

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)

National Lottery Distribution Fund Account 2008-09

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2009

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Management Commentary

The 2008-09 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 fifteenth 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 balance sheet shows the financial position at the year-end, and the cash flow statement 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; the operating licence issued by the National Lottery Commission (NLC), which began on 27 January 2002, ran until 31 January 2009. 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 2009 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 i.e. 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.

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 15 on page 25. The range of good causes in receipt of Lottery funds has widened over the 13 years since the start of the lottery. When the Lottery was set up five good causes were identified:

- the arts (incorporating the Arts Councils for England, Scotland, Wales and Northern Ireland),
- sport (incorporating the Sports Councils for England, Scotland, Wales and Northern Ireland),
- the national heritage,
- charitable expenditure, and
- projects to mark the year 2000 and the beginning of the third millennium.

In November 1997 the New Opportunities Fund was established to distribute funds to health, education and environmental good causes.

The National Lottery Act 2006, which received the Royal Assent on 11 July 2006, made two changes to distribution policy.

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 2006 Act 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.

Section 14 of the 2006 Act made provision for the Big Lottery Fund to be established as a corporate body with a single board. With effect from 1 December 2006, the charitable expenditure and the health, education and environment good causes were merged to form a single good cause administered by the Big Lottery Fund, receiving 50% of the income generated for good causes by non-Olympic Lottery products. The separate balances held in the NLDF on behalf of the New Opportunities Fund (NOF), the Community Fund and the Millennium Commission were combined from the same date.

Looking forward, there are proposals being initiated through the Scottish Parliament to merge Scottish Arts and Scottish Screen into a single body to be known as Creative Scotland. Current plans are for the merger to take place in June 2010 at the earliest, although this date may be subject to amendment.

Financial Commentary

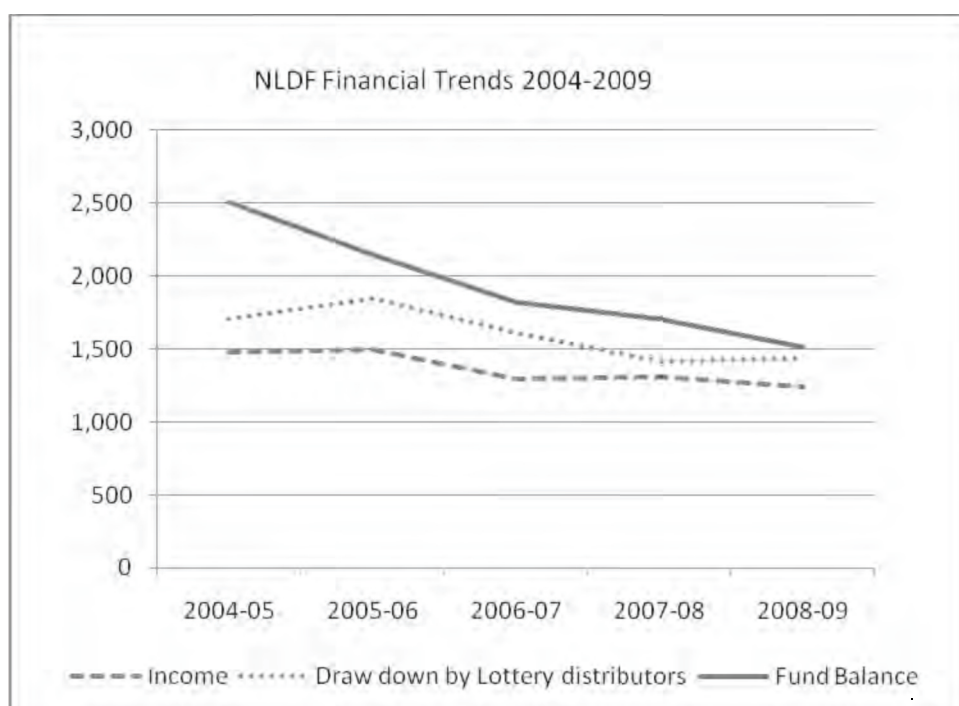
Income

By 31 March 2009, some £23 billion had been raised for good causes since the launch of the National Lottery (including money raised by Olympic Lottery products), £1.3 billion of which was raised during 2008-09. 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:	2004-05	2005-06	2006-07	2007-08	2008-09
Income	1,475	1,500	1,296	1,301	1,243*
Draw down by Lottery distributors	1,704	1,844	1,612	1,420	1,436
Fund Balance	2,502	2,150	1,825	1,708	1,510*

