

National Lottery Distribution Fund Account 2009-10

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2010

Presented to Parliament pursuant to section 33(1) and section 33(2) of the National Lottery etc. Act 1993
as amended by the National Lottery Act 1998

Ordered by The House of Commons to be printed 9 November 2010

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Management Commentary

The 2009-10 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 the Department for Culture, Media and Sport (DCMS).

This is the sixteenth 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 Income and Expenditure Account 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 2010 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.

Until 31 March 2007, interest received on the investments was allocated to the distributing bodies in proportion to the share of the balance on the fund held by each body. The National Lottery Act 2006 altered the allocation so that from 1 April 2007 it would be 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 16. At present the Arts, Sports and National Heritage good causes receive 50% of the income generated for good causes by non-Olympic Lottery products. With effect from 1 December 2006 the charitable, health, education and environment good causes were merged to form a single good cause administered by the Big Lottery Fund (BLF). The BLF receives the other 50% of the funds. The separate balances held in the NLDF on behalf of the previous bodies distributing charitable, health, education and environmental funding were combined to form the BLF.

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 NLDF to the OLF in order to meet some of the costs of hosting the 2012 Games.

The allocation of the share of income available to good causes is under review, and following a consultation exercise the Department's Structural Reform Plan includes a commitment to reform the National Lottery so that

more money goes into arts, sports and heritage – such that together their share of lottery funding increases to 60%. It is proposed to enact these changes in two stages, in April 2011 and April 2012.

Financial Commentary

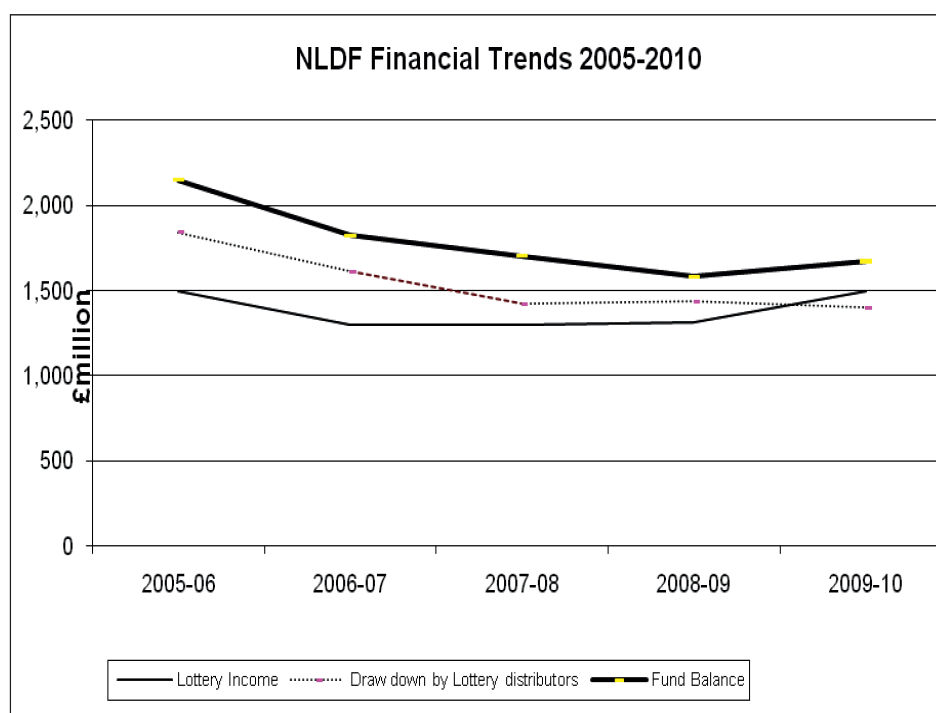
Income

By 31 March 2010, some £24 billion had been raised for good causes since the launch of the National Lottery (including money raised by Olympic Lottery products), £1.6 billion of which was raised during 2009-10. These figures include investment returns on the unused balances. £1.4 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 fund balance for the NLDF only is as follows:

£million:	2005-06	2006-07	2007-08	2008-09	2009-10
Income	1,500	1,296	1,301	1,316	1,496
Draw down by Lottery distributors	1,844	1,612	1,420	1,436	1,399
Fund Balance	2,150	1,825	1,708	1,583*	1,672*

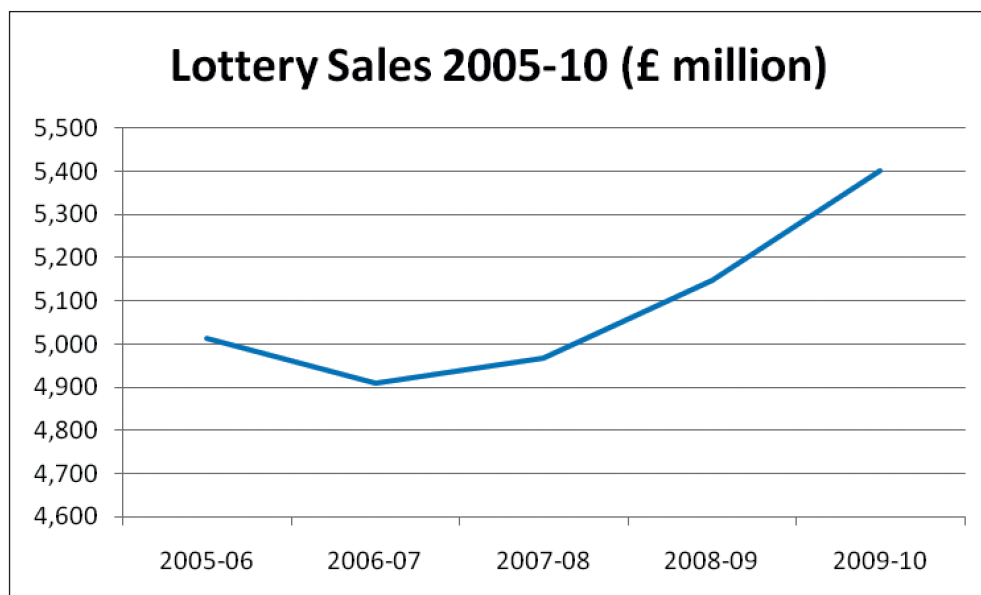
*The fund balance is shown before the transfer to the Olympic Lottery. The amount transferred to OLDF in 2009-10 was £292m.



