

Presented pursuant to section 25(1) of Horserace Betting and Olympic Lottery Act 2004

Olympic Lottery Distribution Fund Account 2006–07

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

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Annual Report and Accounts for the year ending 31 March 2007

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CONTENTS

| | Page |
|---|-------------|
| Management Commentary | 4 |
| Remuneration Report | 8 |
| Statement of Responsibilities of Secretary of State, Accounting Officer and the National Lottery Commission | 9 |
| Statement on Internal Control | 10 |
| Certificate and Report of the Comptroller and Auditor General | 13 |
| Income and Expenditure Account | 15 |
| Balance Sheet | 16 |
| Cash Flow Statement | 17 |
| Notes to the Financial Statements | 18 |

Management Commentary

Why the Olympic Lottery Distribution Fund (OLDF) was needed

London was chosen as the host city for the 2012 Olympic and Paralympic Games on 6 July 2005. Funding for the London 2012 Olympics will come from a variety of sources, including the National Lottery. Under new funding arrangements announced on 15 March 2007, £2.175 billion is being sought from the National Lottery. £750 million of this is expected to be raised by new Lottery games set up specifically for the purpose.

The OLDF was established to receive and hold the monies generated from the Lottery specifically for the 2012 Olympics and to pass them to the Olympic Lottery Distributor to fund any facilities, services or functions which the distributor considers are necessary or expedient to provide or undertake for the delivery of the 2012 Games. The balance held in the OLDF is invested by the Commissioners for the Reduction of the National Debt (CRND) and any investment proceeds added to the amount available to the Olympic Lottery Distributor.

The Fund came into legal existence on 8 April 2005 under the terms of the Horserace Betting and Olympic Lottery Act 2004 (Commencement No.2) Order 2005 (SI 2005/1134). The Fund was dormant until the announcement of the success of London as the host city for the 2012 games. The first receipt of monies into the OLDF was on 2 August 2005. The Fund will close once its primary purpose has been met and the Secretary of State makes the Order required under section 28 of the 2004 Act to wind up the Fund.

Where the money comes from

The Horserace Betting and Olympic Lottery Act 2004 enabled National Lottery games to be established dedicated to raising funds for the 2012 London Olympic and Paralympic Games. Camelot Group plc holds the current licence issued by the National Lottery Commission to operate the National Lottery until 31 January 2009. The principal categories of income into the OLDF for the period to 31 March 2006 comprised:

- a proportion of Olympic 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 the Olympic Lottery Game, or 180 days of the close of the Olympic Scratchcard or Interactive Instant Win games. These unclaimed prizes fall due to the OLDF after the 180 days; and
- interest on the Players Trust Fund, including the reclaim of tax deducted on interest received by the Players Trust Fund.

Where the money goes

Monies drawn down from the Fund by the Olympic Lottery Distributor (OLD) are used to make grants or loans under section 30 of the 2004 Act. The distributor's main grant recipient will be the Olympic Delivery Authority (ODA), the body responsible for delivering the venues and supporting infrastructure for the 2012 Games.

Financial Commentary

This is the second set of accounts of the OLDF. These accounts are for the year ending 31 March 2007. The primary financial statements and associated notes for the OLDF are set out in these accounts. £113m was raised by the Olympic Lottery during the year. The Olympic Lottery Distributor drew down £56m. Expenses incurred in operating the Fund (by the DCMS, and CRND) and by the NLC for regulating the National Lottery are, under regulations made by the Secretary of State using powers created by section 26 of the Act, to be met from the Fund. These expenses totalled £807,000 for the year. The balance on the Fund at 31 March 2007 is held in investments by the CRND.

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).

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 OLDF.
- Up to £1,085million will be transferred from the NLDF to the OLDF. 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.
- The balance of £340million lottery contribution to the Olympic Budget will come directly from the existing sport distributors funded by the NLDF and will not pass through the OLDF. £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.

Governance of the Fund

The Statement of Financial Requirements, issued by the Secretary of State for Culture, Media and Sport to the Olympic Lottery Distributor established a financial framework within which their Lottery distribution activities are to be conducted. As the Accounting Officer of the OLDF, I seek annual assurances from the Olympic Lottery Distributor's Accounting Officer that adequate financial management systems and controls for the efficient, effective and equitable distribution of Lottery monies are in place. In particular, I expect the Accounting Officer to be satisfied that the body has: complied with its current Lottery financial directions; put adequate internal and external audit arrangements in place; established 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 the Accounting Officer on the adequacy of the distributor's systems from the work of the DCMS Government Olympic Executive and the Department's Internal Audit Unit.