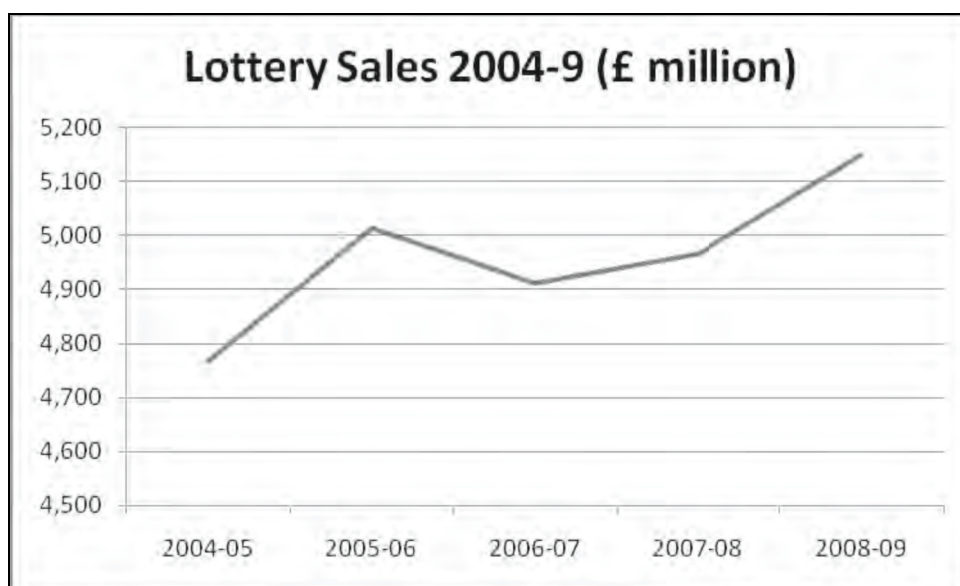
*The Income included in the table is after deduction of the transfer to the OLDF. The Fund Balance is also shown after the transfer to the Olympic Lottery. The amount transferred in to OLDF in 2008-09 was £73 million.



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 down their NLDF balances and 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 had reduced to £1.51 billion. Against this, distributors had made commitments of £2.283 billion, and expected that £1.108 billion would be drawn down by recipients within one year of 31 March 2009.

The balance on the Fund at 31 March 2009 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 thirteen Distributing Bodies can be seen in Note 10 to these accounts.

Following the completion of the third licence competition, if Camelot can maintain the current sales levels of around £5 billion per annum, then the third licence is expected to generate an additional £60 million to £100 million each year for good causes. Sales over the period 2004-09 are shown in the table below.



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 £5.0 million for the year of which £4.7 million related to the NLC. The table below provides a breakdown of costs. The NLC's 2008-09 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.

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

£million:	2004-05	2005-06	2006-07	2007-08	2008-09
DCMS	0.2	0.2	0.3	0.2	0.2
National Lottery Commission	4.4	7.9	8.0	9.8	4.7
CRND	0.2	0.2	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 £1,085 million 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 £750 million to be raised through dedicated Olympic lottery games and comprises £410 million as originally envisaged when the Government decided to support London's Olympic bid in 2003, and a further £675 million arising from the establishment of the final public sector funding budget of £9.325 billion, announced by the Government in March 2007. *The Payments into the Olympic Lottery Distribution Fund etc.* Order 2008 made on 2 February 2009, enables £1,085 million to be transferred as thirteen instalments of £73 million each, followed by two instalments of £68 million each. The first transfer was made on 2 February 2009, and the last will be on or after 1 August 2012.

Of the additional £675 million, £250 million will be transferred from the arts, sport and national heritage good causes and £425 million from the funds currently allocated to the Big Lottery Fund.

The support the Big Lottery Fund gives to the voluntary sector will be protected, and the Big Lottery Fund announced in June 2009 that 80% of its funding will in future go to the voluntary and community sector. DCMS had previously agreed with the Big Lottery Fund that it would honour its commitment to give 60-70% of its funding to the voluntary and community sector.

International financial reporting standards

The Chancellor announced in his 2007 Budget that, from 2008-09, the accounts of central government departments and entities in the wider public sector will be produced using International Financial Reporting Standards (IFRS), as interpreted for the public sector. A letter from the Treasury later postponed this until 2009-10 and a subsequent letter in April 2008 set out trigger points for the move to IFRS.

The Department established a working group to consider the implications of a change to IFRS, including an evaluation of the likely areas of impact on financial statements. Key stakeholders were consulted, including representatives from Internal Audit, who sat on the working group. The Audit Committee's opinion has been sought on the approach taken and the National Audit Office has been separately consulted. The Department expects to be able to achieve the changeover within the time allowed.