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 income of £1.672 billion less the £292 million committed and transferred to the Olympic Lottery Distribution Fund for the year has reduced the balance to £1.380 billion. Against this, distributors had made commitments of £2.2 billion, and expected that £1 billion would be drawn down by recipients within one year of 31 March 2010.

The balance on the fund at 31 March 2010 is held in investments by the Commissioners for the Reduction of the National Debt (CRND) as set out in Note 9 to these accounts. The allocation of these funds across the thirteen distributing bodies can be seen in Note 11 to these accounts.

Following the completion of the third licence competition, if Camelot can maintain the current sales levels of over £5 billion per annum, then the third licence is expected to generate an additional £60 million to £100 million each year for good causes, after deduction of prize money and costs. Sales over the period 2005-10 are shown in the table below.



Due to the complex operation of the lottery licence, there is not a linear relationship between ticket sales and income generated for the NLDF. In addition, 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 the DCMS, and CRND) and by the NLC for regulating the National Lottery are met from the Fund and totalled £3.9 million for the year of which £3.6 million related to the NLC. The table below provides a breakdown of costs. The NLC 2009-10 accounts provide further information on this as well as their ongoing role as regulator of the Lottery. These can be found on their website, www.natlotcomm.gov.uk

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	2005-06	2006-07	2007-08	2008-09	2009-10
DCMS	0.2	0.3	0.2	0.2	0.2
National Lottery Commission	7.9	8.0	9.8	4.7	3.6
CRND	0.2	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, and the last will be on or after 1 August 2012. A total of £292m was transferred from the NLDF to the OLDF during 2009-10 (four payments of £73m).

International financial reporting standards

The NLDF, as with the accounts of central government departments and entities in the wider public sector, has implemented International Financial Reporting Standards (IFRS) from 2009-10. This was achieved through a series of Trigger Points that were established by H.M. Treasury. These accounts have been produced for the first time using IFRS, and prior year figures have been re-stated. The impact of IFRS accounts is to improve transparency (presentational issues), as well as to introduce some technical accounting changes to assets, liabilities and provisions. They also brought in some cost and income recognition rule amendments.

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.

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. The statement of financial requirements is issued by the 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 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 my 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 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 0.58%. 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.

Staffing and Organisation

Members of both DCMS Finance and the Programmes team were engaged on NLDF matters. Their staff costs 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 7 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 far as the accounting officer of the NLDF is aware there is no relevant audit information of which the NLDF's auditors are unaware, and he has taken all the steps that he should to make himself aware of any relevant audit information, and to establish that the NLDF'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."

Full disclosure can be found set out in Table 2 on page 19 of the 2010 DCMS Resource Accounts, which is 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

Since 31 March 2010, the following notable events have occurred:

After the General Election of May 2010, the Ministers with responsibility for the Department are:

Rt Hon Jeremy Hunt MP	Secretary of State for Culture, Olympics, Media and Sport
John Penrose MP	Minister for Tourism and Heritage
Hugh Robertson MP	Minister for Sport and the Olympics
Ed Vaizey MP	Minister for Culture, Communications and Creative Industries (joint Minister with Department of Business, Innovation and Skills)

From 01 July 2010 Scottish Arts and Scottish Screen were merged into a single body known as Creative Scotland. This will have future implications for the structure of the NLDF bodies in 2010-11.

On 26 July 2010 the Minister announced that The National Lottery Commission and the Gambling Commission would be merged into one body. A date for the merger has yet to be agreed.

Also, on the 26th of July 2010 the Secretary of State announced the abolition of the UK Film Council. The Lottery will continue to provide funding to the UK film industry and key functions of the UK Film Council will continue. An announcement on which body or bodies are best placed to take over the performance of these functions will be made in the Autumn.

The Department's Structural Reform Plan includes a commitment to reform the National Lottery so that more money goes into sport, the arts and heritage; and together their share of Lottery funding increases to 60%. It is proposed to enact these changes in two stages, in April 2011 and April 2012.

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

19 October 2010

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 for Culture, Media and Sport. Remuneration information for DCMS Ministers and Board may be found in the Remuneration Report of the DCMS Resource Accounts 2009-10 [HC222] which has been subject to audit, and is available on the DCMS website at www.culture.gov.uk.

The Ministers who had responsibility for the Department during the year were:-

Rt Hon Ben Bradshaw MP	Secretary of State (from June 2009)
Rt Hon Andy Burnham MP	Secretary of State (to June 2009)
Rt Hon Margaret Hodge MBE	Minister of State for Culture, Creative Industries & Tourism (from September 2009)
Gerry Sutcliffe MP	Parliamentary Under Secretary of State for Sport
Sion Simon MP	Parliamentary Under Secretary of State for Creative Industries (to February 2010)
Barbara Follett MP	Parliamentary Under Secretary of State (to September 2009)
Stephen Carter CBE	Parliamentary Under Secretary (to July 2009)

During the year Rt Hon Tessa Jowell MP was Minister for the Olympics and Paymaster General, working out of the Cabinet Office and reporting directly to the Prime Minister. Her remuneration is disclosed in the Cabinet Office resource accounts.

