

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

National Lottery Distribution Fund Account 2005–06

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 29th JANUARY 2007

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Financial Statements for the year ending 31 March 2006

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Management Commentary

The 2005-06 financial statements

This is the twelfth set of accounts to be prepared for the National Lottery Distribution Fund. These financial statements account to Parliament for the receipt of Lottery income and its allocation and distribution to the distributing bodies. The income and expenditure account shows income from the Lottery and investments as well as the amounts drawn down and operating expenses for the year; the balance sheet shows the financial position at the year-end, and the cash flow statement shows the movement in cash over the year.

On 6 July 2005, London was chosen as the host city for the 2012 summer Olympic and Paralympic Games. National Lottery proceeds will provide up to £1,500m towards the public funding package for staging the 2012 Games. £750 million of this is expected to be raised by new Lottery games set up specifically for this purpose and apportioning a contribution from existing Lottery games. 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. *The Olympic Lotteries (Declaration that London is to host the 2012 Olympic Games) Order 2005* brought the relevant sections of the 2004 Act into force from 7 July 2005. The OLDF is the subject of a separate annual accounting process, and DCMS prepares a separate set of financial statements for the OLDF.

Where the money comes from

Camelot Group plc has held licences to operate the National Lottery since 1994; the current licence issued by the NLC runs until 31 January 2009. The principal categories of income into the NLDF for the period to 31 March 2006 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 on the Players Trust Fund, including the reclaim of tax deducted on interest received by the Players Trust Fund.

Where the money goes

The range of good causes in receipt of Lottery funds has widened over the past 12 years. 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, and between 1999 and 2000 the UK Sports Council, UK Film Council and Scottish Screen became new distributing bodies. In 2001 the Millennium Commission's share of National Lottery ticket sales income was transferred to the New Opportunities Fund. 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 32.

Interest received on the investments has been allocated to the fifteen Distributing Bodies in proportion to the share of the balance on the Fund held by each body. However, the National Lottery Act 2006, which received the Royal Assent on 11 July 2006, alters the allocation so that in future it will be divided between distributors in the same fixed proportions as operator-related income to the NLDF.

Financial Commentary

By 31 March 2006, more than £18.5 billion had been raised for good causes since the launch of the National Lottery, £1.5 billion of which was raised during 2005-06. These figures include investment returns on the unused balances. £1.8 billion was drawn down during the year to be passed to the good causes.

The trend over the last 5 years for Income and Fund balance is as follows (£m):

	2001-02	2002-03	2003-04	2004-05	2005-06
Lottery Income	1,842	1,592	1,394	1,475	1,500
Fund Balance	3,560	3,256	2,736	2,502	2,150