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 apportion funds received into the NLDF correctly between the distributing bodies; and 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 (SFR) 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 (DAs) in Scotland, Wales or Northern Ireland. The SFR is issued by the Secretary of State or by Ministers in the DA. SFRs issued by a DA Minister, require the consent of DCMS. SFRs issued by DCMS to distributors with responsibilities covering Scotland, Wales or Northern Ireland require the DA Ministers' consent.

As the Accounting Officer of the NLDF, I seek 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, I expect distributing bodies' Accounting Officers 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.

I obtain 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 and are therefore not controlled by the NLDF. The average return on the investments in the financial year was 3.719%. 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 National Lottery Distribution and Communities Division 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)

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 I am aware there is no relevant audit information of which the entity's auditors are unaware, and I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

Reporting of personal data related incidents

In the Cabinet Office's Interim Progress Report on Data Handling Procedures, published on 17 December 2007, Official Report, column 98WS, government made a commitment that departments will 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 94 of the 2009 DCMS Annual Report and 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 2009, the following ministerial changes have occurred:

On 5 June 2009, Rt Hon Tessa Jowell MP, previously Minister of the Olympics and so responsible for the Olympic Lottery Distributor, assumed additional responsibilities and was appointed Minister for the Cabinet Office, the Olympics, London and Paymaster General. On 5 June 2009 the Rt Hon Ben Bradshaw MP took over from Rt Hon Andy Burnham as Secretary of State for Culture, Media and Sport, including overall responsibility for the National Lottery.

On 5 June 2009 Siôn Simon MP assumed the role of Parliamentary Under Secretary of State for Creative Industries in DCMS which includes junior ministerial responsibility for the national lottery.

On 1 September 2009 Dr Tracy Long was appointed as a Non-Executive Director (and as Chair of the Audit Committee). Dr Tracy Long also serves on the Boards of NESTA (since 2004) and Lowland PLC (since 2004).

On 22 September 2009 the Rt. Hon Margaret Hodge MBE was appointed Minister for Culture and Tourism, replacing Barbara Follett.

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

7 January 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 2008-09 [HC450] 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 Andy Burnham MP	Secretary of State (from 24 January 2008)
Barbara Follett MP	Parliamentary Under Secretary of State (from 6 October 2008)
Gerry Sutcliffe MP	Parliamentary Under Secretary of State (From 2 July 2007)
Stephen Carter CBE	Parliamentary Under Secretary (from 5 October 2008)
Rt Hon Margaret Hodge MBE	Minister of State (from 2 July 2007 to 6 October 2008)

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).

The Permanent Secretary and members of the DCMS Board during 2008-09 were:

Jonathan Stephens	Permanent Secretary
Nicholas Holgate	Chief Operating Officer (to 31 October 2008)
Andrew Ramsay	Director General
Jeremy Beeton	Director General, Government Olympic Executive (From August 2007)
Anita Charlesworth	Director (from 1 October 2008)
David Roe	Director (to 4 June 2007 and from 1 November 2008)
Graham Turnock	Director (from 1 December 2008 to 9 March 2009)
Jane Cooper	Director (from 1 February 2009)
Simon Judge	Director (from 9 March 2009)
Parminder Vir	Non-Executive Member
Liz Forgan	Non-Executive Member (to 31 January 2009)
Darra Singh	Non-Executive Member

Signed:

7 January 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 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 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 NLDF extend to the receipt of Lottery revenues from Camelot Group plc, their placement with the CRND 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 NLDF 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 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 2009 which has led him to be satisfied that the payments to the NLDF during the year to 31 March 2009 are complete and accurate in all material respects.

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

7 January 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 SFR includes requirements that:
 - i) the Accounting Officers of the LDBs 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 LDBs 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 LDBs 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 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 2009 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 Board. The policy is subject to regular review to ensure it reflects best risk management practice. It defines what is meant by risk and risk management, outlines the key principles underpinning the Department's approach to risk management, and identifies the DCMS Board's agreed risk appetite, the risk management process and the roles and responsibilities of staff. Both the Policy and Risk Management Guidance are available on the Department's intranet.
7. 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.

The risk and control framework

8. The NLDF maintains a risk register for the Fund that is reviewed by the Head of Financial Operations. The risk register was updated following a report from the Internal Audit Unit, which also highlighted that one of the risks had reached a trigger point. Steps were quickly taken to mitigate this, and a review demonstrated that all checks had operated correctly. 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.

9. The Lottery, Communities and International Division (LCID) within DCMS co-ordinates 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 SICs 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 LCID has requested separate Letters of Representation from each lottery distributor stating their compliance with these measures. Internal Audit monitors and audits this process.