During the year Stephen Carter CBE was Minister for Communications, Technology and Broadcasting (jointly with the Department for Business, Enterprise and Regulatory Reform) until July 2009.

The Permanent Secretary and members of the DCMS Board during 2009-10 were:

Jonathan Stephens	Permanent Secretary
Andrew Ramsay	Director General
Jeremy Beeton	Director General, Government Olympic Executive
Anita Charlesworth	Director
David Roe	Director (to November 2009)
Jane Cooper	Director
Simon Judge	Director
Alexis Cleveland	Non-Executive Member (appointed May 2009)
Ann Green	Non-Executive Member (appointed May 2009)
Tracy Long	Non Executive Member (appointed September 2009)
Parminder Vir	Non-Executive Member (to March 2010)
Darra Singh	Non-Executive Member (to August 2009)

Signed:

19 October 2010

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 the Permanent Secretary of the Department for Culture, Media and Sport as the Accounting Officer for the National Lottery Distribution Fund. His relevant responsibilities as Accounting Officer, including his 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"*.

The Permanent Secretary's 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. The Permanent Secretary has 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 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 2010 which has led him to be satisfied that the payments to the National Lottery Distribution Fund during the year to 31 March 2010 are complete and accurate in all material respects.

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

19 October 2010

Statement on Internal Control

Scope of responsibility

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the operation of the National Lottery Distribution Fund (NLDF), whilst safeguarding NLDF funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *"Managing Public Money"*.
2. Financial Directions have been given by the Secretary of State (or by Ministers in Scotland, Wales and Northern Ireland with the Secretary of State's consent) under the National Lottery etc. Act 1993 (as amended) to Lottery Distribution Bodies (LDBs) covering a Statement of Financial Requirements (SFR). The Statement of Financial Requirements includes requirements that:
 - i) the Accounting Officers of the Lottery Distribution Bodies satisfy themselves on an ongoing basis of the adequacy of their bodies' systems of internal control, as reflected in their annual Statements on Internal Control;
 - ii) those systems of internal control are designed to identify risks and manage them to a reasonable level;
 - iii) the Accounting Officers of the Lottery Distribution Bodies seek assurance at appropriate intervals that their bodies' administrative and financial systems as a whole remain adequate for the purpose of discharging its lottery distribution functions, and that they inform the department if they have any reason to doubt that this is the case;
 - iv) the Lottery Distribution Bodies have regard to value for money in their administration of lottery funds.
3. The National Lottery Commission is responsible, using the powers set out in the National Lottery etc Act 1993 as amended, and the licence granted to Camelot Group plc under section 5 of that Act, for ensuring that Camelot meets its obligations under the licence, including financial obligations to the NLDF. Camelot, as the lottery operator, notifies the department of the amounts due to be paid to the NLDF. The Commission reviews the notifications and checks that the payments made are in accordance with the licence conditions. The Accounting Officer of the Commission provides me with a statement of assurance in which the compliance work undertaken at Camelot Group plc during the year is outlined and which provides confirmation that the payments to the NLDF during the year are complete and accurate in all material respects. The Commission publishes an Annual Report at the end of each financial year, which fulfils its requirement to report to the Secretary of State on the exercise of its functions during that year.

The purpose of the system of internal control

4. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve the fund's purposes; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the fund, 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 for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

Capacity to handle risk

5. As Accounting Officer I acknowledge my overall responsibility for ensuring the department is committed to high standards of corporate governance, including the effective management of risk throughout the department.
6. The NLDF follows the DCMS risk management policy and process, as agreed by the DCMS Audit Committee, which reports to the Board, and was reviewed during the year. Improvements have been made both to the guidance available to staff in assessing and managing risks and in the way that risks are managed strategically and at a Directorate level, to reflect best practice. Both the policy and the guidance are available to all staff via the Department's intranet.

7. During the year the DCMS Audit Committee approved the revised DCMS Risk Management Policy Statement and Guidance. It defines what “risk” and “risk management” mean and outlines the key principles underpinning the approach to risk management, the hierarchy for managing risks, the risk identification and management process, the roles and responsibilities of staff etc.
8. The Board sets the Department’s risk appetite (i.e. the level of risk considered tolerable in the absence of controls) through a grid showing a range of possible impacts and probabilities, and that is used as a guide to help formulate actions to be taken in response to individual risks.
9. The department has a Risk Improvement Manager and seeks to learn from good practice via the risk improvement manager network and internal audit contacts in other bodies, results of internal audit reports and discussions with our many NDPBs.
10. The Department made enhancements to its risk management framework and policy during 2009-10 but, before we can say that risk management is fully embedded in all our procedures, I recognise that further improvement is required, such as regularising updates to senior management and improving the culture of the Department with regard to risk management by increased training, risk register reviews and Audit Committee challenge.

