

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)

National Lottery Distribution Fund Account 2007-08

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2008

Ordered by The House of Commons to be printed 25 November 2008

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Management Commentary

The 2007-08 financial statements

This is the fourteenth 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.1173.

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. In 2007 Camelot successfully bid for the 3rd Lottery Licence that runs for ten years, with the possibility of an extension for a further five, from 1 February 2009.

The principal categories of income into the NLDF for the period to 31 March 2008 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 27. The range of good causes in receipt of Lottery funds has widened over the 13 years since the start of the lottery. When the Lottery was set up five good causes were identified:

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

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

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

Until 31 March 2007, interest received on the investments was allocated to the Distributing Bodies in proportion to the share of the balance on the Fund held by each body. The 2006 Act altered the allocation so that from 1 April 2007 it would be divided between distributors in the same fixed proportions as operator-related income to the NLDF.

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

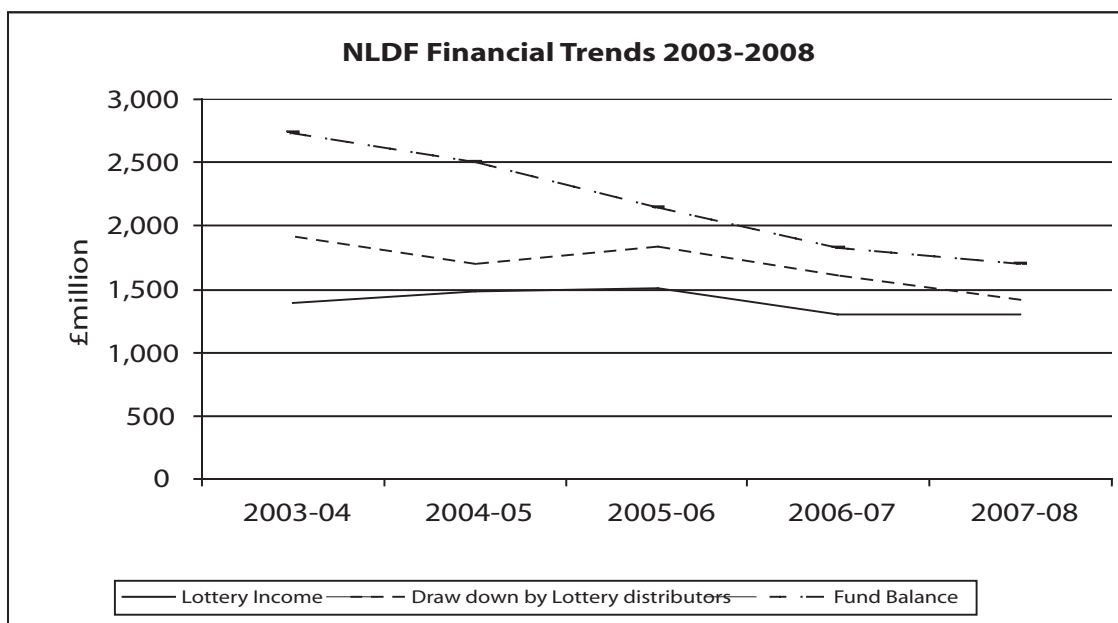
Financial Commentary

By 31 March 2008, some £21 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 2007-08. These figures include investment returns on the unused balances. £1.4 billion was drawn down during the year to be passed to the good causes.

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

	2003-04	2004-05	2005-06	2006-07	2007-08
Income	1,394	1,475	1,500	1,296	1,312
Draw down by Lottery distributors	1,910	1,704	1,844	1,612	1,420
Fund Balance	2,736	2,502	2,150	1,825	1,708

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 £1.7bn



The balance on the Fund at 31 March 2008 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 £10.2m for the year. The table below provides a breakdown of costs. The NLC's 2007-08 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.