10. Information risk now features more explicitly in all of the Department's risk management and assurance processes. DCMS has adopted a proportionate approach to the recommendations of the Data Handling Report. Work is continuing to identify Information Asset Owners for high risk personal information and to increase staff awareness through training.

Review of effectiveness

11. 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.

12. 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, four Directors and four non-executive members (there were three non-executive members during 2008-09).
- 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 (there were three non-executive members during 2008-09). 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.

14. Notwithstanding that opinion, I am conscious that last year saw considerable organisational change within the Department. That made it particularly important to ensure that the design and operation of internal controls in relation to the fund still met the needs of the Department. I am satisfied that has been the case. However, I continue to attach importance to embedding our new 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

7 January 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 2009 under the National Lottery etc. Act 1993. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

The Secretary of State for Culture, 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 to the Accounting Officer responsibility for the preparation of the Annual Report, the Remuneration Report and the financial statements and for ensuring the regularity of the financial statements. These responsibilities are 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 and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Lottery etc Act 1993 and Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises the Management Commentary, the audited part of the Remuneration Report and the Statement of Responsibilities of the Secretary of State, Accounting Officer and National Lottery Commission, included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the National Lottery Distribution Fund has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the National Lottery Distribution Fund's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the National Lottery Distribution Fund's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Management Commentary, the unaudited part of the Remuneration Report and the Statement of Responsibilities of the Secretary of State, Accounting Officer and National Lottery Commission. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Secretary of State and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the National Lottery Distribution Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the

part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Lottery etc. Act 1993 and directions made thereunder by Treasury, of the state of the National Lottery Distribution Fund's affairs as at 31 March 2009 and of the decrease in funds available for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Lottery etc. Act 1993 and Treasury directions made thereunder; and
- information, which comprises the management commentary, the unaudited part of the Remuneration Report, and the Statement of Responsibilities of the Secretary of State, Accounting Officer and the National Lottery Commission, included within the Annual Report, is consistent with the financial statements.

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.

Report

I have no observations to make on these financial statements.

Amyas C. E. Morse
Comptroller and Auditor General

28 January 2010

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

Income and Expenditure Account for the Year Ended 31 March 2009

		2008-09	2007-08
		£000	(Restated) £000
Income			
National Lottery	2	1,254,195	1,212,558
Investment Income	3a	61,681	88,862
Net Profit/(Loss) on Sale of Investments	3b	(340)	(793)
Total Income		1,315,536	1,300,627
<i>Less: Operational Costs</i>			
Department for Culture, Media and Sport	4	210	210
National Lottery Commission	5	4,675	9,848
Other Expenses	6	116	117
		5,001	10,175
Net Realised Income for Distribution		1,310,535	1,290,452
Amounts Drawn Down by Distributing Bodies	10	(1,436,370)	(1,419,910)
Transfer to OLDF		(73,000)	–
Increase/(decrease) in Realised Amounts Held for Distributing Bodies		(198,835)	(129,458)
Statement of Total Recognised Gains and Losses		2008-09	2007-08
		£000	(Restated) £000
Increase/(decrease) for the year brought forward		(198,835)	(129,458)
Net gain/(loss) on revaluation of investments	11	1,247	11,795
Total recognised gains and losses		(197,588)	(117,663)
Balance brought forward from previous year		1,707,627	1,825,290
Balance held at 31 March		1,510,039	1,707,627

As described in Note 1 under "Financial Instruments," a prior year adjustment arises from a change in accounting policy on financial instruments as a result of the introduction of FRS 25, FRS 26 and FRS 29. Prior year figures have been restated to show the effect of the change in accounting policy (Note 16).

All transactions are in respect of continuing operations.

The notes on pages 17 to 26 form an integral part of these accounts.

Balance Sheet as at 31 March 2009

		2008-09	2007-08
	Note	£000	(Restated) £000
Current Assets			
Debtors	7	8,231	30,881
Investments held by CRND at market value	8	1,502,532	1,676,792
Cash at Bank and in Hand		–	–
		1,510,763	1,707,673
Creditors: Amounts falling due within one year	8	(724)	(46)
Net Current Assets		1,510,039	1,707,627
Represented by:			
Revaluation Reserve	11	4,710	3,463
Income and expenditure account	10	1,505,329	1,704,164
Amounts held for Distributing Bodies	8	1,510,039	1,707,627

The notes on pages 17 to 26 form an integral part of these accounts.

