

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

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# **National Lottery Distribution Fund Account 2006–07**

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 13 DECEMBER 2007

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

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Annual Report and Accounts for the year ended 31 March 2007

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**CONTENTS**

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	<b>Page</b>
Management Commentary	4
Remuneration Report	10
Statement of Responsibilities of Secretary of State, Accounting Officer and the National Lottery Commission	11
Statement on Internal Control	12
Certificate and Report of the Comptroller and Auditor General	15
Income and Expenditure Account	17
Balance Sheet	18
Cash Flow Statement	19
Notes to the Financial Statements	20

## Management Commentary

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### The 2006-07 financial statements

This is the thirteenth set of accounts to be prepared for the National Lottery Distribution Fund (NLDF). 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.

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 HC Paper No.159.

### Where the money comes from

Camelot Group plc has held licences to operate the National Lottery since 1994; the current operating licence issued by the National Lottery Commission (NLC), which began on 27 January 2002, runs until 31 January 2009. The principal categories of income into the NLDF for the period to 31 March 2007 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 £4billion. 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 14 on page 29. 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 (NOF) was established to distribute funds to health, education and environmental good causes, and between 1999 and 2000 the UK Sports Council, UK Film Council and Scottish Screen became new distributing bodies. In 2001 the Millennium Commission's share of National Lottery ticket sales income was transferred to NOF.

On 8 March 2006, Parliamentary authority was given for the transfer of £7 million from The English Sports Council to the UK Sports Council, to reflect the transfer of responsibilities for elite sport, as recommended in Lord Carter's report on the organisation of sport in England. The transfer took place on 1 April 2006, and from this date the two bodies share of lottery proceeds also changed.

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 alters the allocation so that from 1 April 2007 it will be divided between distributors in the same fixed proportions as operator-related income to the NLDF.

Section 14 of the 2006 Act makes 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 NOF, the Community Fund and the Millennium Commission have been combined from the same date.

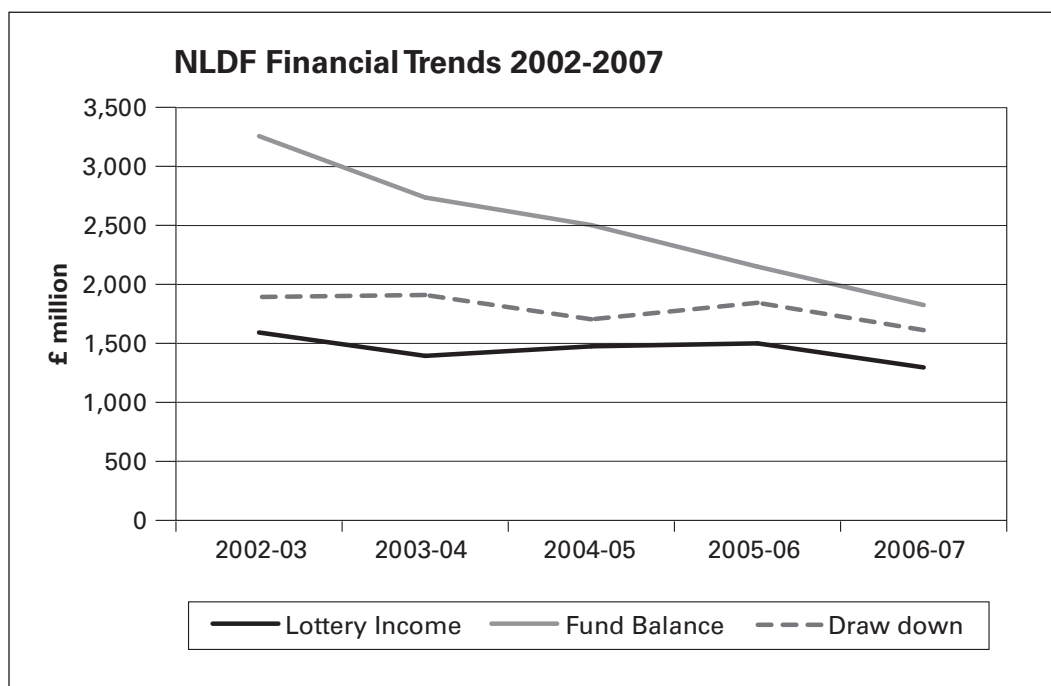
### Financial Commentary

By 31 March 2007, some £20 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 2006-07. These figures include investment returns on the unused balances. £1.6 billion was drawn down during the year to be passed to the good causes.

The trend over the last 5 years for Income, Expenditure and Fund balance for the NLDF only is as follows (£million):

	2002-03	2003-04	2004-05	2005-06	2006-07
Lottery Income	1,592	1,394	1,475	1,500	1,296
Draw down by Lottery distributors	1,893	1,910	1,704	1,844	1,612
Fund Balance	3,256	2,736	2,502	2,150	1,825

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 year-end, the balance had reduced further to £1.8bn.