	2003-04	2004-05	2005-06	2006-07	2007-08
	£m	£m	£m	£m	£m
DCMS	0.2	0.2	0.2	0.3	0.2
National Lottery Commission	3.8	4.4	7.9	8.0	9.8
CRND	0.2	0.2	0.2	0.1	0.1

London Olympic and Paralympic Games 2012

In February 2008 a statutory Instrument (SI 2008 No.255 The payments into the Olympic Lottery Distribution Fund etc.) was passed which allowed for the transfer of up to £1,085m of future lottery income from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund in order to meet some of the costs of hosting the 2012 games. The transfer is in addition to £750 to be raised through dedicated Olympic lottery games and comprises £410 million as originally envisaged when the Government decided to support London's Olympic bid in 2003, and a further £675million arising from the establishment of the final public sector funding budget of £9.325 billion, announced by the Minister for the Olympics in March 2007. The Payments into the Olympic Lottery Distribution Fund etc. Order 2008 made on 2 February 2008, enables £1,085m to be transferred on thirteen instalments of £73m each followed by two instalments of £68m each. The first transfer may be made on or after 1 February 2009, the last on or after 1 August 2012.

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.

The support the Big Lottery Fund gives 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.

The first transfer of funds is expected to take place on or after 1 February 2009.

International Financial Reporting Standards (IFRS)

The 2007 Budget announced that, from 2008-09, the accounts of central government departments and entities in the wider public sector will be produced using IFRS as interpreted for the public sector. This was subsequently amended (on 12 March 2008) by a letter from HM Treasury stating that, on practical grounds, the move has been postponed until 2009-10.

The March 2008 letter added further obligations prior to the move, which are:

- financial instrument standards will be implemented from 2008-09. The UK Generally Accepted Accounting Practices (GAAP) framework is similar to IFRS for these standards, so this approach is expected by the Treasury to ease the move to IFRS in 2009-10;
- all departments, and those NDPBs that do not have charitable status and are not incorporated companies, will prepare shadow IFRS-based accounts in 2008-09. The deadline for this has been extended to 31 December 2009 and requires review by the National Audit Office; and
- any necessary changes to the budgets required as a result of the switch to IFRS will be made in the 2009 Winter Supplementary Estimates.

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

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 (or to meet administrative expenses). The Department distributes funds to the bodies on request and accounts to Parliament for the flow of funds.

The Statement of Financial Requirements (SFR) for each distributor establishes a financial framework within which their lottery distribution activities are to be conducted. Individual distributors are sponsored either by DCMS or by one of the devolved administrations (DAs) in Scotland, Wales or Northern Ireland. The SFR is issued by the Secretary of State or by Ministers in the DA. SFRs issued by a DA Minister, require the consent of DCMS. SFRs issued by DCMS to distributors with responsibilities covering Scotland, Wales or Northern Ireland require the DA Ministers' consent.

As the Accounting Officer of the NLDF, I seek annual assurances from the Accounting Officer of each lottery distributor that they have in place adequate systems of internal control for the efficient, effective and equitable distribution of Lottery monies. In particular, I expect distributing bodies' Accounting Officers to satisfy themselves on an annual basis that the body has complied with its current Lottery financial directions; has adequate internal and external audit arrangements in place; has adequate arrangements for detecting and responding to inefficiency, conflict of interest and fraud and for minimising losses of Lottery grant, and maintains risk assessment and control procedures and risk registers.

I obtain independent confirmation of the reliability of the assurances provided by each Accounting Officer on the adequacy of their systems from the work of my Department's sponsor branches, from liaison with sponsors in the relevant devolved administrations, and from the Department's Internal Audit Unit.

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.

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

12 November 2008

Remuneration Report

REMUNERATION POLICY

Administration of the National Lottery Distribution Fund (NLDF) is undertaken on a part-time basis by a small number of officials in the Department for Culture, Media and Sport (DCMS), whose costs are reimbursed by the NLDF. DCMS does not recharge the NLDF for the remuneration costs of Departmental Ministers or the DCMS Board.

Management and control of the NLDF is vested in the Secretary of State for Culture, Media and Sport. Remuneration information for DCMS Ministers and Board may be found in the Remuneration Report of the DCMS Resource Accounts 2007-08 [HC793] which has been subject to audit, and is available on the DCMS website at www.culture.gov.uk.