Signed: 7 January 2010
 Jonathan Stephens
 Permanent Secretary and Accounting Officer,
 Department for Culture, Media and Sport

Cash Flow Statement for Year Ended 31 March 2009

	Note	2008-09 £000	2007-08 £000
Operating Activities			
Cash received from Lottery operator		1,276,845	1,202,675
Cash paid for operating expenses		(4,324)	(9,627)
Cash paid to OLDF		(73,000)	–
Cash paid to Distributing Bodies	10	(1,436,370)	(1,419,910)
Net cash (outflow) from operating activities	9	(236,849)	(226,862)
Management of liquid resources			
Cash paid to CRND for Investment		(1,272,521)	(1,193,048)
Cash received from CRND for OLDF		73,000	–
Cash received from CRND for distribution	10	1,436,370	1,419,910
Net cash inflow from management of liquid resources		236,849	226,862
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 17 to 26 form an integral part of these accounts.

Notes to the Financial Statements

1 Statement of Accounting Policies

Basis of Accounting

The financial statements have been prepared on a historical cost basis, modified by assets at their value to the business by reference to current costs, and in accordance with the Accounts Direction given by the Treasury on 8 July 2004. These Directions have been consistently applied throughout the year. Without limiting the information given, these financial statements meet the accounting and disclosure requirements of the Companies Act 1985 and Accounting Standards issued or adopted by the Accounting Standards Board in so far as these requirements are appropriate.

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

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 2008 in respect of all draws within the year up to and including 31 March 2009.

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 million 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 million, followed by two instalments of £68 million.

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 NLDF accounts for financial instruments in accordance with FRS 25 "Financial Instruments: Presentation," and FRS 26 "Financial Instruments: Recognition and Measurement." The NLDF has also adopted FRS 29 "Financial Instruments: Disclosures," which replaces the disclosure requirements of FRS 25.

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. FRS 26 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.

In accordance with advice from HM Treasury, the NLDF has chosen not to apply the exemptions available under FRS 25, 26 and 29 regarding the restatement of comparators. Instead the NLDF has accounted for the first time adoption of the financial instruments standards as a prior year adjustment, i.e. to re-measure financial instruments as at 1 April 2008, taking any valuation differences to reserves.

2 Income from Lottery Activities

	2008-09	2007-08 (re-stated)
	£000	£000
Basic Contribution from Lottery Operator under licence	1,187,106	1,123,766
Less adjustments relating to previous years:		
National Lottery Promotion Unit	(2,165)	(988)
New Media Sales	(4,456)	(3,914)
Primary Contribution (see note below)	1,180,485	1,118,864
Unclaimed Prizes	67,782	83,155
Interest on Players Trust Fund	5,770	10,390
Income from penalties and charges imposed by NLC on lottery operator, couriers and retailers	–	96
Income from Ancillary Activities	158	53
	1,254,195	1,212,558

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 OLF 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 2008-09 (which will be taken from 2009-10 income) is estimated to be £3,226 thousand. Of this, £1,791 thousand is in respect of New Media (Interactive) Sales, and £1,435 thousand is to recover the NLDF's share of the combined NLDF/OLF 50% contribution to the actual spend of the National Lottery Promotions Unit (NLP).

The 2007/08 account contained a typing error which meant that the figures for the National Lottery Promotions Unit and New Media Sales were swapped. The comparative figures this year present the figures against the correct lines.

Following the year end the Primary Contribution was re-calculated to reflect a change to the Second Licence Condition relating to prize payments. These recalculations were for the periods starting 2001-02 and running until the end of the Second Licence. The net effect of the recalculation (after excluding adjustments already disclosed, and an estimated underspend at NLP) is a further reduction of £2,321 thousand in income. This reduction will be made in 2009-10.

3 Investment income

	2008-09	2007-08 (Restated)
	£000	£000
3a <i>Investment Income</i>		
Interest Received on investments	61,681	88,862
3b <i>Net Loss on sale of investments</i>		
Profits on sales of investments	–	–
(Losses) on sales of investments	(340)	(793)
	(340)	(793)

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.

From January 2007 it was agreed that the Fund would progressively move towards a 70%/ 30% cash/gilts split to reduce the risk of capital losses on gilt sales that might otherwise be required to fund future transfers between the NLDF and the OLDF.

Gilts purchased by CRND are normally intended to be held until their redemption dates, although portions may be sold prior to this to maintain the agreed split between cash and gilts and to maintain the correct relative percentages of the individual gilt holdings. Profits and losses realised on the disposal of gilts reflect the differences between the original market prices paid and the disposal/redemption values.

Over the last year, the fund has moved further into cash as short term gilt yields have been relatively unattractive following the global financial turmoil of 2007 and 2008.