The balance on the Fund at 31 March 2007 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.

#### *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 £8.5m for the year. The table below provides a breakdown of costs. The substantial increase in the NLC's costs from 2005-06 is due to additional expenditure incurred on the competition to operate the new Licence from 2009. The NLC's 2006-07 accounts provide further information on this as well as their ongoing role as regulator of the Lottery. The CRND's annual report provides further information on the investment management role of the CRND.

£m

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
DCMS	0.2	0.2	0.2	0.2	0.2	0.3
National Lottery Commission	2.8	2.3	3.8	4.4	7.9	8.0
CRND	0.1	0.1	0.2	0.2	0.2	0.1

#### *London Olympic and Paralympic Games 2012*

During 2006-07, DCMS completed its review of the Olympic Budget. On 15 March 2007, the Secretary of State announced to the House of Commons that the Government had agreed a new Olympic funding package of £9.325billion (including £2.747billion total contingency), subject to parliamentary approval,

The Government proposed, subject to Parliamentary approval of additional lottery transfers, that National Lottery proceeds will provide up to £2.175billion towards the public funding package for staging the 2012 Games:

- £750 million is expected to be raised by the new Lottery games set up specifically for this purpose, which are accounted for in the separate OLDF.

- A £340million contribution to the Olympic Budget will come directly from the existing sport distributors funded by the NLDF. £289.5 million will be used to maximize the benefit to elite and community sport of holding the Olympics and Paralympics in the UK, and the remaining £50.5 million will be used to support the construction of the aquatics centre and the velodrome.
- Up to £1,085million will be transferred from the NLDF to the OLF. This comprises £410 million as originally envisaged in the Olympic bid and announced in 2003, and a proposed further £675million arising from the budget review. This transfer requires Parliamentary approval of *The Payments into the Olympic Lottery Distribution Fund etc. Order 2007* currently laid before Parliament.

### **Governance of the Fund**

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 DCMS.

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 fund, 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. 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.

### **Staffing and Organisation**

Members of DCMS Finance and Planning Division and 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).

Both the DCMS and the DMO are equal opportunities employers, who do 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.

### **Important Events which have occurred since the financial year end**

#### Change to the proportions of lottery funds managed by English arts distributors

*The National Lottery etc. Act 1993 (Amendment of Section 23) Order 2007* [SI 2007 No 743], made on 7 March 2007 came into force from 1 April 2007. Under this Order, the proportion of the arts good cause funding allocated to the UK Film Council increases from 12.2% to 13.52% and Arts Council England's share is reduced from 71.1% to 69.78%.

#### Future funding of the London 2012 Olympic and Paralympic Games

On 25 October 2007, following consultation between the Department and lottery distributors currently funded from the NLDF, DCMS Ministers introduced *The Payments into the Olympic Lottery Distribution Fund etc. Order 2007* into the House of Commons. This Order would permit the Secretary of State to transfer up to £1,085million from the NLDF to the OLDF in quarterly instalments between 2009 and 2012. If the Order is approved by Parliament, the first transfer of funds would take place on or after 1 February 2009.

The £1,085 million comprises the £410 million of NLDF funding identified in the original Olympic bid together with the additional lottery contribution of £675m resulting from the Department's review of the Olympic budget noted above.

Of the additional £675million, £250million will be transferred from the arts, sport and national heritage good causes and £425million from the funds currently allocated to the Big Lottery Fund. Resources to the voluntary sector will, however, be protected and DCMS have agreed with the Big Lottery Fund that it will honour its commitment to give 60-70% of its funding to the voluntary and community sector.

These amounts were arrived at after an assessment which set the available future income to these causes alongside the funding needs of the 2012 London Olympic and Paralympic Games.

In the case of the Big Lottery Fund, the Government had particular regard to the scale of programmes for the future already announced, and the expectations this had generated. A contribution is not being sought from UK Sport as this would adversely affect their important task of preparing elite British athletes both for the Beijing Olympics in 2008 and London 2012.

The impact on each lottery distributor currently funded by the NLDF is summarised below:

Distributor	Contribution to £410 million included in original bid £million	Contribution to £675 million proposed in 2007 £million	<b>Total Contribution £million</b>	Annual Contribution 2009-10 to 2011-12 £million
Arts Council England	49.6	62.9	<b>112.5</b>	30.3
UK Film Council	9.6	12.2	<b>21.8</b>	5.9
Arts Council of Northern Ireland	2.0	2.5	<b>4.5</b>	1.2
Scottish Arts Council	5.5	7.0	<b>12.5</b>	3.4
Scottish Screen	0.9	1.0	<b>1.9</b>	0.5
Arts Council of Wales	3.5	4.5	<b>8.0</b>	2.2
Big Lottery Fund	213.1	425.0	<b>638.1</b>	171.7
Heritage Lottery Fund	71.0	90.2	<b>161.2</b>	43.4
Sport England	44.0	56.0	<b>100.0</b>	26.9
Sport Council of Northern Ireland	1.9	2.3	<b>4.2</b>	1.1
Sport Scotland	5.7	7.3	<b>13.0</b>	3.5
UK Sport	–	–	<b>–</b>	–
Sports Council of Wales	3.2	4.1	<b>7.3</b>	1.9
	<u>410.0</u>	<u>675.0</u>	<u><b>1,085.0</b></u>	<u>292.0</u>