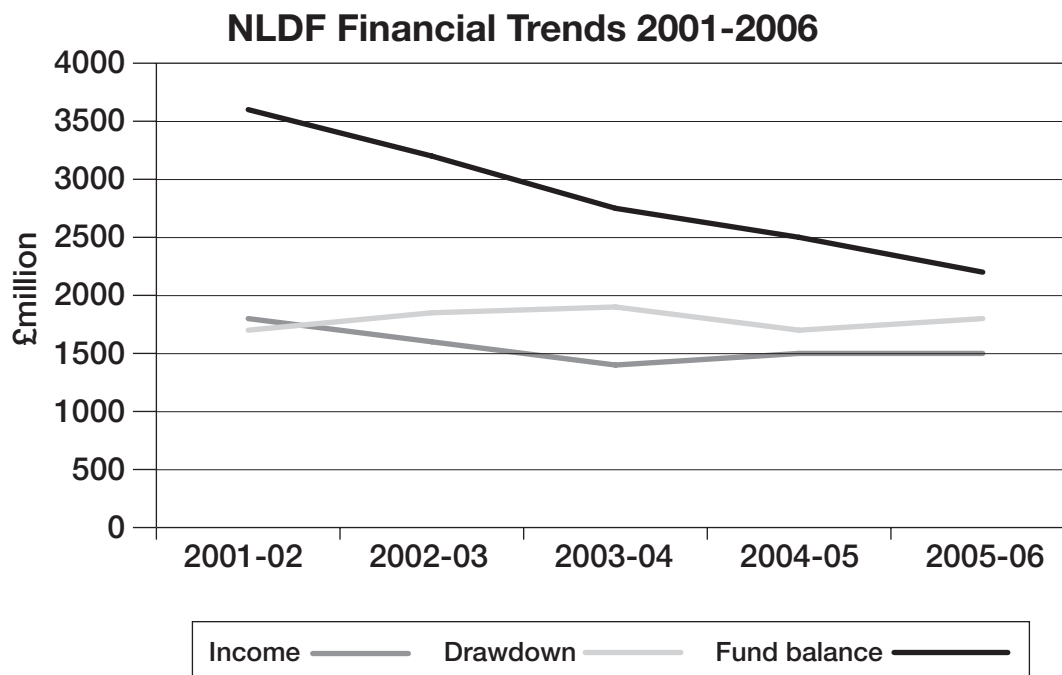
The need to reduce balances

During the first four years from the inception of the Lottery, the Fund's income (including investment returns) was considerably greater than the amounts drawn down by distributing bodies: £7.3bn was raised for good causes compared with £3.7bn drawn down by the distributors, leaving a balance of around £3.6bn. The balance remained broadly constant at around £3.5bn during the following three years to 2001-02.

These high balances prompted the Department to seek suggestions from distributors to reduce balances, thus realising the public benefits of Lottery funding more quickly without endangering future commitments. The good practice ideas generated were incorporated into formal guidance, which was issued to distributors in August 2003. The guidance also discussed the flexibility in the rules about the timing of Lottery grant payments to successful applicants, and called on distributors to draw up individual policies for balance management with targets for future reductions. In addition, the Department agreed to issue more frequent projections of future NLDF income.

In July 2003, the National Audit Office undertook to conduct an examination of NLDF balance management to inform policy and practice in this area. The NAO published its report in July 2004, concluding that there was scope for distributors to reduce balances further, mainly by making more commitments, although this would take time to take effect. The report also highlighted the uncertainties distributors faced relating to both future income levels and the end of the current National Lottery operator's licence in 2009. It suggested DCMS take action to address these uncertainties. The Department accepted the NAO recommendations and has implemented those directed at the Department. It has, for example, set out a clear timetable for making decisions on the division of Lottery proceeds between good causes after 2009 and sharpening the timeliness with which quarterly projections of NLDF income are issued to the distributing bodies as well as improving the clarity of the projections.

The Public Accounts Committee published its own report on NLDF balance management on 18 October 2005, calling upon the Government and distributors to set targets and take action to reduce balances further. The Government's formal response was published on 15th December 2005, in the form of a Treasury minute.



The result has been a consistent reduction in the level of balances as can be seen in the above table and graph. During the four years from 2001-02 to 2004-05, drawdown of around £7.2bn exceeded income of about £6.3bn. During 2005-06 the Department continued to work with the Lottery distributing bodies to manage down their NLDF balances and at the year-end, the balance reduced further to £2.2bn.

The balance on the Fund at 31 March 2006 is held in investments by the CRND as set out in Note 8 to these accounts and in further detail in the 2005-06 CRND accounts. The allocation of these funds across the fifteen Distributing Bodies can be seen in Note 10 to these accounts.

On 8 March 2006, Parliamentary authority was given for the transfer of £7 million from The English Sports Council to the UK Sports Council. Details of this are included in the Post Balance Sheet Events note 15 to the accounts. The next section of this management review provides readers with a financial and operating commentary which describes developments during the year, identifies emerging trends and gives a flavour of the wide range of projects that have been funded by the Lottery.

Income

After falling steadily since the late 1990s, income to the good causes has risen for two years running, 2004/05 and 2005/06, as the graph above shows.

Operating costs

Expenses incurred in operating the Fund (by the DCMS, the Commission for the Reduction of the National Debt and the National Lottery Commission) are met from the Fund and totalled £8.3m for the year. The table below provides a breakdown of costs. The substantial increase in the NLC's costs in 2005-06 is due to additional expenditure incurred on the competition to operate the new Licence from 2009. The NLC's 2005-06 accounts provide further information on this as well as their ongoing role as regulator of the Lottery. The CRND's accounts provide further information on the investment role of the CRND.