In September 2009 the remaining gilt holdings were converted into cash.

The investment stance of the Fund will remain under review as the situation stabilises.

4 Operational Costs: Department for Culture, Media and Sport

	2008-09	2007-08
	£000	£000
Staff Costs	102	109
Accommodation and Central Services	31	34
IT, Consultancy, and Training	20	20
Charge for the use of DCMS assets	23	19
External Auditor's Remuneration	29	24
Bank of England charges	5	4
	210	210

The External Auditor's remuneration for the year was £23,900 (£23,500 in 2007-08) including £1,100 for WGA audit, plus £5,000 for additional work associated with the transition to Financial Instruments standards and IFRS.

In 2008-09 seven members of DCMS Finance Division and National Lottery Division 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.

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 2008-09, licence fee income of £40 thousand relating to new NLDF games was received by DCMS.

	2008-09 £000	2007-08 £000
Gross share of costs	4,715	9,888
Lottery Operator licence fee income	(40)	(40)
Amount payable to DCMS	<u>4,675</u>	<u>9,848</u>

The total Grant in Aid paid to the National Lottery Commission was £6,342 thousand; with a total of £40 thousand received by DCMS in Operator licence fee income. The split between the NLDF and the OLDF is as follows:

	NLDF £000	OLDF £000	Total £000
Grant in Aid paid to NLC by DCMS	4,715	1,667	6,382
Lottery Operator licence fee income	(40)	–	(40)
Amount recoverable by DCMS	<u>4,675</u>	<u>1,667</u>	<u>6,342</u>

The National Lottery Commission is required by legislation to collect fees from the licensee for the grant of licenses. When the National Lottery etc Act 2006 revised the earlier 1993 Act, the equivalent provision in the 2006 Act to that in the 1993 Act was not immediately brought into commencement. This resulted in a period when there was no legislative basis for collection of licence fees. Fees amounting to £100 thousand were collected during this period. Camelot has agreed that they will not be reclaiming the fees collected without legislative authority. DCMS will be working with the NLC to commence the relevant annual fee provisions of the 2006 Act by the end of 2009.

6 Other expenses:

	2008-09 £000	2007-08 £000
Commissioners for the Reduction of the National Debt*	<u>116</u>	<u>117</u>

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

7 Debtors and prepayments:

	2008-09 £000	2007-08 £000
Ticket sales income due as a result of draws prior to year end	8,231	30,881
	<u>8,231</u>	<u>30,881</u>

Intra-government balances

Other central government bodies	–	–
Balances with bodies external to government	8,231	30,881
	<u>8,231</u>	<u>30,881</u>

8 Balance on National Lottery Distribution Fund

	at 31 March 2009		at 31 March 2008 (restated)	
	Cost	Market Value	Cost	Market Value
	£000	£000	£000	£000
Investments held by the CRND	1,497,822	1,502,532	1,673,329	1,676,792
Debtors (note 7)	8,231	8,231	30,881	30,881
Creditors	(724)	(724)	(46)	(46)
Balance held	1,505,329	1,510,039	1,704,164	1,707,627
Creditors: Intra-government Balances				
Other central government bodies	(724)	(724)	(46)	(46)

Creditors are in respect of accruals for DCMS recharges and the NAO audit fees. The figure for "Investments held by the CRND" at cost for 2007-08 has been adjusted by £293 thousand to reverse an accrual entry.

A summary analysis of the investments held on behalf of the NLDF at 31 March 2009, is shown below.

	Market Value £000
Cash held in CRND Ways and Means Account ⁽¹⁾	1
Call Notice Deposits ⁽¹⁾	1,340,128
Fixed Deposits	–
Subtotal – "Cash Funds"	1,340,129
5¾ % Treasury 2009	162,403
Subtotal – Gilts	162,403
Total balance invested with CRND	1,502,532

⁽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 FRS1 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 FRS1.

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

	2008-09	2007-08 (Restated)
	£000	£000
Decrease in Amounts Held for Distributing Bodies	(198,835)	(129,458)
Less Investment Income	(61,681)	(88,862)
Add Loss on Sale of Investments	340	793
	(260,176)	(217,527)
(Increase)/Decrease in Lottery operator debtor	22,649	(9,883)
(Increase)/Decrease in prepayment to DCMS for reimbursement of NLC costs	–	573
Increase/(Decrease) in creditors for operating expenses	678	(25)
Net cash outflow from operating activities	(236,849)	(226,862)

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.

As a result of the introduction of FRS 25, 26 and 29 the revaluation on investments is now in the revaluation reserve.