#### *Changes to the DCMS Ministerial Team*

Rt Hon James Purnell was appointed Secretary of State for Culture, Media and Sport on 28 June 2007, replacing Rt Hon Tessa Jowell who was appointed Paymaster General and the dedicated Minister for the Olympics and London. She works out of the Cabinet Office but supervises the work of the Government Olympic Executive within DCMS, which continues to report to me as Accounting Officer.

It was announced on 28 June that Rt Hon Richard Caborn would step down as a Minister to become the Prime Minister's Ambassador for the 2018 World Cup bid, and that Shaun Woodward would leave the Department to take up the post of Secretary of State for Northern Ireland.

The Rt Hon Margaret Hodge MBE has been appointed as Minister of State and Gerry Sutcliffe as Parliamentary Under Secretary of State.

Signed:

7 December 2007

**Jonathan Stephens**

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

## Remuneration Report

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### 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 2006-07 [HC847] which has been subject to audit, and is available on the DCMS website at [www.culture.gov.uk](http://www.culture.gov.uk).

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

Rt Hon Tessa Jowell MP	Secretary of State
Shaun Woodward MP (from May 2006)	Minister for Creative Industries and Tourism
James Purnell MP (until May 2006)	Minister for Media and Tourism
Rt Hon Richard Caborn MP	Minister of State for Sport
David Lammy MP	Minister for Culture

Permanent Secretary and members of the DCMS Board during 2006-07 were:

Dame Sue Street (until October 2006)	Permanent Secretary and Accounting Officer
Jonathan Stephens (from October 2006)	Permanent Secretary and Accounting Officer
Nicholas Holgate	Chief Operating Officer
Jeff Jacobs	Chief Executive, Government Olympic Executive
Andrew Ramsay	Director General (Culture, Creativity & Economy)
Alan Davey	Director (Culture)
Paddy Feeny	Director (Communications)
Andrew Lean	Director (Olympics)
Brian Leonard	Director (Industry)
Nicky Roche	Director (Sport)
David Roe	Director (Strategy)
Clive Elphick	Non-Executive Member
Parminder Vir	Non-Executive Member

I was appointed as Permanent Secretary of DCMS and Accounting Officer for the NLDF with effect from 1 October 2006.

Signed:

7 December 2007

**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**

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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 & Planning Division, within the Department for Culture, Media & 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 "Government Accounting".

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 2007 which has led him to be satisfied that the payments to the NLDF during the year to 31 March 2007 are complete and accurate in all material respects.

Signed:

7 December 2007

**Jonathan Stephens**

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

## Statement on Internal Control

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### 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 Government Accounting.

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 Requirement (SFR). The SFR includes requirements that:

- i) the Accounting Officers of the LDBs satisfy themselves on an ongoing basis of the adequacy of the 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 its administration of Lottery funds.

3. The National Lottery Commission is responsible, using the powers set out in the 1993 Act, 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 meets its obligations under the licence, including financial obligations to the NLDF. The Lottery operator, Camelot, 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.

4. Distributing body Accounting Officers have separate responsibility for ensuring that Lottery funds are distributed with due regularity and propriety, and for identifying and reporting to me any systems failure significant enough to call into question the fitness of the body to continue to draw down funds from the NLDF.

#### Purpose of the System of Internal Control

5. 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 provide only a 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 2007 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

## Capacity to Handle Risk

6. 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.

7. The NLDF follows the DCMS risk management policy and process. The Department's risk management policy has been agreed by the DCMS Board and is subject to regular review and revision 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. Risk Management Guidance is available to all staff. Both the Policy and the Guidance are available on the Department's intranet.

8. 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.

9. Risk management features in departmental training courses and facilitated risk workshops are also available. The training courses have recently been reviewed and updated; this review was carried out in conjunction with the Internal Audit Team. One-to-one training sessions on risk and Assurance were provided to new senior members of staff prior to the year-end Assurance and risk reporting process.

## The Risk and Control Framework

10. The NLDF has a risk register which is subject to regular review by the DCMS Deputy Director of Lottery, Communities and International Division (LCID) and the Head of Financial and Management Accounting, with areas of concern reported to the DCMS Audit Committee. 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, Divisions are encouraged to hold facilitated workshops to identify the risks to divisional objectives, to evaluate these and to identify the necessary controls. Guidance is available on the types of risk that the Fund could face. Risks are evaluated in respect of both the impact if the risk is realised and the likelihood of it being realised. 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. The final stage of the process is to complete the risk register and to keep it under review.