£m

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

Operating Commentary

By the end of 2005/06, the portfolio of Lottery games including Lotto, Lotto Extra, Daily Play, Scratchcards and interactive games had generated £16.8 billion for good causes, with investment returns adding a further £1.7 billion. Lottery distributing bodies had awarded 235,000 grants, with a total value of almost £17.3 billion. Fresh commitments continue to be made. By the end of 2005/06 awards to projects plus partnership funding totalled over £33.3 billion meaning that, on average, each Lottery grant levered in almost the same amount of additional money from other sources: around 93p of funding from other sources was levered in for every £1 of Lottery grant awarded.

The Lottery supports a huge range of projects in terms of both types and sizes. There have been 59 awards of £20 million or more, including:

- £44.4 million to Sustrans Ltd in September 1995 towards the development of a 5,000-mile cycle network connecting towns and cities throughout the UK;
- £20.2 million in April 1996 to develop the Royal Albert Hall in London;
- £55.9 million in May 1997 to help create the Eden Project in Cornwall;
- £36.2 million in November 1997 to the Glasgow Science Centre Charitable Trust to create a variety of exhibition and community facilities on a five-acre site;
- £92 million in February 2000 towards Eastlands SportCity in Manchester, incorporating the Commonwealth Games stadium.

At the other end of the scale, some 65% of Lottery awards have been below £5,000, again to support an enormous variety of projects and activities. To give only a few examples, these include: sports and social clubs for people with disabilities; play groups, scout groups and pensioners' groups; ethnic minority community and arts bodies, and local history, archives and archaeological societies.

Many Lottery distributing bodies have set up 'themed' funding programmes to support particular objectives. Examples are:

- the New Opportunities Fund's *PE and Sport Programme* (£750 million) to create new and improved outdoor and indoor sports facilities in schools;
- the Heritage Lottery Fund's *Regeneration of Parks* programme (£320 million) for the enhancement of parks, squares, gardens and cemeteries and the *Your Heritage* programme which provides grants of between £5,000 and £50,000 to support community-focused heritage projects. These projects involve, for example, caring for the natural landscape, conserving historic buildings, places and objects and involving people in exploring local cultures, traditions, languages and ways of life;
- the *Active England* programme (£108.5 million), jointly funded by the Big Lottery Fund and Sport England to drive up physical activity levels and sports participation rates in England in all sections of society; and
- the Millennium Commission's *Foundation for Social Entrepreneurs* (£100 million) to which individuals can apply for grants to undertake projects, of various types, to benefit themselves and their community.

Under the current operating licence, which began on 27 January 2002, 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.

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 whose role is to apportion funds received into the NLDF correctly between the distributing bodies; and to invest the funds held in the NLDF, in accordance with directions issued by HM Treasury, until such time as they are required by the bodies to make payments to successful grant applicants. The Department distributes funds to the bodies on request and accounts to Parliament for the flow of funds.

The Statement of Financial Requirements, issued by the Secretary of State for Culture, Media and Sport to lottery distributors, [N.B, Ministers in Scotland, Wales and NI issue these to the relevant sports and arts distributors] establishes a financial framework within which their lottery distribution activities are to be conducted. 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.

The Euro

DCMS has reviewed the possible impact of the introduction of the Euro. We expect no significant effects or costs on maintaining NLDF systems should the Euro be introduced.

Staffing and Organisation

Members of DCMS Finance and Planning Division and National Lottery Distribution and Communities Division were engaged part time 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.

Future Plans

Work continues on assuring elements of the distributing bodies' systems. The Department has asked the distributing bodies for information on the proportion of their funds which is uncommitted and their proposals for the level of future commitments.