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

Rt Hon Andy Burnham MP	Secretary of State (from 24 January 2008)
Rt Hon James Purnell MP	Secretary of State (from 28 June 2007 to 24 January 2008)
Rt Hon Tessa Jowell MP	Secretary of State (to 28 June 2007)
David Lammy MP	Minister for Culture (to 28 June 2007)
Shaun Woodward MP	Minister for Creative Industries and Tourism (to 28 June 2007)
Rt Hon Margaret Hodge MBE	Minister of State for Culture, Creative Industries and Tourism (from 2 July 2007)
Rt Hon Richard Caborn MP	Minister of State for Sport (to 28 June 2007)
Gerry Sutcliffe	Parliamentary Under Secretary of State for Sport (From 2 July 2007)

Rt Hon Tessa Jowell MP ceased to be Secretary of State for Culture Media and Sport in June 2007, when she was appointed Minister for the Olympics and London in the Cabinet Office, reporting directly to the Prime Minister. Her remuneration is disclosed in the Cabinet Office resource accounts.

The Permanent Secretary and members of the DCMS Board during 2007-08 were:

Until 4 June 2007:

Jonathan Stephens	Permanent Secretary
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

From 4 June 2007 onwards:

Jonathan Stephens	Permanent Secretary
Nicholas Holgate	Chief Operating Officer
Andrew Ramsay	Director General (Culture, Creativity & Economy)
Jeremy Beeton	Director General, Government Olympic Executive (From August 2007)
Parminder Vir	Non-Executive Member
Clive Elphick	Non-Executive Member (appointment expired 31 December 2007)
Liz Forgan	Non-Executive Member (appointed 1 September 2007)
Darra Singh	Non-Executive Member (appointed 1 September 2007)

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

12 November 2008

Statement of Responsibilities of Secretary of State, Accounting Officer and the National Lottery Commission

Under section 33(1) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998), the Secretary of State for Culture, Media and Sport is required to prepare a statement of accounts for each financial year in the form and on the basis directed by the Treasury. A copy of the Accounts Direction may be obtained from the Finance & 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 the *"Financial Reporting Manual"*.

The Permanent Secretary's responsibilities over the NLDF extend to the receipt of Lottery revenues from Camelot Group plc, their placement with the CRND and disbursements to the lottery distributing bodies. The National Lottery Commission is responsible, using the powers set out in the National Lottery etc. Act 1993, as amended by the National Lottery Act 1998, and in the licence granted to Camelot Group plc under section 5 of the 1993 Act, for ensuring that Camelot Group plc meet their obligations under the licence, including their financial obligations to the National Lottery Distribution Fund. The Permanent Secretary has no locus in operational matters related to the licence.

The Department is notified of amounts due to be paid to the NLDF by Camelot; this is overseen by the National Lottery Commission. The Commissioners are also required to report after the end of each financial year to the Secretary of State on the exercise of their functions during the year. The Accounting Officer of the Commission has provided me with a Statement of Assurance and in this he outlines the compliance work undertaken at Camelot Group plc during the year ended 31 March 2008 which has led him to be satisfied that the payments to the NLDF during the year to 31 March 2008 are complete and accurate in all material respects.

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

12 November 2008

Statement on Internal Control

Scope of responsibility

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the operation of the National Lottery Distribution Fund (NLDF), whilst safeguarding NLDF funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

2. Financial Directions have been given by the Secretary of State (or by Ministers in Scotland, Wales and Northern Ireland with the Secretary of State's consent) under the National Lottery etc. Act 1993 (as amended) to Lottery Distribution Bodies (LDBs) covering a Statement of Financial Requirements (SFR). The SFR includes requirements that:

- i) the Accounting Officers of the LDBs satisfy themselves on an ongoing basis of the adequacy of their bodies' systems of internal control, as reflected in their annual Statements on Internal Control;
- ii) those systems of internal control are designed to identify risks and manage them to a reasonable level;
- iii) the Accounting Officers of the LDBs seek assurance at appropriate intervals that their bodies' administrative and financial systems as a whole remain adequate for the purpose of discharging its Lottery distribution functions, and that they inform the Department if they have any reason to doubt that this is the case;

iv) the LDBs have regard to value for money in their administration of Lottery funds.