11. The LCID 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. The LCID reviews the SICs with Finance and Planning Division, and the distributing bodies' sponsoring divisions, contributing additional information and comments as appropriate. The Internal Audit Unit monitors and audits this process.

## Review of Effectiveness

12. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. 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 recommendations from 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.

13. The key elements of the system of internal control are set out above and contribute to my review of the system's effectiveness. The following bodies also inform my view:

**The DCMS Board** (which in 2006-07 comprised the Department's Directors General (DG), Directors and two non-executive members and me) meets regularly to review the Department's priorities, oversee their delivery and the strategic framework within which detailed business planning takes place, and to review the strategic risks and the effectiveness of the risk management process.

**Audit Committee** – In 2006-07 the Committee comprised the Chairman (a non-executive Board member), two independent external members, the Chief Operating Officer, one other Director General and one divisional head. The Committee meets four times a year and advises me on the adequacy and effectiveness of risk management and internal control, including the strategic risk register processes. The Committee also assesses: the internal and external audit activity plans and the results of that activity; the adequacy of management responses to audits and the adequacy of internal audit arrangements in DCMS's NDPBs.

**Internal Audit** – the Department has an Internal Audit Unit, which operates to Government Internal Audit Standards, and the service is provided by the Department for Communities and Local Government under shared services arrangements. 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.

Signed:

7 December 2007

**Jonathan Stephens**

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

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

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I certify that I have audited the financial statements of the National Lottery Distribution Fund for the year ended 31 March 2007 under the National Lottery etc. Act 1993. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow 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 Auditors**

As described on page 11, the Secretary of State for Culture, Media and Sport is responsible for the preparation of the Annual Report; including the Management Commentary, Remuneration Report and financial statements in accordance with the National Lottery etc Act 1993 and Treasury directions made thereunder. The Secretary of State has delegated to the Accounting Officer responsibility for the preparation of the Management Commentary, Remuneration Report and financial statements and for ensuring the regularity of financial transactions.

My responsibility is to audit the financial statements and the part of the Remuneration Report that is described in that report as having been 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 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, certain information given in the Annual Report, which comprises the Management Commentary; the Remuneration Report; the Statement of Responsibilities of the Secretary of State, Accounting Officer and the National Lottery Commission, 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.

I also report if the 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control on pages 12 to 14 reflects the 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 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 only the Management Commentary, the Remuneration Report; and the Statement of Responsibilities of the Secretary of State, Accounting Officer and the 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 Opinion**

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 judgements made by the Secretary of State and the Accounting Officer in the preparation of the financial statements and of whether the accounting policies are appropriate to the 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 income and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. With regard to the completeness of income to the Fund, my audit included a review of the Statement of Assurance provided by the Accounting Officer of the National Lottery Commission to the Accounting Officer of the National Lottery Distribution Fund, mentioned on page 12, and the work of the Commission in this respect. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Audit Opinion**

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 2007 and of the decrease in funds available and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 and with the directions made thereunder by the Treasury; and
- Information given within the Annual Report, which comprises the Management Commentary, the Remuneration Report; and the Statement of Responsibilities of the Secretary of State, Accounting Officer and the National Lottery Commission, is consistent with the financial statements.

## **Audit Opinion on Regularity**

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

I have no observations to make on these financial statements.

**John Bourn**  
Comptroller and Auditor General

11 December 2007

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

## Income and Expenditure Account for the Year Ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
<u>Income</u>			
National Lottery	2	1,214,651	1,390,844
Investment Income	3a	103,373	125,919
Net (loss) on Sale of Investments	3b	(14,697)	(12,029)
Revaluation gain/(loss) on investments	3c	(7,595)	(5,020)
<b>Total Income</b>		<b>1,295,732</b>	1,499,714
<u>Less: Operational Costs</u>			
Department for Culture, Media and Sport	4	267	245
National Lottery Commission	5	8,047	7,921
Other Expenses	6	144	179
		<b>(8,458)</b>	(8,345)
<b>Net Realised Income for Distribution</b>		<b>1,287,274</b>	1,491,369
Amounts Drawn Down by Distributing Bodies	10	(1,611,935)	(1,843,555)
<b>Increase/(decrease) in Amounts Held for Distributing Bodies</b>		<b>(324,661)</b>	(352,186)
Balance brought forward		<b>2,149,951</b>	2,502,137
		<b>1,825,290</b>	2,149,951

All transactions are in respect of continuing operations.

NLDF has no recognised gains or losses in year other than those that appear in the Income and Expenditure Account.

The notes on pages 20 to 30 form an integral part of these accounts.