The risk and control framework

11. The NLDF maintains a risk register for the fund that is reviewed by the head of financial operations. A self-assessment approach to risk identification is used with risks evaluated in respect of both impact and likelihood. As part of the business planning process risks are evaluated and necessary controls identified. Guidance is available on the types of risk that the fund could face. Each significant risk is required to have a contingency plan which identifies the risk trigger points which give early warning of the risk materialising. All risks are assigned risk owners i.e. someone with sufficient authority to ensure the risk is addressed and that clear responsibility to manage the risk is allocated to specific offices.
12. Staff from the Programmes Team within DCMS co-ordinate the department’s annual lottery assurance review. The department derives assurance primarily from the statements on internal control (SICs) submitted annually by each distributing body. The statements on internal control are required to incorporate specific references to measures being taken by each distributing body to prevent and detect conflicts of interest and fraud. In addition, as from 2008-09 the Programmes Team has requested a form of Letter of Representation from each distributor stating their compliance with these and a range of other measures. The internal audit service monitors and audits this process.
13. Information risk now features more explicitly in all of the department’s risk management and assurance processes. In June 2010 our Information Assurance maturity was independently assessed by CESG (the Government’s National Technical Authority on such matters) – DCMS is now 100% compliant with the requirements of the Data Handling Review and achieved the highest rating against the relevant mandatory requirements of the Security Policy Framework. During the remainder of 2010-11, DCMS will continue with a programme of work, taking into account the results of that assessment and focusing on further embedding good information risk management into our business processes, and taking steps to further support our sponsored bodies in managing their own information risks.

Review of effectiveness

14. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control in relation to the fund. My review is informed by the work of executive managers within the NLDF who have responsibility for the development and maintenance of the internal control framework, audits by the DCMS internal audit unit and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the audit committee, and a plan to address any weaknesses and ensure continuous improvement of the system is in place.
15. The key elements of the system of internal control in relation to the fund are set out above and contribute to my review of the system’s effectiveness. The following bodies also inform my view regarding the system for the Department as a whole, which also includes the management of the fund:

- The DCMS board, which meets regularly to set the department's long term strategy, direction and priorities. At present the board comprises me, the Directors General, five directors and three non-executive members.
- The Audit Committee meets four times a year and supports me in my responsibilities for risk management, control and governance. The chairman sits on the board, which takes decisions based on the advice received. At present, the audit committee comprises a non-executive chairman and five other non-executive members. Others in attendance include the finance director, National Audit Office directors and the head of internal audit.
- The internal audit unit operates to government internal audit standards, and is provided by Communities and Local Government. The unit submits regular reports, which include the head of internal audit's independent opinion on the adequacy and effectiveness of the arrangements for risk management, control and governance, together with recommendations for improvement.

16. Despite all the systems, processes and controls that I have put in place, and which should similarly have been put in place by Accounting Officers appointed for the Department's sponsored bodies, exceptions do occur from time to time. I have emphasised the need to be promptly alerted to them, when that is deemed appropriate, by the respective Accounting Officer and/or by DCMS staff. All such control issues are considered on their own merits for potential inclusion in this statement. When I conclude that they relate to events that occurred at the sponsored body but which are not within DCMS's direct control, nor likely to be identified when following normal Departmental monitoring and oversight procedures, then I do not consider that they need to be included in this statement – unless their significance is so great as to potentially affect the interpretation of these accounts. Otherwise, I am made aware of their nature and whether they are being reported in the NDPBs' accounts – and will consider whether a general communication on the nature of such control issues is appropriate to inform the Department's sponsored bodies, with a view to improving their overall controls and minimising the likelihood of similar issues arising elsewhere.

17. It is particularly important to ensure that the design and operation of internal controls in relation to the fund meet the needs of the department and I am satisfied this has been the case. However, I continue to attach importance to embedding our risk management framework in relation to the fund, to ensuring that the assurance process is improved, and so to increasing the overall reliability of our internal controls.

Signed:

Jonathan Stephens

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

2 November 2010

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 2010 under the National Lottery etc. Act 1993. These comprise the Income and Expenditure Statement, the Statement of Comprehensive Income, 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

The Secretary of State for Culture, Olympics, Media and Sport is responsible for preparing the Annual Report, the Remuneration report and the financial statements in accordance with the National Lottery etc. Act 1993 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Secretary of State has delegated these responsibilities to the Accounting Officer, as set out in the Statement of Responsibilities of Secretary of State, Accounting Officer and the National Lottery Commission.

My responsibility is to audit the financial statements in accordance with applicable law and 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 2010 and of its decrease in funds available and cash flows 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 directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in 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;
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control 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

2 November 2010

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Income and Expenditure Statement for the Year Ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
Income			
National Lottery	3	1,484,463	1,254,195
Investment Income	4a	10,523	61,681
Net gain (loss) on Sale of Investments	4b	1,477	(340)
Total Income		1,496,463	1,315,536
<i>Less: Operational Costs</i>			
Department for Culture, Media and Sport	5	241	210
National Lottery Commission	6	3,635	4,675
Other Expenses	7	116	116
		3,992	5,001
Net Realised Income for Distribution		1,492,471	1,310,535
Amounts Drawn Down by Distributing Bodies	11	(1,399,693)	(1,436,370)
Transfer to OLDF		(292,000)	(73,000)
Increase/(decrease) in realised amount held for distributing bodies		(199,222)	(198,835)
Statement of comprehensive income			
		2009-10 £000	2008-09 £000
Increase/(decrease) for the year brought forward		(199,222)	(198,835)
Net gain/(loss) on revaluation of investments	12	(3,777)	1,247
Total recognised gains and losses		(202,999)	(197,588)
Balance brought forward from previous year		1,510,040	1,707,627
Balance held at 31 March		1,307,041	1,510,039

All transactions are in respect of continuing operations.

The notes on pages 18 to 28 form an integral part of these accounts.

Statement of Financial Position as at 31 March 2010

		2009-10	2008-09	2007-08 (Restated)
	Note	£000	£000	£000
Current Assets				
Receivables	8	19,102	8,231	30,881
Investments held by CRND at market value	9	1,288,019	1,502,532	1,676,792
Cash at Bank and in Hand		-	-	-
		1,307,121	1,510,763	1,707,673
Payables: Amounts falling due within one year	9	(80)	(724)	(46)
Net Current Assets		1,307,041	1,510,039	1,707,627
Represented by:				
Revaluation Reserve	12	933	4,710	3,463
Income and expenditure account: realised amount held for distributing bodies		1,306,108	1,505,329	1,704,164
Amounts held for Distributing Bodies	8	1,307,041	1,510,039	1,707,627

The notes on pages 18 to 28 form an integral part of these accounts.