10 Reconciliation of Amounts Available to Distributing Bodies at 31 March 2009

BENEFICIARY SECTORS	Arts £000	Sports £000	Heritage Lottery Fund £000	Big Lottery Fund £000	TOTAL £000
National Lottery proceeds					
Share of income from Lottery	209,033	209,033	209,033	627,098	1,254,197
LESS Share of Operational Costs	(834)	(834)	(834)	(2,499)	(5,001)
	<u>208,199</u>	<u>208,199</u>	<u>208,199</u>	<u>624,599</u>	<u>1,249,196</u>
Amount authorised for payment to DB's	(237,541)	(230,477)	(322,646)	(645,706)	(1,436,370)
Transfer to OLDF	(10,847)	(8,374)	(10,847)	(42,932)	(73,000)
Investment Income	<u>10,280</u>	<u>10,280</u>	<u>10,280</u>	<u>30,841</u>	<u>61,681</u>
Increase/(Decrease) in balance available	(29,909)	(20,373)	(115,014)	(33,199)	(198,495)
Amounts held for Distributing Bodies at Market Value at 1 April 2008	263,734	298,574	567,432	577,887	1,707,627
Movement in revaluation reserve	208	208	208	624	1,247
Adjustment for loss on sale of Investments	<u>(57)</u>	<u>(57)</u>	<u>(57)</u>	<u>(169)</u>	<u>(340)</u>
Amounts held for Distributing Bodies at Market Value at 31 March 2009	<u>233,976</u>	<u>278,353</u>	<u>452,569</u>	<u>545,142</u>	<u>1,510,039</u>

ARTS BODIES	Arts Council of England £000	Scottish Arts Council £000	Arts Council of Wales £000	Arts Council of N. Ireland £000	UK Film Council £000	Scottish Screen £000	SUBTOTAL ARTS £000
National Lottery proceeds							
Share of income from Lottery	145,863	16,179	10,452	5,853	28,261	2,425	209,033
LESS Share of Operational Costs	(582)	(64)	(42)	(23)	(113)	(10)	(834)
	<u>145,281</u>	<u>16,115</u>	<u>10,410</u>	<u>5,830</u>	<u>28,148</u>	<u>2,415</u>	<u>208,199</u>
Amount authorised for payment to DB's	(170,918)	(15,225)	(10,588)	(9,409)	(27,585)	(3,816)	(237,541)
Transfer to OLDF	(7,568)	(840)	(542)	(304)	(1,467)	(126)	(10,847)
Investment Income	<u>7,174</u>	<u>796</u>	<u>514</u>	<u>288</u>	<u>1,390</u>	<u>119</u>	<u>10,280</u>
Increase/(Decrease) in balance available	(26,032)	846	(206)	(3,595)	486	(1,408)	(29,909)
Amounts held for Distributing Bodies at Market Value at 1 April 2008	155,552	28,192	11,539	18,901	44,042	5,509	263,735
Movement in revaluation reserve	145	16	10	6	28	2	208
Adjustment for loss on sale of Investments	<u>(40)</u>	<u>(4)</u>	<u>(3)</u>	<u>(2)</u>	<u>(8)</u>	<u>(1)</u>	<u>(57)</u>
Amounts held for Distributing Bodies at Market Value at 31 March 2009	<u>129,625</u>	<u>29,049</u>	<u>11,341</u>	<u>15,310</u>	<u>44,549</u>	<u>4,103</u>	<u>233,976</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	129,600	16,932	9,406	5,435	47,660	209,033
LESS Share of Operational Costs	(516)	(68)	(37)	(22)	(191)	(834)
	<u>129,084</u>	<u>16,864</u>	<u>9,369</u>	<u>5,413</u>	<u>47,469</u>	208,199
Amount authorised for payment to DB's	(149,636)	(15,637)	(8,948)	(7,098)	(49,158)	(230,477)
Transfer to OLDF	(6,725)	(879)	(488)	(282)	-	(8,374)
Investment Income	<u>6,374</u>	<u>833</u>	<u>463</u>	<u>267</u>	<u>2,344</u>	10,280
Increase/(Decrease) in balance available	(20,904)	1,181	395	(1,700)	654	(20,373)
Amounts held for Distributing Bodies at Market Value at 1 April 2008	201,956	48,174	9,456	20,868	18,120	298,574
Movement in revaluation reserve	129	17	9	5	47	208
Adjustment for loss on sale of Investments	<u>(35)</u>	<u>(5)</u>	<u>(3)</u>	<u>(1)</u>	<u>(13)</u>	(57)
Amounts held for Distributing Bodies at Market Value at 31 March 2009	<u>181,145</u>	<u>49,367</u>	<u>9,858</u>	<u>19,173</u>	<u>18,809</u>	<u>278,352</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.