**Balance Sheet as at 31 March 2007**

	<b>Note</b>	<b>2006-07</b> <b>£000</b>	2005-06 £000
<u>Current Assets</u>			
Debtors	7	<b>21,571</b>	20,474
Investments held by CRND	8	<b>1,803,790</b>	2,129,547
Cash at Bank and in Hand		–	–
		<b>1,825,361</b>	2,150,021
Creditors: Amounts falling due within one year	8	<b>(71)</b>	(70)
Net Current Assets		<b>1,825,290</b>	2,149,951
<u>Represented by:</u>			
Amounts held for Distributing Bodies	10	<b>1,825,290</b>	2,149,951

Signed:

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

7 December 2007

The notes on pages 20 to 30 form an integral part of these accounts.

## Cash Flow Statement for Year Ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
<u>Operating Activities</u>			
Cash received from Lottery operator		1,214,127	1,389,273
Cash paid for operating expenses		(9,030)	(8,354)
Cash paid to Distributing Bodies	10	<u>(1,611,935)</u>	<u>(1,843,555)</u>
Net cash (outflow) from operating activities	9	<b>(406,838)</b>	(462,636)
<u>Management of liquid resources</u>			
Cash Paid to CRND for Investment		<b>(1,205,097)</b>	(1,380,919)
Cash received from CRND for distribution	10	<u>1,611,935</u>	<u>1,843,555</u>
Net cash inflow from management of liquid resources		<u>406,838</u>	<u>462,636</u>
Change in cash		<u>–</u>	<u>–</u>

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

The notes on pages 20 to 30 form an integral part of these accounts.

## Notes to the Financial Statements

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### 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 2006 in respect of all draws within the year up to and including 31 March 2007.

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 paid to NLDF at this date.

Interest on the Players Trust Fund is recognised in the accounts on an accruals basis.

#### 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.

### 2. Income from Lottery Activities

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Basic Contribution from Lottery Operator under licence	<b>1,130,927</b>	1,289,669
Less adjustments relating to previous years:		
Overpayments of primary contribution	<b>(3,099)</b>	(3,307)
National Lottery Promotion Unit	<b>(1,512)</b>	(2,044)
New Media Sales	<b>(2,470)</b>	(1,800)
Primary Contribution (see note (a) below)	<b>1,123,846</b>	1,282,518
Unclaimed Prizes	<b>85,767</b>	101,749
Interest on Players Trust Fund	<b>4,677</b>	5,983
Income from penalties and charges imposed by NLC on lottery operator, couriers and retailers	<b>162</b>	318
Income from Ancillary Activities	<b>199</b>	276
	<b>1,214,651</b>	1,390,844

- a) 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 OLDF 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 2006-07 (which will be taken from 2007-08 income) is estimated to be £4,903,000. Of this, £3,914,000 is in respect of New Media (Interactive) sales, and £988,000 is to recover the NLDF's share of the combined NLDF/OLDF 50% contribution to the actual spend of the National Lottery Promotions Unit (NLPU).

### 3. Investment income

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
3a <u>Investment Income</u>		
Interest Received on investments	<b>103,373</b>	125,919
3b <u>Net Loss on sale of investments</u>		
Profits on sales of investments	<b>2,076</b>	886
(Losses) on sales of investments	<b>(16,773)</b>	(12,915)
	<b>(14,697)</b>	(12,029)

The NLDF's objective is to provide for 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.

Since 1 April 2003, the share of the funds held for the Millennium Commission was managed as a portfolio wholly comprised of 'cash' instruments. Following the absorption of the Millennium Commission's remaining funds into Big Lottery Fund's balances on 1 December 2006, the NLDF has once again been managed as a single investment portfolio.

Since April 2004, the investment stance taken by CRND for the remainder of NLDF funds has been that 50% of the Fund should be invested in a range of up to 6-month 'cash' instruments and 50% is invested in a range of passively managed up to 3-year gilt-edged securities (gilts). The gilts part of the Fund is re-balanced at the end of each month to ensure the holdings match the proportions of the up to 3-year gilts then available in the market.

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.

### 3c Revaluation gain/(loss) on investments

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Unrealised (Loss)	<b>(21,906)</b>	(14,311)
Amount brought forward and recognised in year	<b>14,311</b>	9,291
	<b><u>(7,595)</u></b>	<u>(5,020)</u>

Revaluation gains/(losses) reflect the difference between the price at which gilts were acquired and the market price at the balance sheet date.

## 4. **Operational Costs: Department for Culture, Media and Sport**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Staff Costs	<b>137</b>	142
Advertising costs of NLC chair	<b>27</b>	–
Accommodation and Central Services	<b>37</b>	41
IT, Consultancy, and Training	<b>24</b>	25
Charge for the use of DCMS assets	<b>17</b>	13
External Auditor's Remuneration	<b>22</b>	21
Bank of England charges	<b>3</b>	2
	<b><u>267</u></b>	<u>245</u>

The External Auditor's remuneration for the year was £22,250 (£21,600 in 2005-06).

In 2006-07 eight 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 license fee income received by NLC and surrendered to DCMS in appropriations-in-aid.