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

19 October 2010

Statement of Cash Flows for Year Ended 31 March 2010

Operating Activities	Note	2009-10 £000	2008-09 £000
Cash received from Lottery operator		1,473,593	1,276,845
Cash paid for operating expenses		(4,636)	(4,324)
Cash paid to OLDF		(292,000)	(73,000)
Cash paid to Distributing Bodies	11	(1,399,693)	(1,436,370)
Net cash (outflow) from operating activities	10	(222,736)	(236,849)
 Management of liquid resources			
Cash paid to CRND for Investment		(1,497,161)	(1,272,521)
Cash received from CRND for OLDF		292,000	73,000
Cash received from CRND for distribution		1,427,897	1,436,370
Net cash inflow from management of liquid resources		222,736	236,849
Change in cash		–	–

All investment income is re-invested by the Commissioners for the Reduction of the National Debt, therefore there are no cash flows arising from investments.

The notes on pages 18 to 28 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 context.

HM Treasury requires Government bodies to follow International Financial Reporting Standards, in place of UK Financial Reporting Standards, from 2009-10. The effect of the transition to the new standards on the NLDF is shown in Note 2. The prior year comparators provided throughout the financial statements are 2008-09 figures restated on an IFRS basis. Three sets of figures are given in the Statement of Financial Position to show the opening and closing positions for 2008-09 as well as the closing position for 2009-10.

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, Media and Sport. The share of the Fund attributable to each Distributing Body at the balance sheet date 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 2009 in respect of all draws within the year up to and including 31 March 2010.

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 National Lottery Commission'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.

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.

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 in order to meet some of the costs of hosting the London 2012 Games. This transfer consists of thirteen instalments of £73 m (paid quarterly), followed by two instalments of £68 m.

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 Income and Expenditure Account. No prior year adjustment is required.

Recognition of Amounts Drawn by Distributors

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

Investments

Investments held by the CRND are valued in these accounts at market value.

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 market value with any revaluation posted to a revaluation reserve. Any premium or discount on cost is amortised in the income and expenditure account as an adjustment to the interest account.

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 (except for IAS 24, none of them are expected to impact upon the NLDF financial statements):

- IAS 24 – Related Party Disclosures (effective from 1 January 2011). This revision simplifies and clarifies the definition of a related party, and provides government-related entities with partial exemption from the disclosure requirements.
- IAS 27 – Consolidated and Separate Financial Statements (effective 1 July 2009). The most significant changes are that changes in a parent entity's ownership interest in a subsidiary that do not result in the loss of control should be accounted for as equity transactions; that total comprehensive income (including losses) should be attributed to the non-controlling interests even if this results in the non-controlling interests having a negative balance; and that where an entity loses control of a subsidiary any gains or loss should be recognised in profit or loss.
- FReM Chapter 6 – Implementation of FRS 30 Accounting for Heritage Assets (effective 1 April 2010). FRS 30 introduces new disclosure requirements for the reporting of heritage assets, which apply even where such assets are not reported in the Statement of Financial Position.
- H.M Treasury have also amended the FReM for 2010-11 to remove the charge for cost of capital from the Operating Cost Statement.

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

2. First-time adoption of IFRS

	Amounts held for the Distributing Bodies £000
Amounts held for the Distributing Bodies at 31 March 2009 under UK GAAP	1,510,039
Adjustments	–
Amounts held for the Distributing Bodies at 31 March 2009 under IFRS	1,510,039
Increase/(decrease) in Amounts Held for Distributing Bodies at 31 March 2009 under UK GAAP	198,835
Adjustments	–
Increase/(decrease) in Amounts Held for Distributing Bodies at 31 March 2009 under IFRS	198,835

3 Income from Lottery Activities

	2009-10 £000	2008-09 £000
Basic Contribution from Lottery Operator under licence	1,378,980	1,187,106
Less adjustments relating to:		
National Lottery Promotion Unit	(1,282)	(2,165)
New Media Sales	(1,911)	(4,456)
Primary contribution (see note below)	1,375,787	1,180,485
Secondary contribution	2,521	–
Unclaimed prizes	74,021	67,782
Interest on Players Trust Fund	2,227	5,770
Equalisation Trust Payment	28,204	–
Income from ancillary activities	1,703	158
	1,484,463	1,254,195

Under the Section 5 Licence to run the National Lottery, Camelot is allowed to recover certain amounts from the primary contribution figures. These adjustments, which are divided between the NLDF and OLFDF in proportion to ticket sales, are made after the year end. Due to the effect they would have on the share of proceeds to each of the distributing bodies and consequently their accounts, the adjustments are reflected in the following year's accounts. The equivalent total adjustment relating to the NLDF for activity in 2009-10 (which will be taken from 2010-11 income) is estimated to be £1,623k. The New Media (Interactive) Sales Licence 2 ceased on 31st January 2009; the New Media (Interactive) Sales does not happen in Licence 3. The £1,623k is to recover the NLDF's share of the combined NLDF/OLFDF 50% contribution to the actual spend of the National Lottery Promotions Unit (NLPU).

4 Investment income

	2009-10	2008-09
	£000	£000
4a <i>Investment Income</i>		
Interest Received on investments	<u>10,523</u>	<u>61,681</u>
4b <i>Net Loss on sale of investments</i>		
Profits on sales of investments	1,477	–
(Losses) on sales of investments	<u>–</u>	<u>(340)</u>
	1,477	(340)

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.