3. The National Lottery Commission is responsible, using the powers set out in the National Lottery etc Act 1993 as amended, and the licence granted to Camelot Group plc under section 5 of that Act, for ensuring that Camelot meets its obligations under the licence, including financial obligations to the NLDF. Camelot, as Lottery operator, notifies the Department of the amounts due to be paid to the NLDF. The Commission reviews the notifications and checks that the payments made are in accordance with the licence conditions. The Accounting Officer of the Commission provides me with a statement of assurance in which the compliance work undertaken at Camelot Group plc during the year is outlined and which provides confirmation that the payments to the NLDF during the year are complete and accurate in all material respects. The Commission publishes an Annual Report at the end of each financial year, which fulfils its requirement to report to the Secretary of State on the exercise of its functions during that year.

The purpose of the system of internal control

4. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve the Fund's purposes; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the Fund, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

Capacity to handle risk

5. As Accounting Officer I acknowledge my overall responsibility for ensuring the Department is committed to high standards of corporate governance, including the effective management of risk throughout the Department.

6. The NLDF follows the DCMS risk management policy and process, as agreed by the DCMS Board. The policy is subject to regular review to ensure it reflects best risk management practice. It defines what is meant by risk and risk management, outlines the key principles underpinning the Department's approach to risk management, and identifies the DCMS Board's agreed risk appetite, the risk management process and the roles and responsibilities of staff. Both the Policy and Risk Management Guidance are available on the Department's intranet.

7. The Department has a Risk Improvement Manager and seeks to learn from good practice via the Risk Improvement Manager network and Internal Audit contacts in other bodies, results of Internal Audit reports and discussions with our many NDPBs.
8. Risk management features in departmental training courses. One-to-one training sessions on risk and assurance were available to new senior members of staff prior to the year-end assurance and risk reporting process.

The risk and control framework

9. The NLDF has a risk register that is subject to regular review by the DCMS Deputy Director of Lottery, Communities and International Division (LCID) and the Head of Financial Management and 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.
10. 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. Internal Audit monitors and audits this process.
11. As from financial year 2008-09, information risk will feature more explicitly in all the risk and assurance processes. Work to prepare for this has started with the nomination of a lead officer and the formation of a working group to look at the adequacy of the current processes and policies and to adapt these as appropriate for the new requirements.

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 comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee, and a plan to address any weaknesses and ensure continuous improvement of the system is in place.
13. The key elements of the system of internal control are set out above and contribute to my review of the system's effectiveness. Following the Capability Review published in March 2007 a transformation programme was initiated, including the introduction of a new governance structure. As a result, the following bodies now also inform my view:

DCMS Board (the Department's Directors General, three non-executive members and I) meets regularly to set the Department's long term strategy, direction and priorities.

The Executive Leadership Team, comprising the executive members of the Board and DCMS's Directors, considers and agrees corporate approaches to immediate risks, issues and problem areas as well as responding to issues with cross-cutting impact on the Department.

The DCMS Audit Committee comprises a non-executive chairman and three other non-executive members, with others in attendance including the Chief Operating Officer, National Audit Office Directors and the Head of Internal Audit. The Committee meets four times a year and supports me in my responsibilities for risk management, control and governance. The chairman sits on the Board who take decisions based on the advice received.

The Internal Audit Unit operates to Government Internal Audit Standards, and is provided by the Department for Communities and Local Government. The Unit submits regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the arrangements for risk management, control and governance, together with recommendations for improvement.

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

12 November 2008

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the National Lottery Distribution Fund for the year ended 31 March 2008 under the National Lottery etc. Act 1993. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

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

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

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

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

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

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

Basis of audit opinions

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Lottery etc Act 1993 and directions made thereunder by Treasury, of the state of the National Lottery Distribution Fund's affairs as at 31 March 2008 and of the decrease in funds available for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Lottery etc Act 1993 and Treasury directions made thereunder; and
- information, which comprises the management commentary, the unaudited part of the remuneration report, and the Statement of Responsibilities of the Secretary of State, Accounting Officer and the National Lottery Commission, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General

November 2008

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

Income and Expenditure Account for the Year Ended 31 March 2008

	Note	2007-08 £000	2006-07 £000
Income			
National Lottery	2	1,212,558	1,214,651
Investment Income	3a	92,806	103,373
Net (loss) on Sale of Investments	3b	(18,605)	(14,697)
Revaluation gain/(loss) on investments	3c	25,663	(7,595)
Total Income		1,312,422	1,295,732
Less: Operational Costs			
Department for Culture, Media and Sport	4	210	267
National Lottery Commission	5	9,848	8,047
Other Expenses	6	117	144
		(10,175)	(8,458)
Net Realised Income for Distribution			
Amounts Drawn Down by Distributing Bodies	10	(1,419,910)	(1,611,935)
Increase/(decrease) in Amounts Held for Distributing Bodies			
Balance brought forward		1,825,290	2,149,951
		1,707,627	1,825,290

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 19 to 28 form an integral part of these accounts.