The license fee income is the sum of payments made by the lottery operator, Camelot, for each new Section 6 license granted for new lottery games. In 2006-07, license fee income of £40,000 relating to new NLDF games was received by DCMS.

During 2005-06, it was confirmed that DCMS had over-recovered £373,000 from the NLDF in 2004-05 in calculating the amount to be Appropriated-in-Aid by the Department. This amount was adjusted in the 2006-07 claim from the NLDF and is reflected in the figures below.

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Gross share of costs	<b>8,460</b>	8,292
Lottery Operator licence fee income	<b>(40)</b>	(371)
	<b>8,420</b>	7,921
Less adjustment for overpaid amount in 2004-05	<b>(373)</b>	–
Amount payable to DCMS	<b>8,047</b>	7,921

The total Grant in Aid paid to the National Lottery Commission was £9,200,000; with a total of £80,000 received by DCMS in Operator licence fee income. The split between the NLDF and the OLDF is as follows:

	<b>NLDF</b>	<b>OLDF</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Grant in Aid paid to NLC by DCMS	8,460	740	9,200
Lottery Operator licence fee income	(40)	(40)	(80)
Amount due for 2006-07	8,420	700	9,120
2004-05 Adjustment	(373)	–	(373)
Amount recoverable by DCMS	<b>8,047</b>	<b>700</b>	<b>8,747</b>

## 6. Other expenses:

	<b>2006-07</b>	<b>2005-06</b>
	<b>£000</b>	<b>£000</b>
Commissioners for the Reduction of the National Debt	<b>144</b>	179

Amounts paid to the CRND for management of the NLDF Investment Fund Account.



**7. Debtors and prepayments:**

	<b>2006-07</b>	<b>2005-06</b>
	<b>£000</b>	<b>£000</b>
Ticket sales income due as a result of draws prior to year end	<b>20,998</b>	20,474
Prepayment for National Lottery Commission costs	<b>573</b>	0
	<b>21,571</b>	20,474

**8. Balance on National Lottery Distribution Fund**

	at 31 March 2007		at 31 March 2006	
	<b>Cost</b>	<b>Market Value</b>	Cost	Market Value
	<b>£000</b>	<b>£000</b>	£000	£000
Investments held by the CRND	<b>1,825,696</b>	<b>1,803,790</b>	2,143,858	2,129,547
Debtors (note 7)	<b>21,571</b>	<b>21,571</b>	20,474	20,474
Creditors	<b>(71)</b>	<b>(71)</b>	(70)	(70)
Balance held	<b>1,847,196</b>	<b>1,825,290</b>	2,164,262	2,149,951

Creditors 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 2007 is shown below.

	Market Value £000
Cash held in CRND Ways and Means Account <sup>(1)</sup>	1
Call Notice Deposits <sup>(1)</sup>	58,301
Fixed Deposits	962,685
Subtotal – “Cash Funds”	<b>1,020,987</b>
8½% Treasury 2007	64,651
7¼% Treasury 2007	155,116
5% Treasury 2008	191,884
4% Treasury 2009	212,968
5¾% Treasury 2009	158,184
Subtotal – Gilts	<b>782,803</b>
Total balance invested with CRND	<b>1,803,790</b>

<sup>(1)</sup> 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.

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

	2006-07 £000	2005-06 £000
Decrease in Amounts Held for Distributing Bodies	<b>(324,661)</b>	(352,186)
Less Investment Income	<b>(103,373)</b>	(125,919)
Add Loss on Sale of Investments	<b>14,697</b>	12,029
Add Impairment loss/ (gain) on revaluation of investments	<b>7,595</b>	5,020
	<b>(405,742)</b>	(461,056)
(Increase)/Decrease in Lottery operator debtor	<b>(524)</b>	(1,572)
(Increase)/Decrease in prepayment to DCMS for reimbursement of NLC costs	<b>(573)</b>	
Increase/(Decrease) in creditors for operating expenses	<b>1</b>	(8)
Net cash outflow from operating activities	<b>(406,838)</b>	(462,636)

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.