The figures in Note 10 will also differ from those in the accounts of individual Lottery Distributors following the prior year adjustment disclosed in Note 16.

11 Revaluation reserve

	2008-09	2007-08 (Restated)
	£000	£000
Balance at 1 April 2008	3,463	(8,332)
Movement in year	1,247	11,795
Balance at 31 March 2009	<u>4,710</u>	<u>3,463</u>

From 1 April 2008 the gain or loss in value of investments held has been moved from Realised Amounts Held for Distributing Bodies, into a newly created Revaluation Reserve on the Balance Sheet. All prior year adjustments arose from the introduction of FRS 25, 26 and 29 on financial instruments. Full details are shown in Note 16.

12 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 31 March 2009, the distributors had committed £2.283 billion against the balance held within the National Lottery Distribution Fund and expect that the respective grant awardees would draw down £1.108 billion of those funds within one year of 31 March 2009 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.

	2009			2008 (Restated)
	Commitments falling due within one year	Commitments falling due in over one year	Total	Total
	£000	£000	£000	£000
Arts Council of England	60,009	73,346	133,355	162,641
Arts Council of Wales	4,458	3,203	7,661	12,144
Scottish Arts Council	27,336	546	27,882	15,539
Arts Council of Northern Ireland	8,043	2,389	10,432	11,539
UK Film Council	13,160	1,674	14,834	18,316
Scottish Screen*	1,280	–	1,280	2,575
Sport England	61,020	60,849	121,869	149,454
Sports Council for Northern Ireland	8,442	2,978	11,420	8,881
Sport Scotland*	4,746	1,158	5,904	8,514
Sports Council for Wales	8,400	53	8,453	6,184
UK Sport	19,653	20,742	40,395	46,922
National Heritage Memorial Fund	266,790	326,341	593,131	660,367
Big Lottery Fund	625,113	681,601	1,306,714	1,365,394
	1,108,450	1,174,880	2,283,330	2,468,470
NLDF Balance Available			1,510,039	1,707,627
(Over committed)/Under committed Balance (see below)			(773,291)	(760,843)

At 31st March 2009, in addition to these hard commitments, the total level of 'soft'¹ and 'other'² commitments by all Distributors was around £555 million (£622 million at March 2008).

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.

13 Financial Instruments

FRS 25 Financial Instruments: Presentation, FRS 26 Financial Instruments: Recognition and Measurement and FRS 29 Financial Instruments: Disclosure have been applied for the first time in 2008-09. FRS 29 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 is currently largely held in cash (a 90/10 split at year end). This has been 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.

Short term Debtors

As permitted by FRS 13, debtors and creditors 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 of the Department for Culture, Media and Sport (DCMS). The DCMS is considered to be a related party. During the year, a number of staff employed by the DCMS worked on NLDF related activities and the Fund used a number of the assets owned by DCMS. These costs were recharged to the Fund 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.

The OLDF is maintained under the control and management of the Minister for the Olympics. During the year the NLDF transferred £73 million to the OLDF. The OLDF is considered to be a related party.

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

Liz Forgan, was a non-executive director of DCMS for the period to 31 January 2009, she was also a board member of the National Heritage Memorial Fund and the Heritage Lottery Fund up until 30 September 2008. On 1 February 2009 she was appointed the Chair of Arts Council England.

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:

	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 31.03.09
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 31.03.09
Arts Council of England	16.66	13.8833333	4.165	13.8833333	11.8500000	11.8500000	11.6300000
Scottish Arts Council	1.78	1.4833333	0.445	1.4833333	1.4833333	1.2900000	1.2900000
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 31.03.09
English Sports Council	16.66	13.8833333	4.165	13.8833333	12.6000000	10.3333333
Scottish Sports Council	1.78	1.4833333	0.445	1.4833333	1.3500000	1.3500000
Sports Council for Wales	1.0	0.8333333	0.25	0.8333333	0.7500000	0.7500000
Sports Council of Northern Ireland	0.56	0.4666667	0.14	0.4666667	0.4333333	0.4333333
UK Sports Council	–	–	–	–	1.5333333	3.8000000

16 Prior year adjustment

As described in Note 1 under "Financial Instruments", a prior year adjustment arises from a change in accounting policy on financial instruments as a result of the introduction of FRS 25, FRS 26 and FRS 29.

The reason and impact of this restatement is that the financial instrument policy adopted as a result of the introduction of the relevant standards has resulted in the revaluation movement previously taken through income and expenditure now being taken to reserves.

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 newly created 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.

17 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.



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