Balance Sheet as at 31 March 2008

	Note	2007-08 £000	2006-07 £000
Current Assets			
Debtors	7	30,881	21,571
Investments held by CRND	8	1,676,792	1,803,790
Cash at Bank and in Hand		–	–
		<u>1,707,673</u>	<u>1,825,361</u>
Creditors: Amounts falling due within one year	8	(46)	(71)
Net Current Assets		<u>1,707,627</u>	<u>1,825,290</u>
Represented by:			
Amounts held for Distributing Bodies	10	<u>1,707,627</u>	<u>1,825,290</u>

The notes on pages 19 to 28 form an integral part of these accounts.

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

12 November 2008

Cash Flow Statement for Year Ended 31 March 2008

	Note	2007-08 £000	2006-07 £000
Operating Activities			
Cash received from Lottery operator		1,202,675	1,214,127
Cash paid for operating expenses		(9,627)	(9,030)
Cash paid to Distributing Bodies	10	(1,419,910)	(1,611,935)
Net cash (outflow) from operating activities	9	(226,862)	(406,838)
Management of liquid resources			
Cash Paid to CRND for Investment		(1,193,048)	(1,205,097)
Cash received from CRND for distribution	10	1,419,910	1,611,935
Net cash inflow from management of liquid resources		226,862	406,838
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 19 to 28 form an integral part of these accounts.

Notes to the Financial Statements

1 Statement of Accounting Policies

Basis of Accounting

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

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

Nature of Account Balances

Balances held in the NLDF remain under the stewardship of the Secretary of State for Culture, Media and Sport. The share of the Fund attributable to each Distributing Body at the balance sheet date and shown in these accounts has been certified by the Secretary of State for Culture, Media and Sport as being available for distribution by each body in respect of current and future commitments.

Recognition of Lottery Income

Proceeds from the Lottery due to the NLDF from the operator, Camelot Group plc, are calculated on an annual basis as set out in the Section 5 Licence. Payments are made to the NLDF each week on the basis of actual sales and prizes. The amounts recognised in these accounts for the Lottery Primary Contribution include income receivable on ticket sales from 1 April 2007 in respect of all draws within the year up to and including 31 March 2008.

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.

Transfer of funds to the Olympic Lottery Distribution Fund

In February 2008 a statutory Instrument (SI 2008 No.255 The payments into the Olympic Lottery Distribution Fund etc.) was passed which allowed for the transfer of up to £1,085m of future lottery income from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund in order to meet some of the costs of hosting the 2012 games. It is expected that there will be thirteen instalments of £73m each followed by two instalments of £68m each.

These transfers are to be made when the irrevocable Statutory Instrument is approved by Parliament. The first transfer may be made on or after 1 February 2009, the last on or after 1 August 2012.

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

	2007-08	2006-07
	£000	£000
Basic Contribution from Lottery Operator under licence	1,123,766	1,130,927
Less adjustments relating to previous years :		
Overpayments of primary contribution	-	(3,099)
National Lottery Promotion Unit	(3,914)	(1,512)
New Media Sales	(988)	(2,470)
Primary Contribution (see note a below)	1,118,864	1,123,846
Unclaimed Prizes	83,155	85,767
Interest on Players Trust Fund	10,390	4,677
Income from penalties and charges imposed by NLC on lottery operator, couriers and retailers	96	162
Income from Ancillary Activities	53	199
	1,212,558	1,214,651

- 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 OLF in proportion to ticket sales, are made after the year end. Due to the effect they would have on the share of proceeds to each of the Distributing Bodies and consequently their accounts, the adjustments are reflected in the following year's accounts. The equivalent total adjustment relating to the NLDF for activity in 2007-08 (which will be taken from 2008-09 income) is estimated to be £4,456,000 in respect of New Media (Interactive) sales.