The New Opportunities Fund and the Community Fund (formally the National Lottery Charities Board) have undergone an administrative merger and are now operating as the Big Lottery Fund (BLF), which was publicly launched on 1 June 2004. The BLF is now responsible for distributing 50% of lottery proceeds to the NLDF. The National Lottery Act 2006 received Royal Assent in July 2006. Section 14 of the Act makes provision for the Big Lottery Fund to be established as a corporate body with a single board. Subject to Parliamentary consent to additional Commencement Orders under the 2006 Act, the separate balances held in the NLDF on behalf of NOF, the Community Fund and the Millennium Commission will be combined.

9 January 2007

Jonathan Stephens

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

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 2005-06 which 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
Rt Hon Estelle Morris MP (to 9 May 2005)	Minister for the Arts
Rt Hon Richard Caborn MP	Minister of State for Sport
David Lammy MP (from 10 May 2005)	Minister for Culture
Rt Hon Lord McIntosh of Haringey (to 9 May 2005)	Minister for Media and Heritage
James Purnell MP (from 10 May 2005)	Minister for Media and Tourism

Permanent Secretary and members of the DCMS Board during 2005-06 were:

Sue Street	Permanent Secretary and Accounting Officer
Jeff Jacobs	Director General (Children, Young People and Communities)
Nicholas Holgate	Chief Operating Officer
Andrew Ramsay	Director General (Economic Impact)
Paul Bolt (to 10/07/2005)	Director (Olympics and Modernisation)
Alan Davey	Director (Arts and Culture)
Paddy Feeny (from 18/06/2005)	Director (Strategic Communications)
Siobhan Kenny (to 17/06/ 2005)	Director (Strategic Communications)
Andrew Lean (from 03/01/2006)	Director Olympics
Isabel Letwin	Director (Legal)
Brian Leonard	Director (Industry)
Nicky Roche	Director (Sport)
David Roe (from 11/07/2005)	Director (Strategy)

During the year, the DCMS Board included two Non-Executive members, Clive Elphick (who chaired the Audit Committee) and Sonita Alleyne. Sonita Alleyne's term of appointment came to an end on 31 December 2005. Parminder Vir became non-executive director from 1 March 2006. In addition to Clive Elphick, the Audit Committee has an independent external member, Stephen Park. John Thompson joined the Audit Committee as an independent external member in March 2006.

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

9 January 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 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 the Accounting Officers' Memorandum issued by the Treasury and published in "Government Accounting".

The Permanent Secretary's responsibilities over the Fund extend to the receipt of Lottery revenues from Camelot Group plc, their placement with the CRND and disbursements to the fifteen distributing bodies. 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 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 2006 which has led him to be satisfied that the payments to the NLDF during the year to 31 March 2006 are complete and accurate in all material respects.

9 January 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 National Lottery Distribution Fund (NLDF), whilst safeguarding NLDF funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

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

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

3. The National Lottery Commission is responsible, using the powers set out in the 1993 Act, as amended by the National Lottery Act 1998, and in the licence granted to Camelot Group plc under section 5 of the 1993 Act, for ensuring that Camelot meets its obligations under the licence, including financial obligations to the NLDF. The Lottery operator, Camelot, notifies the Department of the amounts due to be paid to the NLDF. The Commission reviews the notifications and checks that the payments made are in accordance with the licence conditions. The Accounting Officer of the Commission provides me with a statement of assurance in which the compliance work undertaken at Camelot Group plc during the year is outlined and which provides confirmation that the payments to the NLDF during the year are complete and accurate in all material respects. The Commission publishes an Annual Report at the end of each financial year, which fulfils its requirement to report to the Secretary of State on the exercise of its functions during that year.

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

Purpose of the System of Internal Control

5. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve the Fund's purposes; it can therefore provide only a reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the Fund, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

6. During 2004-05 one of the Lottery distributors identified a significant suspected multiple application fraud. Action is being taken against the suspected perpetrators, and the distributor concerned had taken steps to reduce significantly the risk of similar fraud in the future. The Secretary of State gave more information in a Written Statement to Parliament in July 2005 (House of Commons Official Report, 13 July 2005, column 27WS). In the light of the suspected fraud, the NAO published guidance in March 2006 for DCMS organisations on *Tackling External Fraud In Grant-Making*.