The Fund is maintained under the control and management of the Secretary of State for Culture, Media and Sport. Monies not immediately required for distribution are invested by the Commissioners for the Reduction of the National Debt (CRND), in accordance with Investment Directions issued by HM Treasury (under section 32 of the National Lottery etc. Act 1993).

Sound management of the OLDF plays a pivotal role in managing the flow of funds between Camelot and the Olympic Lottery Distributor. 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 OLDF. In addition, the Department works with the Commissioners for the Reduction of the National Debt whose role is to invest the funds held in the OLDF, in accordance with directions issued by HM Treasury, until such time as they are required by the Olympic Lottery Distributor (OLD) to make grants or loans for the Olympic purposes set out in section 30 of the 2004 Act.

The OLDF is subject to an annual accounting process separate to that for the National Lottery Distribution Fund (NLDF). These accounts provide the primary accounting statements and notes required by the Horserace Betting and Olympic Lottery Act 2004 and the Accounts Direction given by HM Treasury. The Act requires that the accounts are examined and certified by the Comptroller and Auditor General and laid, together with his report thereon, before each House of Parliament.

Staffing and Organisation

The Government Olympic Executive (GOE) was established in May 2006 from the former Olympic Games Unit. GOE remains part of the Department for Culture, Media and Sport (DCMS).

Members of GOE, Finance and Planning Division and National Lottery Distribution and Communities Division were engaged part time on OLDF matters. Their staff costs are charged to the OLDF in proportion to the amount of time staff spend on OLDF duties.

During the financial year, the OLDF 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.

Jeff Jacobs, in his capacity as Chief Executive of the Government Olympic Executive had been appointed as Additional Accounting Officer for the OLDF from 20 June 2006. Following a review of the governance arrangements for the GOE, announced on 27 January 2007, it was agreed that I would resume full Accounting Officer responsibility for the fund from 1 April 2007.

Disclosure of Relevant Audit Information

As far as I am aware there is no relevant audit information of which the Fund'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 Fund's auditors are aware of that information.

Important Events which have occurred since the financial year end

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 £1,085 million 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.

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

REMUNERATION POLICY

Administration of the Olympic Lottery Distribution Fund (OLDF) 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 OLDF. DCMS does not recharge the OLDF for the remuneration costs of Departmental Ministers or the DCMS Board.

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

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

| | |
|---------------------------------------|--|
| Sue Street (until October 2006) | Permanent Secretary and Accounting Officer |
| Jonathan Stephens (from October 2006) | Permanent Secretary and Accounting Officer |
| Jeff Jacobs | Chief Executive, Government Olympic Executive |
| Nicholas Holgate | Chief Operating Officer |
| 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 and Accounting Officer of DCMS 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

Under section 33(1) of the National Lottery etc. Act 1993, as amended by section 34(11) of the Horserace Betting and Olympic Lottery Act 2004, 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 OLDF'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 Olympic Lottery Distribution Fund. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of public finances and for the keeping of proper records, are set out in “*Managing Public Money*” – during the year of account the standards in force were set out in the Accounting Officers’ Memorandum issued by the Treasury and published in “*Government Accounting*”.

The Permanent Secretary’s responsibilities over the OLDF extend to the receipt of Lottery revenues from Camelot Group plc, their placement with the CRND and disbursements to the Olympic Lottery Distributor. 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 National Lottery etc. Act 1993, for ensuring that Camelot Group plc meet their obligations under the licence, including their financial obligations to the Olympic 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 OLDF 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 OLDF 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

Scope of responsibility

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the operation of the Olympic Lottery Distribution Fund (OLDF), whilst safeguarding OLDF 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 to the Olympic Lottery Distributor (OLD) under the Horserace Betting and Olympic Lottery Act 2004 covering a Statement of Financial Requirements (SFR). The SFR includes requirements that:

- i) the Accounting Officer of the OLD satisfies him/herself on an ongoing basis of the adequacy of the OLD's systems of internal control, as reflected in the annual Statement on Internal Control;
- ii) those systems of internal control are designed to identify risks and manage them to a reasonable level;
- iii) the Accounting Officer of the OLD seeks assurance at appropriate intervals that OLD's administrative and financial systems as a whole remain adequate for the purpose of discharging its Lottery distribution functions, and that he/she informs the Department if he/she has any reason to doubt that this is the case;
- iv) the OLD has 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 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 meets its obligations under the licence, including financial obligations to the OLDF. The Lottery operator, Camelot, notifies the Department of the amounts due to be paid to the OLDF. 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 OLDF 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.