3 Investment income

	2007-08	2006-07
	£000	£000
3a Investment Income		
Interest Received on investments	92,806	103,373
3b Net Loss on sale of investments		
Profits on sales of investments	-	2,076
(Losses) on sales of investments	(18,605)	(16,773)
	(18,605)	(14,697)

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 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.

3b Net Loss on sale of investments (continued)

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

	2007-08	2006-07
	£000	£000
Unrealised gain/(loss)	3,757	(21,906)
Amount brought forward and recognised in year	21,906	14,311
	25,663	(7,595)

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

	2007-08	2006-07
	£000	£000
Staff Costs	109	137
Advertising costs of NLC chair	–	27
Accommodation and Central Services	34	37
IT, Consultancy, and Training	20	24
Charge for the use of DCMS assets	19	17
External Auditor's Remuneration	24	22
Bank of England charges	4	3
	210	267

The External Auditor's remuneration for the year was £23,500 (£22,250 in 2006-07).

In 2007-08 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 licence fee income received by NLC and surrendered to DCMS in appropriations-in-aid.

The licence fee income is the sum of payments made by the lottery operator, Camelot, for each new Section 6 licence granted for new lottery games. In 2007-08, licence fee income of £40,000 relating to new NLDF games was received by DCMS.

5 Reconciliation of National Lottery Commission Operational Costs (continued)

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.

	2007-08	2006-07
	£000	£000
Gross share of costs	9,888	8,460
Lottery Operator licence fee income	(40)	(40)
Less adjustment for overpaid amount in 2004-05	–	(373)
Amount payable to DCMS	9,848	8,047

The total Grant in Aid budget was £14,001,000 and the total paid to the National Lottery Commission was £10,341,168; with a total of £60,000 received by DCMS in Operator licence fee income. The split between the NLDF and the OLF is as follows:

	NLDF	OLF	Total
	£000	£000	£000
Grant in Aid paid to NLC by DCMS	9,888	453	10,341
Lottery Operator licence fee income	(40)	(20)	(60)
Amount recoverable by DCMS	9,848	433	10,281

6 Other expenses:

	2007-08	2006-07
	£000	£000
Commissioners for the Reduction of the National Debt	117	144

The amount paid to the CRND is for management of the NLDF Investment Fund Account.

7 Debtors and prepayments:

	2007-08	2006-07
	£000	£000
Ticket sales income due as a result of draws prior to year end	30,881	20,998
Prepayment for National Lottery Commission costs	–	573
	30,881	21,571
Intra-government balances		
Other central government bodies	–	573
Balances with bodies external to government	30,881	20,998
	30,881	21,571

8 Balance on National Lottery Distribution Fund

	at 31 March 2008		at 31 March 2007	
	Cost £000	Market Value £000	Cost £000	Market Value £000
Investments held by the CRND	1,673,036	1,676,792	1,825,696	1,803,790
Debtors (note 7)	30,881	30,881	21,571	21,571
Creditors	(46)	(46)	(71)	(71)
Balance held	<u>1,703,871</u>	<u>1,707,627</u>	<u>1,847,196</u>	<u>1,825,290</u>
Creditors: Intra-government balances				
Other central government bodies	<u>(46)</u>	<u>(46)</u>	<u>(71)</u>	<u>(71)</u>

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 2008 is shown below.

	Market Value £000
Cash held in CRND Ways and Means Account ⁽¹⁾	1
Call Notice Deposits ⁽¹⁾	866,012
Fixed Deposits	430,685
Subtotal – “Cash Funds”	<u>1,296,698</u>
4% Treasury 2009	218,483
5¾ % Treasury 2009	161,611
Subtotal – Gilts	<u>380,094</u>
Total balance invested with CRND	<u>1,676,792</u>

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

Funds held by CRND in Ways and Means and Call Notice Deposits would meet the definition of cash under FRS1 if they were held directly under the control of the Secretary of State as they are repayable on demand within one working day.