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.

Last year, the fund moved further into cash as short term gilt yields were relatively unattractive following the global financial turmoil of 2007 and 2008 and in September 2009 the remaining gilt funds were converted in to cash.

In March 2010 a total of £250m was placed in 2 gilts with maturity dates of March 2014 and January 2015. Their yields of 2.4% and 2.8% respectively at the time of purchase should raise the overall return on the NLDF to over 1%.

The investment stance of the Fund will remain under review.

5 Operational Costs: Department for Culture, Media and Sport

	2009-10	2008-09
	£000	£000
Staff Costs	122	102
Accommodation and Central Services	34	31
IT, Consultancy, and Training	23	20
Charge for the use of DCMS assets	28	23
External Auditor's Remuneration	29	29
Bank of England charges	5	5
	<u>241</u>	<u>210</u>

The External Auditor's remuneration for the year was £26,500 including £1,100 for Whole of Government Accounts work and £2,500 for IFRS (2008-09: £23,900 plus £5,000 for additional work associated with the transition to Financial Instruments standards and IFRS).

In 2009-10 eight members of DCMS Finance Division and Programmes Team were engaged on NLDF matters. 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.

6 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 2009-10, licence fee income of £130,400k relating to new NLDF games was received by DCMS.

	2009-10	2008-09
	£000	£000
Gross share of costs	3,759	4,715
Lottery Operator licence fee income	(125)	(40)
Amount payable to DCMS	3,634	4,675

The total grant in aid paid to the National Lottery Commission was £4,061k; with a total of £130,400k received by DCMS in operator licence fee income. The split between the NLDF and the OLFDF is as follows:

	NLDF	OLDF	Total
	£000	£000	£000
Grant in Aid paid to NLC by DCMS	3,759	302	4,061
Lottery Operator licence fee income	(125)	(5)	(130))
Amount recoverable by DCMS	3,634	297	3,931

7 Other expenses:

	2009-10	2008-09
	£000	£000
Commissioners for the Reduction of the National Debt*	116	116

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

8 Receivables:

	2009-10	2008-09	2007-08 (re-stated)
	£000	£000	£000
Ticket sales income due as a result of draws prior to year end	19,102	8,231	30,881
	19,102	8,231	30,881
Intra-government balances			
Other central government bodies	–	–	–
Balances with bodies external to government	19,102	8,231	30,881
	19,102	8,231	30,881

9 Balance on National Lottery Distribution Fund

	at 31 March 2010		at 31 March 2009		at 31 March 2008 (restated)	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
	£000	£000	£000	£000	£000	£000
Investments held by the CRND	1,287,086	1,288,019	1,497,822	1,502,532	1,673,329	1,676,792
Receivables (note 7)	19,102	19,102	8,231	8,231	30,881	30,881
Payables	(80)	(80)	(724)	(724)	(46)	(46)
Balance held	1,306,108	1,307,041	1,505,329	1,510,039	1,704,164	1,707,627
Payables: Intra-government Balances						
Other central government bodies	(80)	(80)	(724)	(724)	(46)	(46)

Payables are in respect of accruals for DCMS recharges and the NAO audit fees.

A summary analysis of the investments held on behalf of the NLDF at 31 March 2010, is shown below.

	Fair Value £000
Cash held in CRND ways and means account ⁽¹⁾	1
Call Notice Deposits ⁽¹⁾	1,037,022
Fixed Deposits	–
Subtotal – “Cash Funds”	1,037,023
UK Govt. Gilts classified as available for sale - due within 1-5 years - non marketable	250,996
Subtotal – Gilts	250,996
Total balance invested with CRND	1,288,019

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

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.

On 22 September 2009 the NLDF liquidated all the remaining gilts in favour of a cash holding. 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. Thus, while the instruments held are highly liquid cash equivalents, the balance held is treated as an investment rather than as cash in accordance with IAS 7

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

	2009-10 £000	2008-09 £000
Decrease in realised amounts held for distributing bodies	(199,222)	(198,835)
Investment income	(10,523)	(61,681)
(Gain) / Loss on Sale of Investments	(1,477)	340
	(211,222)	(260,176)
(Increase)/decrease in lottery operator receivables	(10,871)	22,649
(Increase)/decrease in prepayment to DCMS for reimbursement of NLC costs		–
Increase/(decrease) in payables for operating expenses	(643)	678
Net cash outflow from operating activities	222,736	(236,849)

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 receipt.

11 Amounts Available to Distributing Bodies at 31st March 2009

BENEFICIARY SECTORS	Arts	Sports	Heritage Lottery Fund	Big Lottery Fund	TOTAL
	£000	£000	£000	£000	£000
National Lottery proceeds					
Share of income from lottery	247,411	247,410	247,410	742,232	1,484,463
Less share of operational costs	(665)	(665)	(665)	(1,997)	(3,992)
	<u>246,746</u>	<u>246,745</u>	<u>246,745</u>	<u>740,235</u>	<u>1,480,471</u>
Amount authorised for payment to distributing bodies	(261,113)	(216,645)	(278,318)	(643,617)	(1,399,693)
Transfer to OLDF	(43,387)	(33,495)	(43,389)	(171,729)	(292,000)
Investment Income	1,754	1,754	1,754	5,261	10,523
(Loss) on sale of investments	246	246	246	739	1,477
	<u>(55,754)</u>	<u>(1,395)</u>	<u>(72,962)</u>	<u>(69,111)</u>	<u>(199,222)</u>
Amounts held for distributing bodies at market value at 1 April 2009	233,977	278,352	452,569	545,142	1,510,040
Movement in revaluation reserve	(629)	(629)	(630)	(1,889)	(3,777)
	<u>177,594</u>	<u>276,328</u>	<u>378,977</u>	<u>474,142</u>	<u>1,307,041</u>