Capacity to Handle Risk

7. 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.

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

9. The Department has a Risk Improvement Manager and seeks to learn from good practice via the Risk Improvement Manager network and Internal Audit contacts in other bodies, results of internal audit reports and discussions with our many NDPBs.

10. Risk Management features in departmental training courses as appropriate and was covered in the event to launch the 2005-06 business planning round. Facilitated risk workshops are also available. 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

11. The NLDF 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 Accounting, with areas of concern reported to the DCMS Audit Committee. A self-assessment approach to risk identification is used with risks evaluated in respect of both impact and likelihood. As part of the business planning process, Divisions are encouraged to hold facilitated workshops to identify the risks to divisional objectives, to evaluate these and to identify the necessary controls. Guidance is available on the types of risk that the Fund could face. Risks are evaluated in respect of both the impact if the risk is realised and the likelihood of it being realised. Each significant risk is required to have a contingency plan which identifies the risk "trigger points" which give early warning of the risk materialising. All risks are assigned Risk Owners i.e. someone with sufficient authority to ensure the risk is addressed and that clear responsibility to manage the risk is allocated to specific offices. The final stage of the process is to complete the risk register and to keep it under review.

12. The NLDCD 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. Since 2004/05, the SICs are required to incorporate specific references to measures being taken by each distributing body to prevent and detect conflicts of interest and fraud. The NLDCD reviews the SICs with Finance and Planning Division, and the distributing bodies' sponsoring divisions, contributing additional information and comments as appropriate. The Internal Audit Unit monitors and audits this process.

Review of Effectiveness

13. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of executive managers within the NLDF who have responsibility for the development and maintenance of the internal control framework, audits by the DCMS Internal Audit Unit and recommendations from the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee, and a plan to address any weaknesses and ensure continuous improvement of the system is in place.

14. 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:

DCMS Board (comprising me, the Department's Directors General (DG), Directors and two non-executive members) 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 – the Committee comprises the Chairman (a non-executive Board member), an independent external member, the Chief Operating Officer, one other Director General and one divisional head. An additional independent external member was appointed during the year. 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. During the year, responsibility was transferred to a shared service with 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.

9 January 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 AND THE SCOTTISH PARLIAMENT

I certify that I have audited the financial statements of the National Lottery Distribution Fund for the year ended 31 March 2006 under the National Lottery etc. Act 1993. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

As described on page 9, the Secretary of State for Culture, Media and Sport is responsible for the preparation of the Annual Report, Remuneration Report and financial statements in accordance with the National Lottery etc Act 1993 and Treasury directions made thereunder. The Secretary of State has delegated to the Accounting Officer responsibility for the preparation of the Annual Report, Remuneration report and financial statements and for ensuring the regularity of financial transactions.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland)

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 and Treasury directions made thereunder. I 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, in my opinion, the Annual Report is not consistent with the financial statements, 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 pages 10 to 12 reflects the Fund's compliance with Treasury's guidance "Corporate Governance: Statement on Internal Control". I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider whether the Accounting Officer's Statement on Internal Control 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 only the Management Commentary, the Statement of Responsibilities of the Secretary of State, Accounting Officer and the National Lottery Commission and the Remuneration Report. 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. 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 are free from material misstatement, whether caused by fraud or error and that in all material respects the income and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. With regard to the completeness of income to the Fund, my audit included a review of the Statement of Assurance provided by the Accounting Officer of the National Lottery Commission to the Accounting Officer of the National Lottery Distribution Fund, mentioned on page 10, and the work of the Commission in this respect. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Lottery etc. Act 1993 and directions made thereunder by Treasury, of the state of the National Lottery Distribution Fund's affairs as at 31 March 2006 and of the decrease in funds available and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 and with the directions made thereunder by the Treasury; and
- 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

23 January 2007

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

National Lottery Distribution Fund**Income and Expenditure Account for the Year Ended 31 March 2006**