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 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

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 OLDF 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.

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.

8. Risk Management features in departmental training courses as appropriate 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

9. The OLDF has a risk register which is subject to regular review by the DCMS Head of National Lottery Distribution and Communities Division (NLDCD) 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. 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.

10. The NLDCD co-ordinates the Department's annual Lottery Assurance Review. The Department derives assurance primarily from the Statement on Internal Control (SIC) submitted by the OLD. The NLDCD reviews the SIC with Finance and Planning Division, and the OLD's sponsoring division, contributing additional information and comments as appropriate. The Internal Audit Unit monitors and audits this process.

Review of Effectiveness

11. 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 OLDF 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.

12. 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, 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

I certify that I have audited the financial statements of the Olympic Lottery Distribution Fund for the year ended 31 March 2007 under the Horserace Betting and Olympic Lottery Act 2004. 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 6, 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 Horserace Betting and Olympic Lottery Act 2004 and Treasury directions made thereunder. The Secretary of State has delegated to the Accounting Officer responsibility for the preparation of the Annual Report, 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 Horserace Betting and Olympic Lottery Act 2004 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 10 to 12 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 Olympic Lottery Distribution Fund, mentioned on page 9, 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 Horserace Betting and Olympic Lottery Act 2004 and directions made thereunder by Treasury, of the state of the Olympic Lottery Distribution Fund's affairs as at 31 March 2007 and of the increase in funds available and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Horserace Betting and Olympic Lottery Act 2004 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 |
|--|------|-----------------|-----------------|
| <i>Income</i> | | | |
| National Lottery | 2 | 113,323 | 16,354 |
| Investment Income | 3 | 2,436 | 171 |
| Total Income | | 115,759 | 16,525 |
| <i>Less: Operational Costs</i> | | | |
| Department for Culture, Media and Sport | 4 | 58 | 39 |
| National Lottery Commission Grant in Aid | 5 | 700 | – |
| Other Expenses | 6 | 49 | – |
| | | (807) | (39) |
| Net Realised Income for Distribution | | 114,952 | 16,486 |
| Amounts authorised for payment to the Distributing Body | | (55,713) | (33) |
| Increase/(decrease) in Amounts Held for Distributing Body | | 59,239 | 16,453 |
| Balance brought forward | | 16,453 | – |
| | | 75,692 | 16,453 |

All transactions are in respect of continuing operations.

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

The notes on pages 18 to 24 form an integral part of these accounts.

Balance Sheet as at 31 March 2007

| | Note | 2007 £000 | 2006 £000 |
|--|-------------|----------------------------|---------------|
| <i>Current Assets</i> | | | |
| Debtors | 7 | 3,005 | 811 |
| Investments held by CRND | 8 | 73,317 | 15,681 |
| Cash at Bank and in Hand | | <u>76,322</u> | <u>16,492</u> |
| Creditors: Amounts falling due within one year | 8 | <u>(630)</u> | <u>(39)</u> |
| Net Current Assets | 8 | <u>75,692</u> | <u>16,453</u> |
| <i>Represented by:</i> | | | |
| Amounts held for the Distributing Body | 8 | <u>75,692</u> | <u>16,453</u> |

Signed:

7 December 2007

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

The notes on pages 18 to 24 form an integral part of these accounts.

Cash Flow Statement for the Year Ended 31 March 2007

| Operating Activities | Note | 2006-07 £000 | 2005-06 £000 |
|--|-------------|------------------------|------------------------|
| Cash received from Lottery operator | | 111,130 | 15,543 |
| Cash paid for operating expenses | | (215) | 0 |
| Cash paid to Distributing Body | | (55,713) | (33) |
| Net cash inflow from operating activities | 9 | 55,202 | 15,510 |
| Management of liquid resources | | | |
| Cash Paid to CRND for Investment | | (110,915) | (15,543) |
| Cash received from CRND for distribution | | 55,713 | 33 |
| Net cash outflow from management of liquid resources | | (55,202) | (15,510) |
| Change in cash | | – | – |

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 18 to 24 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. 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.