### 10. Reconciliation of Amounts Available to Distributing Bodies at 31st March 2007

BENEFICIARY SECTORS	Arts £000	Sports £000	National Heritage Memorial Fund £000	Community Fund £000	Millennium Commission £000	New Oppor- tunities Fund £000	Big Lottery Fund £000	TOTAL £000
National Lottery proceeds								
Share of income from Lottery	202,442	202,442	202,442	135,641	0	271,283	200,401	<b>1,214,651</b>
LESS Share of Operational Costs	(1,410)	(1,410)	(1,410)	(1,039)	0	(2,079)	(1,110)	<b>(8,458)</b>
	201,032	201,032	201,032	134,602	0	269,204	199,291	<b>1,206,193</b>
Amount authorised for payment to DB's	(227,592)	(208,775)	(367,196)	(182,225)	(18,005)	(344,000)	(264,142)	<b>(1,611,935)</b>
<b>Investment Income</b>	11,570	12,101	30,008	3,794	1,602	13,455	8,559	<b>81,089</b>
<b>Increase/(Decrease) in balance available</b>	<b>(14,990)</b>	<b>4,358</b>	<b>(136,156)</b>	<b>(43,829)</b>	<b>(16,403)</b>	<b>(61,341)</b>	<b>(56,292)</b>	<b>(324,653)</b>
<i>Transfer of balances to Big Lottery Fund</i>	-	-	-	(128,120)	(42,780)	(482,441)	653,341	<b>0</b>
Market Value at 1 April 2006	285,330	293,289	796,413	171,949	59,183	543,782	-	<b>2,149,946</b>
<b>Market Value at 31 March 2007</b>	<b>270,340</b>	<b>297,647</b>	<b>660,257</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>597,049</b>	<b>1,825,293</b>
Balance at cost at 31 March 2007	273,584	301,220	668,183	0	0	0	604,214	1,847,201

	Arts Council of England £000	Scottish Arts Council £000	Arts Council of Wales £000	Arts Council of N. Ireland £000	Film Council £000	Scottish Screen £000	<b>SUBTOTAL ARTS £000</b>
<b>ARTS BODIES</b>							
<b>National Lottery proceeds</b>							
Share of income from Lottery	143,936	15,669	10,122	5,668	24,698	2,348	<b>202,442</b>
LESS Share of Operational Costs	(1,002)	(109)	(70)	(39)	(172)	(16)	<b>(1,410)</b>
	<u>142,934</u>	<u>15,560</u>	<u>10,052</u>	<u>5,629</u>	<u>24,526</u>	<u>2,332</u>	<b>201,032</b>
<b>Amount authorised for payment to DB's</b>	(147,152)	(19,633)	(15,539)	(15,459)	(28,036)	(1,773)	<b>(227,592)</b>
<b>Investment Income</b>	6,396	1,326	745	1,123	1,776	205	<b>11,570</b>
<b>Increase in balance available</b>	<u>2,178</u>	<u>(2,747)</u>	<u>(4,742)</u>	<u>(8,708)</u>	<u>(1,734)</u>	<u>764</u>	<b>(14,989)</b>
Market Value at 1 April 2006	153,235	34,516	21,372	32,336	39,128	4,743	<b>285,330</b>
<b>Market Value at 31 March 2007</b>	<u>155,413</u>	<u>31,769</u>	<u>16,630</u>	<u>23,628</u>	<u>37,394</u>	<u>5,507</u>	<b>270,341</b>
Balance at cost at 31 March 2007	157,278	32,151	16,828	23,912	37,843	5,573	<b>273,584</b>
<b>SPORTS BODIES</b>							
	English Sports Council £000	Scottish Sports Council £000	Sports Council for Wales £000	Sports Council for N.Ireland £000	UK Sports Council £000		<b>SUBTOTAL SPORTS £000</b>
<b>National Lottery proceeds</b>							
Share of income from Lottery	118,255	16,398	9,110	5,263	53,416		<b>202,442</b>
LESS Share of Operational Costs	(1,066)	(114)	(63)	(37)	(130)		<b>(1,410)</b>
	<u>117,189</u>	<u>16,284</u>	<u>9,046</u>	<u>5,227</u>	<u>53,286</u>		<b>201,032</b>
<b>Amount authorised for payment to DB's</b>	(121,400)	(21,898)	(10,649)	(7,976)	(46,852)		<b>(208,775)</b>
<b>Investment Income</b>	7,796	2,219	416	1,034	635		<b>12,101</b>
<b>Increase in balance available</b>	<u>3,585</u>	<u>(3,396)</u>	<u>(1,187)</u>	<u>(1,716)</u>	<u>7,070</u>		<b>4,359</b>
Market Value at 1 April 2006	191,807	54,713	11,749	24,947	10,073		<b>293,289</b>
<b>Market Value at 31 March 2007</b>	<u>195,392</u>	<u>51,317</u>	<u>10,562</u>	<u>23,231</u>	<u>17,143</u>		<b>297,648</b>
Balance at cost at 31 March 2007	197,737	51,933	10,689	23,511	17,349		<b>301,219</b>

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

## 11 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 2007 the distributors had committed £2.117 billion against the balance held within the National Lottery Distribution Fund and expect that the respective grant awardees would draw down £1.181 billion of those funds within one year of the 31st March 2007 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.