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

	2007-08 £000	2006-07 £000
Decrease in Amounts Held for Distributing Bodies	(117,663)	(324,661)
Less Investment Income	(92,806)	(103,373)
Add Loss on Sale of Investments	18,605	14,697
Add Impairment loss/(gain) on revaluation of investments	(25,663)	7,595
	<u>(217,527)</u>	<u>(405,742)</u>
(Increase)/Decrease in Lottery operator debtor	(9,883)	(524)
(Increase)/Decrease in prepayment to DCMS for reimbursement of NLC costs	573	(573)
Increase/(Decrease) in creditors for operating expenses	(25)	1
Net cash outflow from operating activities	<u>(226,862)</u>	<u>(406,838)</u>

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 31 March 2008

BENEFICIARY SECTORS	Arts £000	Sports £000	National Heritage Memorial Fund £000	Big Lottery Fund £000	TOTAL £000		
National Lottery proceeds							
Share of income from Lottery	202,093	202,093	202,094	606,278	1,212,558		
LESS Share of Operational Costs	(1,696)	(1,696)	(1,696)	(5,087)	(10,175)		
	<u>200,397</u>	<u>200,397</u>	<u>200,398</u>	<u>601,191</u>	<u>1,202,383</u>		
Amount authorised for payment to DB's	(223,645)	(216,111)	(309,868)	(670,286)	(1,419,910)		
Investment Income	<u>16,643</u>	<u>16,643</u>	<u>16,645</u>	<u>49,933</u>	<u>99,864</u>		
Increase/(Decrease) in balance available	(6,605)	929	(92,825)	(19,162)	(117,663)		
Market Value at 1 April 2007	<u>270,339</u>	<u>297,645</u>	<u>660,257</u>	<u>597,049</u>	<u>1,825,290</u>		
Market value at 31 March 2008	<u>263,734</u>	<u>298,574</u>	<u>567,432</u>	<u>577,887</u>	<u>1,707,627</u>		
Cost at 31 March 2008	263,154	297,918	566,179	576,605	1,703,856		
ARTS BODIES	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	SUBTOTAL ARTS £000
National Lottery proceeds							
Share of income from Lottery	141,020	15,642	10,105	5,659	27,323	2,344	202,093
LESS Share of Operational Costs	(1,181)	(132)	(85)	(48)	(230)	(20)	(1,696)
	<u>139,839</u>	<u>15,510</u>	<u>10,020</u>	<u>5,611</u>	<u>27,093</u>	<u>2,324</u>	<u>200,397</u>
Amount authorised for payment to DB's	(151,310)	(20,376)	(15,940)	(10,808)	(22,696)	(2,515)	(223,645)
Investment Income	<u>11,611</u>	<u>1,289</u>	<u>829</u>	<u>470</u>	<u>2,251</u>	<u>193</u>	<u>16,643</u>
Increase in balance available	140	(3,577)	(5,091)	(4,727)	6,648	2	(6,605)
Market Value at 1 April 2007	<u>155,411</u>	<u>31,769</u>	<u>16,630</u>	<u>23,628</u>	<u>37,394</u>	<u>5,507</u>	<u>270,339</u>
Market value at 31 March 2008	<u>155,551</u>	<u>28,192</u>	<u>11,539</u>	<u>18,901</u>	<u>44,042</u>	<u>5,509</u>	<u>263,734</u>
Balance at cost at 31 March 2008	155,210	28,129	11,514	18,859	43,945	5,497	263,154

10 Reconciliation of Amounts Available to Distributing Bodies at 31 March 2008 (continued)

SPORTS BODIES	English Sports Council £000	Scottish Sports Council £000	Sports Council for Wales £000	Sports Council for N. Ireland £000	UK Sports Council £000	SUBTOTAL SPORTS £000
National Lottery proceeds						
Share of income from Lottery	125,298	16,370	9,094	5,254	46,077	202,093
LESS Share of Operational Costs	(1,051)	(138)	(76)	(44)	(387)	(1,696)
	<u>124,247</u>	<u>16,232</u>	<u>9,018</u>	<u>5,210</u>	<u>45,690</u>	<u>200,397</u>
Amount authorised for payment to DB's	(128,000)	(20,724)	(10,873)	(8,006)	(48,508)	(216,111)
Investment Income	<u>10,318</u>	<u>1,348</u>	<u>749</u>	<u>433</u>	<u>3,795</u>	<u>16,643</u>
Increase in balance available	<u>6,565</u>	<u>(3,144)</u>	<u>(1,106)</u>	<u>(2,363)</u>	<u>977</u>	<u>929</u>
Market Value at 1 April 2007	<u>195,392</u>	<u>51,317</u>	<u>10,562</u>	<u>23,231</u>	<u>17,143</u>	<u>297,645</u>
Market Value at 31 March 2008	<u>201,957</u>	<u>48,173</u>	<u>9,456</u>	<u>20,868</u>	<u>18,120</u>	<u>298,574</u>
Balance at cost at 31 March 2008	201,512	48,068	9,435	20,823	18,080	297,918