Nature of Account Balances

Balances held in the OLDF remain under the stewardship of the Secretary of State for Culture, Media and Sport. The amount attributable to the 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 the body in respect of current and future commitments.

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.

Recognition of Lottery Income

Proceeds from the Lottery due to the OLDF 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 OLDF each week on the basis of actual sales and prizes. The amounts recognised in these accounts for the Lottery Primary Contribution include income receivable draws up to and including 31 March 2007.

The Lottery Primary Contribution also includes income due to the OLDF from the sale of Scratchcards. Under the terms of the licence, income is collected by Camelot and paid to the OLDF 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 OLDF. Accruals have been made for prizes expiring on or before 31 March but not paid to OLDF at this date.

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 OLDF. The NLC will only permit these promotions if they are satisfied that they are likely to increase proceeds for lottery good causes over a longer period.

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

Recognition of Amounts Drawn by Distributor

The amounts recorded as drawn down by the Distributing Body represent the actual cash claims made by the Olympic Lottery Distributor.

Investments

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

2. Income from Lottery Activities

| | 2006-07 | 2005-06 |
|--|-----------------------|---------------|
| | £000 | £000 |
| Basic Contribution from Lottery Operator under licence | 111,339 | 16,333 |
| Less adjustments relating to previous years : | | |
| Overpayments of primary contribution | - | - |
| National Lottery Promotion Unit | (30) | - |
| New Media Sales | (19) | - |
| Primary Contribution (see note (a) below) | 111,290 | 16,333 |
| Unclaimed Prizes | 1,835 | |
| Interest on Players Trust Fund | 186 | 18 |
| Penalties on lost and stolen tickets | 12 | |
| Income from Ancillary Activities | - | 3 |
| | <u>113,323</u> | <u>16,354</u> |

- 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 proceeds held for the Distributing Body and consequently its accounts, the adjustments are reflected in the following year's accounts. The equivalent total adjustment relating to the OLDF for activity in 2006-07 (which will be taken from 2007-08 income) is estimated to be £473,000. Of this, £386,000 is in respect of New Media (Interactive) sales, and £97,000 is to recover the OLDF's share of the combined NLDF/OLDF 50% contribution to the actual spend of the National Lottery Promotions Unit (NLPU).

3. Investment income

| | 2006-07 | 2005-06 |
|----------------------------------|---------------------|----------------|
| | £000 | £000 |
| Interest Received on investments | <u>2,436</u> | <u>171</u> |

The OLDF's investment objective is to protect the Fund's capital and to provide for the Olympic Lottery Distributor's liquidity needs.

During the period of these accounts, the entire balance has been held as short term deposits rather than invested in gilts. There are therefore no profits/losses on sales of investments and no revaluation gains/losses.

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

| | 2006-07 | 2005-06 |
|------------------------------------|------------------|------------------|
| | £000 | £000 |
| Staff Costs | 23 | 11 |
| Accommodation and Central Services | 6 | 2 |
| IT, Consultancy, and Training | 3 | 3 |
| Charge for the use of DCMS assets | 3 | 1 |
| External Auditor's remuneration | 22 | 22 |
| Bank of England charges | 1 | 0 |
| | <u>58</u> | <u>39</u> |

The external auditor's remuneration for the year was £22,250; the prior year fee was £21,600.

In 2006-07 six members of DCMS Finance Division and National Lottery Division were engaged on OLDF matters. Their staff costs are charged to the OLDF in proportion to the amount of time they spend on OLDF duties.

A share of the accommodation costs of the building occupied by DCMS has been charged to the OLDF, on the basis of the floor area occupied by DCMS staff engaged on OLDF 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 OLDF 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 OLDF games was received by DCMS.

| | 2006-07 | 2005-06 |
|-------------------------------------|-------------------|-----------------|
| | £000 | £000 |
| Gross share of costs | 740 | – |
| Lottery Operator licence fee Income | (40) | – |
| Amount payable to DCMS | <u>700</u> | <u>–</u> |

The total Grant in Aid paid to the National Lottery Commission in 2006-07 was £9,200,000, with a total of £80,000 received in Operator licence fee income. The split between the NLDF and the OLFDF is as follows:

| | NLDF £000 | OLFDF £000 | Total £000 |
|-------------------------------------|----------------------|-----------------------|-----------------------|
| 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 re NLDF | (373) | – | (373) |
| Amount recoverable by DCMS | <u>8,047</u> | <u>700</u> | <u>8,747</u> |

In 2005-06, no apportionment of licence fee income was made between the two funds, but direct regulation costs of OLFDF games were met from new licence fees granted in the year at no net cost to the NLDF.