ARTS BODIES	Arts Council of England	Scottish Arts Council	Arts Council of Wales	Arts Council of N. Ireland	UK Film Council	Scottish Screen	SUBTOTAL ARTS
	£000	£000	£000	£000	£000	£000	£000
National Lottery proceeds							
Share of income from lottery	172,643	19,150	12,371	6,927	33,450	2,870	247,411
Less share of operational costs	(464)	(51)	(33)	(19)	(90)	(8)	(665)
	<u>172,179</u>	<u>19,099</u>	<u>12,338</u>	<u>6,908</u>	<u>33,360</u>	<u>2,862</u>	<u>246,746</u>
Amount authorised for payment to distributing bodies	(175,122)	(21,590)	(9,585)	(10,621)	(41,003)	(3,192)	(261,113)
Transfer to OLDF	(30,276)	(3,358)	(2,169)	(1,215)	(5,866)	(503)	(43,387)
Investment Income	1,224	136	88	49	237	20	1,754
(Loss) on sale of investments	172	19	12	7	33	3	246
	<u>(31,823)</u>	<u>(5,694)</u>	<u>684</u>	<u>(4,872)</u>	<u>(13,239)</u>	<u>(810)</u>	<u>(55,754)</u>
Amounts held for distributing bodies at market value at 1 April 2009	129,625	29,049	11,341	15,310	44,549	4,103	233,977
Movement in revaluation reserve	(439)	(49)	(31)	(18)	(85)	(7)	(629)
	<u>97,363</u>	<u>23,306</u>	<u>11,994</u>	<u>10,420</u>	<u>31,225</u>	<u>3,286</u>	<u>177,594</u>

Reconciliation of Amounts Available to Distributing Bodies at 31 March 2009 (continued)

SPORTS BODIES	English Sports Council £000	Scottish Sports Council £000	Sports Council for Wales £000	Sports Council for N.Ireland £000	UK Sports Council £000	SUBTOTAL SPORTS £000
National Lottery proceeds						
Share of income from lottery	153,394	20,040	11,133	6,433	56,410	247,410
Less share of operational costs	(412)	(54)	(30)	(17)	(152)	(665)
	<u>152,982</u>	<u>19,986</u>	<u>11,103</u>	<u>6,416</u>	<u>56,258</u>	<u>246,745</u>
Amount authorised for payment to distributing bodies	(121,000)	(19,190)	(8,650)	(14,074)	(53,731)	(216,645)
Transfer to OLDF	(26,901)	(3,514)	(1,952)	(1,128)		(33,495)
Investment Income	1,087	142	79	46	400	1,754
(Loss) on sale of investments	153	20	11	6	56	246
Increase/ (decrease) in balance available	<u>6,321</u>	<u>(2,556)</u>	<u>591</u>	<u>(8,734)</u>	<u>2,983</u>	<u>(1,395)</u>
Amounts held for distributing bodies at market value at 1 April 2009	181,145	49,367	9,858	19,173	18,809	278,352
Movement in revaluation reserve	(390)	(51)	(28)	(16)	(144)	(629)
Amounts held for distributing bodies at market value at 31 March 2010	<u>187,076</u>	<u>46,760</u>	<u>10,421</u>	<u>10,423</u>	<u>21,648</u>	<u>276,328</u>

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

12 Revaluation reserve

	2009-10	2008-09	2007-08 (Restated)
	£000	£000	£000
Balance at 1st April	4,710	3,463	(8,332)
Arising on revaluation during the year	-	1,247	11,795
Fall in value during the year	(3,777)	-	-
Balance at 31st March	<u>933</u>	<u>4,710</u>	<u>3,463</u>

Following the introduction of FRS 25, 26 and 29 on financial instruments the closing balances of 2007-08 were restated, the gain or loss in value of investments held was moved from Realised Amounts Held for Distributing Bodies, into a newly created Revaluation Reserve on the Balance Sheet. FRS 25, 26 and 29 implemented the equivalent standards in IFRS, which now apply from 2009-10 onwards.

13 Distributing Bodies Grant Commitments

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.

As at 31st March 2010, the distributors had committed £2.224 billion against the balance held within the National Lottery Distribution Fund and expect that the respective grant awardees would draw down £1.462 billion of those funds within one year of the 31st March 2010 and the balance in the period after that date.

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	Commitments falling due in over one year £000	2010 Total £000	2009 Total £000
Arts Council of England	87,652	32,419	120,071	133,355
Arts Council of Wales	4,132	4,568	8,700	7,661
Scottish Arts Council	23,189	1,038	24,227	27,882
Arts Council of Northern Ireland*	9,449	2,305	11,754	10,432
UK Film Council	–	11,149	11,149	14,834
Scottish Screen	1,196	–	1,196	1,280
Sport England	114,777	154,468	269,245	121,869
Sports Council for Northern Ireland	8,043	2,389	10,432	11,420
Sport Scotland*	4,148	1,344	5,492	5,904
Sports Council for Wales*	4,508	1,621	6,129	8,453
UK Sport	54,522	46,238	100,760	40,395
Heritage Lottery Fund	236,726	302,011	538,737	593,131
Big Lottery Fund	448,483	667,921	1,116,404	1,306,714
	996,825	1,227,471	2,224,296	2,283,330
NLDF Balance Available			1,307,043	1,510,039
(Over committed)/Under committed Balance (see below)			(917,253)	(773,291)

At 31st March 2010, in addition to these hard commitments, the total level of 'soft'¹ and 'other'² commitments by all Distributors was around £364m (£555m at March 2009).

