realised amounts held for distributing bodies	250,851	(91,707)
Investment income	(9,418)	(12,064)
(Gain) / Loss on Sale of Investments	(17,635)	-
	<u>223,798</u>	<u>(103,771)</u>
(Increase)/decrease in lottery operator receivables	(17,226)	(12,863)
Increase/(decrease) in payables for operating expenses	(37)	(97)
Net cash inflow/(outflow) from operating activities	<u><u>206,535</u></u>	<u><u>(116,731)</u></u>

10 Amounts Available to Distributing Bodies at 31st March 2013

BENEFICIARY SECTORS	Arts	Sports	Heritage Lottery Fund	Big Lottery Fund	TOTAL
	£000	£000	£000	£000	£000
National Lottery proceeds					
Share of income from lottery	381,735	381,735	381,735	763,469	1,908,674
Less share of operational costs	(440)	(440)	(440)	(880)	(2,200)
	381,295	381,295	381,295	762,589	1,906,474
Amount authorised for payment to distributing bodies	(264,137)	(270,673)	(268,952)	(742,914)	(1,546,675)
Transfer to OLDF	(20,208)	(15,601)	(20,208)	(79,983)	(136,000)
Investment Income	2,071	2,071	2,071	4,143	10,356
Increase/ (decrease) in balance available	99,021	97,093	94,205	(56,165)	234,154
Amounts held for distributing bodies at market value at 1 April 2012	284,432	250,344	375,327	398,990	1,309,093
Amounts held for distributing bodies at market value at 31 March 2013	383,453	347,437	469,532	342,824	1,543,247

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	266,375	33,974	19,087	10,689	51,610	381,735
Less share of operational costs	(307)	(39)	(22)	(12)	(59)	(440)
	266,068	33,935	19,065	10,677	51,551	381,295
Amount authorised for payment to distributing bodies	(169,796)	(34,377)	(13,415)	(9,681)	(36,868)	(264,137)
Transfer to OLDF	(14,101)	(1,799)	(1,010)	(566)	(2,732)	(20,208)
Investment Income	1,445	184	104	58	280	2,071
Increase/ (decrease) in balance available	83,616	(2,056)	4,743	488	12,230	99,021
Amounts held for distributing bodies at market value at 1 April 2012	194,530	29,772	15,568	4,734	39,827	284,432
Amounts held for distributing bodies at market value at 31 March 2013	278,146	27,716	20,312	5,222	52,057	383,453

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	236,676	30,920	17,178	9,925	87,036	381,735
Less share of operational costs	(273)	(36)	(20)	(11)	(100)	(440)
	236,403	30,884	17,158	9,914	86,936	381,295
Amount authorised for payment to distributing bodies	(173,900)	(27,409)	(13,420)	(6,074)	(49,869)	(270,673)
Transfer to OLDF	(12,529)	(1,637)	(909)	(525)	0	(15,601)
Investment Income	1,284	168	93	54	472	2,071
Increase/ (decrease) in balance available	51,258	2,006	2,922	3,368	37,539	97,093
Amounts held for distributing bodies at market value at 1 April 2012	140,119	49,531	12,404	9,273	39,018	250,344
Amounts held for distributing bodies at market value at 31 March 2013	191,377	51,537	15,326	12,640	76,557	347,437

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	2012-13	2011-12
	£000	£000
Balance at 1 st April	16,697	(2,112)
Realised gains transferred to income	(17,634)	-
Fair value adjustment: gain/(loss)	937	18,809
Balance at 31 st March	-	16,697

Gains and losses arising from changes in the fair value of gilts purchased by CRND were recognised in the revaluation reserve until sold. At the point of sale the cumulative gain was transferred to the Statement of Comprehensive Net Income. In September 2012 all remaining gilts previously purchased by CRND were sold – see Note 3 for details.

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.

13 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.

14 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 £136m 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 became 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 2012-13 DCMS Annual Report and Accounts.

15 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	01.04.11 to 31.03.12	01.04.12 to 31.03.13
The Arts	16.6666667	18.0000000	20.0000000
Sports	16.6666667	18.0000000	20.0000000
The National Heritage	16.6666667	18.0000000	20.0000000
Charitable expenditure	-	-	-
Millennium projects	-	-	-
Health, education and the environment	-	-	-
Charitable, health, education and the environment	50	46	40.00000

Arts	01.04.07 to 31.03.10	01.07.10 to 31.03.11	01.04.11 to 31.03.12	01.04.12 to 31.03.13
Arts Council of England	11.6300000	11.6300000	12.5604000	13.9560000
Creative Scotland	-	1.4833333	1.6020000	1.7800000
Arts Council for Wales	0.8333333	0.8333333	0.9000000	1.0000000
Arts Council of Northern Ireland	0.4666667	0.4666667	0.5040000	0.5600000
British Film Institute	-	-	2.4336000	2.7040000
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 31.03.12	01.04.12 to 31.03.13
English Sports Council	10.3333333	11.1600000	12.4000000
Scottish Sports Council	1.35	1.4580000	1.6200000
Sports Council for Wales	0.75	0.8100000	0.9000000
Sports Council of Northern Ireland	0.4333333	0.4680000	0.5200000
UK Sports Council	3.8	4.1040000	4.5600000

16 Events after the Reporting Period

These accounts were authorised for issue by the Accounting Officer on the 11 July 2013.



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