Some totals in this note may not agree precisely to figures shown elsewhere in the account due to the different rounding 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 31st March 2008 the distributors had committed £2.468billion against the balance held within the National Lottery Distribution Fund and expect that the respective grant awardees would draw down £1.206 billion of those funds within one year of the 31st March 2008 and the balance in the period after that date.

11 Distributing Bodies Grant Commitments (continued)

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.

	2008			2007
	Commitments falling due within one year	Commitments falling due in over one year	Total	Total
	£000	£000	£000	£000
Arts Council of England	73,188	89,453	162,641	202,406
Arts Council of Wales	8,826	3,318	12,144	16,419
Scottish Arts Council	15,212	327	15,539	19,442
Arts Council of Northern Ireland*	8,039	3,500	11,539	19,209
UK Film Council	15,047	3,269	18,316	20,857
Scottish Screen	2,575	–	2,575	2,591
Sport England	89,638	59,816	149,454	144,844
Sports Council for Northern Ireland*	5,013	3,868	8,881	15,168
Sport Scotland	6,448	2,066	8,514	16,686
Sports Council for Wales	6,165	19	6,184	11,174
UK Sport	44,364	2,558	46,922	74,765
Heritage Lottery Fund	290,347	370,020	660,367	679,416
Big Lottery Fund	640,926	724,468	1,365,394	894,898
	1,205,788	1,262,682	2,468,470	2,117,875
NLDF Balance Available			1,707,608	1,825,290
(Over committed)/Under committed Balance (see below)			(760,862)	(292,585)

At 31st March 2008, in addition to these hard commitments, the total level of 'soft'¹ and 'other'² commitments by all Distributors was around £622 m (£657m at March 2007).

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

² – The term 'other commitments' includes:

- Stage one approvals which are likely (but not certain) to go on to receive approval for funding at stage 2. Stage 1 approvals more likely to fail at stage 2 are excluded)
- Money set aside by a distributing body to fund a specific future project in advance of a formal decision being taken.

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 FRS 13, 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 2007/08, the Fund has gradually moved away from fixed interest securities (gilts) towards variable rate and fixed rate cash deposits, the aim being to achieve a smooth flow of investment income in the light of ongoing financial uncertainty.

12 Financial Instruments (continued)

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 6.0520%. 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.

A non-executive director of DCMS, Liz Forgan, is also a board member of the National Heritage Memorial Fund and the Heritage Lottery Fund.

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 31.11.06	1.12.06 to 31.03.08
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

14 Distributing Body share of Fund (continued)

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

Arts	14.10.97		15.2.99	17.05.99		01.10.99		07.04.00		01.04.07	
	To	to	to	to	to	to	to	to	to	to	
	13.10.97	14.02.99	16.05.99	30.09.99	06.04.00	31.03.07	31.03.08				
Arts Council of England	16.66	13.8833333	4.165	13.8833333	11.8500000	11.8500000	11.6300000				
Scottish Arts Council	1.78	1.4833333	0.445	1.4833333	1.4833333	1.2900000	1.2900000				
Arts Council for Wales	1.0	0.8333333	0.25	0.8333333	0.8333333	0.8333333	0.8333333				
Arts Council of Northern Ireland	0.56	0.4666667	0.14	0.4666667	0.4666667	0.4666667	0.4666667				
UK Film Council	-	-	-	-	2.0333333	2.0333333	2.2533333				
Scottish Screen	-	-	-	-	-	0.1933333	0.1933333				

Sports	To 14.10.97		15.02.99	17.05.99		01.07.99		01.04.06	
	13.10.97	to 14.02.99	to 16.05.99	to 30.06.99	to 31.03.06	to 31.03.06	to 31.03.08		
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

These accounts were authorised for issue by the Accounting Officer of the National Lottery Distribution Fund on 20 November 2008.



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