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.

14 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.

The investment mandate has gradually moved in recent years from a roughly 50:50 cash:gilts split in the NLDF to one where the Fund has been throughout most of 2009-10 exclusively held in cash. This was partly to minimise trading costs, and to reduce the volatility of the Fund as its size has reduced. This approach has meant that the Fund has been largely immune to the global financial crisis. It does mean, however that due to the trade-off between liquidity risks and interest rate risks, that the returns have been less than in previous years. In March 2010 a total of £250m was placed in 2 gilts. Their yields should raise the overall return on the NLDF to over 1%.

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.

15 Related Party Transactions

The NLDF is maintained under the control and management of the Secretary of State of the Department for Culture, Media and Sport (DCMS). 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 5 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 Minister for the Olympics. 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.

16 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:

	To 13.10.97	14.10.97 to 14.02.99	15.02.99 to 16.05.99	17.05.99 to 20.08.01	21.08.01 to 31.11.06	01.12.06 to 31.03.10
The Arts	20	16.6666667	5	16.6666667	16.6666667	16.6666667
Sports	20	16.6666667	5	16.6666667	16.6666667	16.6666667
The National Heritage	20	16.6666667	5	16.6666667	16.6666667	16.6666667
Charitable expenditure	20	16.6666667	5	16.6666667	16.6666667	–
Millennium projects	20	20	20	20	–	–
Health, education and the environment	–	13.3333333	60	13.3333333	33.3333333	–
Charitable, health, education and the environment	–	–	–	–	–	50

The shares for the arts and sport are further divided as follows:

Arts	To 13.10.97	14.10.97 to 14.02.99	15.2.99 to 16.05.99	17.05.99 to 30.09.99	01.10.99 to 06.04.00	07.04.00 to 31.03.07	01.04.07 to 31.03.10
Arts Council of England	16.66	13.8833333	4.165	13.8833333	11.85	11.85	11.63
Scottish Arts Council	1.78	1.4833333	0.445	1.4833333	1.4833333	1.29	1.29
Arts Council for Wales	1.0	0.8333333	0.25	0.8333333	0.8333333	0.8333333	0.8333333
Arts Council of Northern Ireland	0.56	0.4666667	0.14	0.4666667	0.4666667	0.4666667	0.4666667
UK Film Council	–	–	–	–	2.0333333	2.0333333	2.2533333
Scottish Screen	–	–	–	–	–	0.1933333	0.1933333

Sports	To 13.10.97	14.10.97 to 14.02.99	15.02.99 to 16.05.99	17.05.99 to 30.06.99	01.07.99 to 31.03.06	01.04.06 to 31.03.10
English Sports Council	16.66	13.8833333	4.165	13.8833333	12.6	10.3333333
Scottish Sports Council	1.78	1.4833333	0.445	1.4833333	1.35	1.35
Sports Council for Wales	1.0	0.8333333	0.25	0.8333333	0.75	0.75
Sports Council of Northern Ireland	0.56	0.4666667	0.14	0.4666667	0.4333333	0.4333333
UK Sports Council	–	–	–	–	1.5333333	3.8

17 Prior year adjustment

First time adoption of IFRS – explanation of prior year adjustment in 2007-08

For reporting year 2008-09 a prior year adjustment for the closing balances of 2007-08 arose from a change in accounting policy on financial instruments as a result of the introduction of FRS 25, FRS 26 and FRS 29 (now IAS 32, IAS 39 and IFRS 7).

The impact of the changes is shown below.

The impact of the changes is shown below.

Investment Income for 2007-08

	£000
As previously reported	92,806
Change in accounting policy for financial instruments	(3,944)
As restated	<u>88,862</u>

Net Profit/(Loss) on Sale of Investments for 2007-08

	£000
As previously reported	(18,605)
Change in accounting policy for financial instruments	17,812
As restated	<u>(793)</u>

Revaluation gain/(loss) on investments

	£000
As previously reported	25,663
Change in accounting policy for financial instruments	(25,663)
As restated	<u>-</u>

The net effect of the changes to the 2007-08 figures is £11,795 thousand. This is held in the Revaluation Reserve as the movement in year.

The above changes have resulted in amendments to a number of individual Notes within the accounts. Where the amounts for 2007-08 in a Note have been amended, then the fact they have been restated is indicated.

18 Post Balance Sheet Events

These accounts were authorised for issue by the Accounting Officer of the National Lottery Distribution Fund on the date the audit opinion was signed.

Following the general election the following ministerial changes have taken place:

Rt Hon Jeremy Hunt MP is the Secretary of State for Culture, Olympics, Media and Sport. He is supported by John Penrose MP, Hugh Robertson MP and Ed Vaizey MP.

On 01 July 2010 a new body Creative Scotland came into being. This resulted from the merger of Scottish Arts and Scottish Screen.

On 26 July 2010 the Minister announced that The National Lottery Commission and the Gambling Commission would be merged into one body. A date for the merger has yet to be agreed.

On 26 July 2010 the Secretary of State announced the abolition of the UK Film Council. The Lottery will continue to provide funding to the UK film industry and key functions of the UK Film Council will continue. An announcement on which body or bodies are best placed to take over the performance of these functions will be made in the Autumn.

The Department's Structural Reform Plan includes a commitment to reform the National Lottery so that more money goes into sport, the arts and heritage; and together their share of Lottery funding increases to 60%. It is proposed to enact these changes in two stages, in April 2011 and April 2012.



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