	Note	2005-06 £000	2004-05 £000
<u>Income</u>			
National Lottery	2	1,390,844	1,361,295
Investment Income	3	125,919	137,353
Net (loss) on Sale of Investments	3b	(12,029)	(47,559)
Revaluation gain/(loss) on investments	3c	(5,020)	23,982
Total Income		1,499,714	1,475,071
<u>Less: Operational Costs</u>			
Department for Culture, Media and Sport	4	245	236
National Lottery Commission Grant in Aid	5	7,921	4,401
Other Expenses	6	179	190
		(8,345)	(4,827)
Net Realised Income for Distribution		1,491,369	1,470,244
Amounts Drawn Down by Distributing Bodies	10	(1,843,555)	(1,704,291)
Increase/(decrease) in Amounts Held for Distributing Bodies		(352,186)	(234,047)
Balance brought forward		2,502,137	2,736,184
		2,149,951	2,502,137

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 18 to 29 form an integral part of these accounts.

National Lottery Distribution Fund
Balance Sheet as at 31 March 2006

	Note	2005-06 £000	2004-05 £000
<u>Current Assets</u>			
Debtors	7	20,474	18,903
Investments held by CRND	8	2,129,547	2,483,313
Cash at Bank and in Hand		–	–
		<u>2,150,021</u>	<u>2,502,216</u>
Creditors: Amounts falling due within one year	8	(70)	(79)
Net Current Assets		<u>2,149,951</u>	<u>2,502,137</u>
 <u>Represented by:</u>			
Amounts held for Distributing Bodies	10	<u>2,149,951</u>	<u>2,502,137</u>

The notes on pages 18 to 29 form an integral part of these accounts.

9 January 2007

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

National Lottery Distribution Fund**Cash Flow Statement for Year Ended 31 March 2006**

	Note	2005-06 £000	2004-05 £000
<u>Operating Activities</u>			
Cash received from Lottery operator		1,389,273	1,358,172
Cash paid for operating expenses		(8,354)	(4,836)
Cash paid to Distributing Bodies	10	(1,843,555)	(1,704,291)
Net cash (outflow) from operating activities	9	(462,636)	(350,955)
 <u>Management of liquid resources</u>			
Cash Paid to CRND for Investment		(1,380,919)	(1,353,336)
Cash received from CRND for distribution	10	1,843,555	1,704,291
Net cash inflow from management of liquid resources		462,636	350,955
Change in cash		<u>—</u>	<u>—</u>

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

The notes on pages 18 to 29 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 2005 in respect of all draws within the year up to and including 31 March 2006.

Under the current licence, there is no estimated annual prize amount and therefore no need for a “prize target shortfall” payment, as calculated in the first and interim Section 5 licences granted to Camelot. Actual prizes, together with Lottery duty and an element of Camelot’s fixed costs relating to sales, are deducted from weekly sales. The balance is pooled, to be shared between Camelot and the good causes.

Camelot must seek the National Lottery Commission’s approval for any promotional events, such as ‘Superdraws’ with guaranteed jackpot prize levels, that may reduce the net weekly proceeds into the NLDF. The NLC will only permit these promotions if they are satisfied that they are likely to increase proceeds for the good causes over a longer period.

The Lottery Primary Contribution also includes income due to the NLDF from the sale of Scratchcards. Under the terms of the licence, income is collected by Camelot and paid to the NLDF on packs of cards once a pack becomes settled. The retail value of each pack is £120. This occurs 30 days after a pack is activated or once 60% of the low tier prizes have been won, whichever is the sooner.

Lottery prizes that remain unclaimed for 180 days after a draw, or closure of a scratchcard game or Interactive Instant Win game, are paid to the NLDF. Accruals have been made for prizes expiring on or before 31 March but not paid to NLDF at this date.