	2007		2006	
	Commitments falling due within one year £000	Commitments falling due in over one year £000	Total £000	Total £000
Arts Council of England	91,083	111,323	<b>202,406</b>	208,088
Arts Council of Wales	11,933	4,486	<b>16,419</b>	18,301
Scottish Arts Council	19,000	442	<b>19,442</b>	18,333
Arts Council of Northern Ireland	14,898	4,311	<b>19,209</b>	24,916
UK Film Council	14,630	6,227	<b>20,857</b>	27,981
Scottish Screen	2,591	–	<b>2,591</b>	1,980
Sport England	68,880	75,964	<b>144,844</b>	131,906
Sports Council for Northern Ireland*	9,952	5,216	<b>15,168</b>	16,754
Sport Scotland	12,492	4,194	<b>16,686</b>	26,012
Sports Council for Wales	7,486	3,688	<b>11,174</b>	13,868
UK Sport	39,570	35,195	<b>74,765</b>	83,669
National Heritage Memorial Fund	329,517	349,899	<b>679,416</b>	699,096
Big Lottery Fund	559,234	335,664	<b>894,898</b>	–
<i>Community Fund</i>				438,322
<i>Millennium Commission</i>				33,377
<i>New Opportunities Fund</i>				779,705
<i>Subtotal – Big Lottery Fund predecessor bodies</i>				<i>1,251,404</i>
	<u>1,181,266</u>	<u>936,609</u>	<u><b>2,117,875</b></u>	<u>2,522,308</u>
NLDF Balance Available			<b>1,825,290</b>	2,149,951
(Over committed)/ Under committed Balance (see below)			<u><b>(292,585)</b></u>	<u>(372,357)</u>

At 31 March 2007, in addition to these hard commitments, the total level of ‘soft’<sup>1</sup> and ‘other’<sup>2</sup> commitments by all Distributors was around £657 m (£718m at March 2006).

<sup>1</sup> – A soft commitment is where a distributing body has decided in principle to fund a project.

<sup>2</sup> – 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.

## 12 Financial Instruments

Accounting Standard FRS 13 – Derivatives and Other Financial Instruments, requires that the NLDF discloses the effect that financial instruments have had during the period in creating or changing the risks it faces in undertaking its role. As permitted by FRS13, debtors and creditors which mature or become payable within 12 months of the balance sheet date have been omitted from this note.

The investment strategy for the NLDF is to seek a trade-off between liquidity risks and interest rate risks. During the first eight months of 2006-07, the strategy continued to seek to maintain a 50-50 split of the funds between fixed interest securities (gilts) and variable interest rate deposits, with the exception of balances held for the Millennium Commission. These were wholly held by CRND in cash instruments, primarily to avoid liquidity risks as the Commission wound down its activities and planned for the transfer of capital sums to its legacy partners.

From January 2007, with the absorption of the remaining Millennium funds into the main portfolio, and following an assessment of money market conditions, a decision was taken to move towards a 70-30 split between variable rate deposits and gilts.

### **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 4.2349% for the main part of the Fund and 4.1663% for the Millennium part of the Fund. The difference in return is due to different investment strategies being in place for the two funds. The Millennium part of the Fund was more heavily weighted in favour of cash instruments. The Department does not consider that the NLDF is exposed to any significant interest rate risks.

### **Foreign Currency Risks**

The NLDF is not exposed to any foreign exchange risks.

## **13 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.

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

## 14 Distributing Body share of Fund

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

	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 31.10.06	01.11.06 to 31.03.07
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:

<b>Arts</b>	To 13.10.97	14.10.97 to 14.02.99	15.02.99 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
Arts Council of England	16.66	13.8833333	4.165	13.8833333	11.8500000	11.8500000
Scottish Arts Council	1.78	1.4833333	0.445	1.4833333	1.4833333	1.2900000
Arts Council for Wales	1.0	0.8333333	0.25	0.8333333	0.8333333	0.8333333
Arts Council of Northern Ireland	0.56	0.4666667	0.14	0.4666667	0.4666667	0.4666667
UK Film Council	–	–	–	–	2.0333333	2.0333333
Scottish Screen	–	–	–	–	–	0.1933333

<b>Sports</b>	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	1.07.99 to 31.03.06	01.04.06 to 31.03.07
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

**15 Post Balance Sheet Events**

Up to the date the financial statements were approved for issue to Parliament, which was 11 December 2007, the following notable events have occurred:

*Change to the proportions of lottery funds managed by English arts distributors*

The National Lottery etc. Act 1993 (Amendment of Section 23) Order 2007 [SI 2007 No 743], made on 7 March 2007 came into force from 1 April 2007. Under this Order, the percentage share of proceeds allocated for expenditure on or connected with the arts by the UK Film Council is increased from 12.2% to 13.52% with a corresponding reduction in Arts Council England's share from 71.1% to 69.78%.

*Future funding of the London 2012 Olympic and Paralympic Games*

On 25 October 2007, following consultation between the Department and lottery distributors currently funded from the NLDF, DCMS Ministers introduced The Payments into the Olympic Lottery Distribution Fund etc. Order 2007 into the House of Commons. This Order would permit the Secretary of State to transfer up to £1,085million from the NLDF to the OLDF in quarterly instalments between 2009 and 2012. If the Order is approved by Parliament, the first transfer of funds would take place on or after 1 February 2009.

Fuller details are reported on page 8 of the Management Commentary.



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