6. Other expenses:

| | 2006-07 £000 | 2005-06 £000 |
|--|-------------------------|-------------------------|
| Commissioners for the Reduction of the National Debt | 49 | – |

No amounts were charged by the CRND for Management of the OLFDF Investment Fund Account during 05-06, due to the low expense incurred by them.

7. Debtors:

| | 2006-07 £000 | 2005-06 £000 |
|--|-------------------------|-------------------------|
| Ticket sales income due as a result of draws prior to year end | 3,005 | 811 |

8. Balance on Olympic Lottery Distribution Fund

| | at 31 March 2007 | | at 31 March 2006 | |
|------------------------------|-------------------------|----------------------|-------------------------|---------------------|
| | Cost | Market Value | Cost | Market Value |
| | £000 | £000 | £000 | £000 |
| Investments held by the CRND | 73,317 | 73,317 | 15,628 | 15,681 |
| Debtors (note 7) | 3,005 | 3,005 | 811 | 811 |
| Creditors | (630) | (630) | (39) | (39) |
| Balance held | <u>75,692</u> | <u>75,692</u> | <u>16,400</u> | <u>16,453</u> |

Creditors are in respect of £573,000 accruals for DCMS recharges for NLC costs, £35,000 for DCMS operating costs and £22,000 for the NAO audit fees.

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.

During the period, all investments held by CRND on behalf of the OLDF – other than a small Ways and Means cash balance – were held as Call Notice Deposits. Funds held by CRND in these asset classes 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 Increase in Amounts Held for Distributing Body as disclosed in Income and Expenditure Account with Net Cash Inflow from Operating Activities.

| | 2006-07 | 2005-06 |
|---|----------------|---------|
| | £000 | £000 |
| Increase in Amounts Held for Distributing Body | 59,239 | 16,453 |
| Less Investment Income | (2,436) | (171) |
| | 56,803 | 16,282 |
| (Increase)/Decrease in Lottery operator debtor | (2,194) | (811) |
| Increase in creditor for reimbursement of NLC costs | 573 | – |
| Increase in creditors for operating expenses | 20 | 39 |
| Net cash inflow from operating activities | 55,202 | 15,510 |

It is the policy of the OLDF to hold a nil cash balance whenever possible and to transfer all funds to the CRND for investment on the day of receipt.

10. Grant Commitments of the Olympic Lottery Distributor

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.

At 31 March 2007, the Olympic Lottery Distributor had hard grant commitments of £99,136,000 compared to the balance held in the OLDF of £75,692,000. As a result the OLDF was overcommitted by £23,444,000. These commitments are expected to be funded by lottery proceeds in 2007-08.

The OLD had no soft commitments.

11. Financial Instruments

Accounting Standard FRS 13 – Derivatives and Other Financial Instruments, requires that the OLDF discloses the effect that financial instruments have had during the period in creating or changing the risks it faces in undertaking its role.

The investment strategy for the OLDF seeks to balance liquidity risks and interest rate risks over the life of the Olympics project. The investment strategy for the fund is informed by the Department's review of the Olympic Lottery Distributor's forward commitment profile.

During the period of these accounts, the funds invested by CRND have been wholly in cash instruments, primarily to avoid liquidity risks as the OLD was expected to need to make payments to the Olympic Delivery Authority shortly after the year end.

Liquidity Risks

The OLDF receives its income from the National Lottery and from returns accruing on funds, which have not been drawn down by the Olympic Lottery Distributor. The income into the OLDF is available to the Distributing Body for drawdown to pay grant commitments, less any operating expenses. The Distributing Body can only draw down funds available in the OLDF. As a result of the decision to hold all funds as cash instruments, there are considered to be no significant liquidity risks.

Interest Rate Risks

The Financial assets of the OLDF 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 OLDF. The average return on the investments in the financial year was 4.5114%. The OLDF does not consider itself to be exposed to any significant interest rate risks.

Foreign Currency Risks

The OLDF is not exposed to any foreign exchange risks.

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.

12. Related Party Transactions

The OLDF 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 OLDF 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 Olympic Lottery Distributor (OLD) and the Olympic Delivery Authority which is the principal recipient of funding from OLD.

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

13. Post Balance Sheet Events

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

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.



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