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

Recognition of Amounts Drawn by Distributors

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

Investments

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

2 Income from Lottery Activities

	2005-06 £000	2004-05 £000
Primary Contribution (see note a below)	1,282,518	1,254,497
Unclaimed Prizes	101,749	100,215
Interest on Players Trust Fund (see note b below)	5,983	5,961
Income from penalties and charges imposed by NLC on lottery operator, couriers and retailers	318	259
Income from Ancillary Activities	276	363
	<u>1,390,844</u>	<u>1,361,295</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 share of proceeds to each of the Distributing Bodies and consequently their accounts, the adjustments are reflected in the following year's accounts. The total of the adjustment relating to 2005-06 (which will be taken from 2006-07 income) was £7,081k. Of this, where £2,470k is in respect of New Media (Interactive) sales, £3,099k to recover an overpayment in respect of Primary Contribution receipts and £1,512k is to recover the NLDF's share of the combined NLDF/OLDF 50% contribution to the actual spend of the National Lottery Promotions Unit (NLPU). The corresponding amount deducted in the above figures in respect of 2004-05 was £7,151k, and the breakdown was £1,800k, £3,307k and £2,044k, for New Media, Primary Contribution overpayment and NLPU adjustments respectively.
- b) The HMRC agreed that the NLDF should be allowed to reclaim tax deducted on interest received from the Players Trust Fund.

3 Investment income

	2005-06 £000	2004-05 £000
3a <u>Investment Income</u>		
Interest Received on investments	<u>125,919</u>	<u>137,353</u>
3b <u>Net Loss on sale of investments</u>		
Profits on sales of investments	886	1,486
(Losses) on sales of investments	(12,915)	(49,045)
	<u>(12,029)</u>	<u>(47,559)</u>

The NLDF's objective is to provide for Distributing Bodies' liquidity needs, and to maximise returns over the medium term. The range of permitted investments is restricted to those contained within a Direction made by HM Treasury.

Since 1 April 2003, the share of the funds held for the Millennium Commission has been managed as a portfolio wholly comprised of 'cash' instruments. Since the start of 2004-05, the investment stance taken by CRND for the remainder of NLDF funds has been that 50% of the Fund is 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

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 50/50 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.

	2005-06	2004-05
	£000	£000
3c <u>Revaluation gain/(loss) on investments</u>		
Unrealised (Loss)	(14,311)	(9,291)
Amount brought forward and recognised in year	9,291	33,273
	<u>(5,020)</u>	<u>23,982</u>

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

4 Operational Costs: Department for Culture, Media and Sport

	2005-06	2004-05
	£000	£000
Staff Costs	142	128
Accommodation and Central Services	40	45
IT, Consultancy, and Training	26	27
Charge for the use of DCMS assets	13	10
Audit fee: Comptroller and Auditor General	22	21
Bank of England charges	2	5
	<u>245</u>	<u>236</u>

The Auditor's remuneration for the year was £21,600 (£21,000 in 2004-05).

In 2005-06 eight members of DCMS Finance Division and National Lottery Division were engaged, part time, on NLDF matters. Their staff costs are charged to the NLDF in proportion to the amount of time they spend on NLDF duties.

A share of the accommodation costs of the building occupied by DCMS has been charged to the NLDF, on the basis of the floor area occupied by DCMS staff engaged on NLDF matters as a proportion of the building as a whole. Similarly a share of the Central Service Costs incurred by DCMS has been charged on the basis of the number of DCMS staff engaged on NLDF matters as a proportion of the total number of DCMS staff.

5 Reconciliation of National Lottery Commission Operational Costs

DCMS recover the net costs of running the National Lottery Commission (NLC) from the NLDF and the Olympic Lottery Distribution Fund (OLDF). The net cost consists of the Grant in Aid paid to NLC less the license fee income received by NLC and surrendered to DCMS in appropriations-in-aid.

The license fee income is the sum of payments made by the lottery operator, Camelot, for each new Section 6 license granted for new lottery games. In 2005-06, license fee income included £80,000 directly attributable to regulatory approval of Olympic Lottery games and a further £130,000 on class licenses attributable to Olympic Lotteries which will run until 2009. NLC's gross costs directly attributable to regulation of the Olympic Lotteries are calculated to be of the same order, with a net cost close to zero. No apportionment of the net costs of regulation has therefore been made between the NLDF and OLDF.

During 2005-06, it was confirmed that DCMS had over-recovered £373k from the NLDF in 2004-05 in calculating the amount to be Appropriated-in-Aid by the Department. This amount will now be adjusted in the 2006-07 claim from the NLDF.

	2005-06	2004-05
	£000	£000
Grant in Aid (gross)	<u>8,292</u>	<u>4,666</u>
Lottery Operator licence fee income	<u>(371)</u>	<u>(265)</u>
Grant in Aid payable by NLDF via DCMS	<u>7,921</u>	<u>4,401</u>

6 Other expenses:

	2005-06	2004-05
	£000	£000
Commissioners for the Reduction of the National Debt	<u>179</u>	<u>190</u>

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

7 Debtors:

	2005-06	2004-05
	£000	£000
Ticket sales income due as a result of draws prior to year end	<u>20,474</u>	<u>18,903</u>

8 Balance on National Lottery Distribution Fund

	at 31 March 2006		at 31 March 2005	
	Cost	MV	Cost	MV
	£000	£000	£000	£000
Investments held by the CRND	<u>2,143,858</u>	<u>2,129,547</u>	2,492,604	2,483,313
Debtors (note 7)	<u>20,474</u>	<u>20,474</u>	18,903	18,903
Creditors	<u>(70)</u>	<u>(70)</u>	(79)	(79)
Balance held	<u>2,164,262</u>	<u>2,149,951</u>	<u>2,511,428</u>	<u>2,502,137</u>

A summary analysis of the investments held on behalf of the NLDF is shown below. Further analysis is provided in the accounts of the CRND.

	at 31 March 2006		
	Main Fund	Millennium	Total
	Market Value £000	Market Value £000	Market Value £000
Cash held in CRND Ways and Means Account ⁽¹⁾	46	21	67
Call Notice Deposits ⁽¹⁾	34,685	59,248	93,933
Fixed Deposits	962,111	0	962,111
Subtotal – “Cash Funds”	996,842	59,269	1,056,111
7¾% Treasury 2006	71,341	–	71,341
7½% Treasury 2006	224,416	–	224,416
4½% Treasury 2007	209,806	–	209,806
8½% Treasury 2007	89,721	–	89,721
7¼% Treasury 2007	215,656	–	215,656
5% Treasury 2008	262,496	–	262,496
Subtotal – Gilts	1,073,436	–	1,073,436
Total balance invested with CRND	2,070,278	59,269	2,129,547

⁽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.

Creditors are in respect of accruals for DCMS recharges (unpaid at the year end).

9 Reconciliation of decrease in Amounts Held for Distributing Bodies as disclosed in Income and Expenditure Account with Net Cash Inflow/(Outflow) from operating activities.

	2005-06 £000	2004-05 £000
(Decrease) in Amounts Held for Distributing Bodies	(352,186)	(234,047)
Less Investment Income	(125,919)	(137,353)
Add Loss on Sale of Investments	12,029	47,559
Add Impairment loss/ (gain) on revaluation of investments	5,020	(23,982)
	(461,056)	(347,823)
(Increase)/Decrease in Lottery operator debtor	(1,572)	(3,123)
Decrease in professional penalty debtor	0	0
(Decrease) in creditors for operating expenses	(8)	(9)
Net cash (outflow) from operating activities	(462,636)	(350,955)

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

10 Reconciliation of Amounts Available to Distributing Bodies At 31st March 2006.

BENEFICIARY SECTORS	Arts £000	Sports £000	National Heritage Memorial Fund £000	Community Fund £000	The Millennium Commission £000	The New Opportunities Fund £000	TOTAL £000
National Lottery proceeds							
Share of income from Lottery	231,807	231,806	231,807	231,807	0	463,615	1,390,842
LESS Share of Operational Costs	(1,392)	(1,391)	(1,391)	(1,391)	(85)	(2,697)	(8,347)
	<u>230,415</u>	<u>230,415</u>	<u>230,416</u>	<u>230,416</u>	<u>(85)</u>	<u>460,918</u>	<u>1,382,495</u>
Amount authorised for payment to DB's Investment Income (Decrease) in balance available	(275,260)	(264,084)	(374,283)	(240,615)	(52,113)	(637,200)	(1,843,555)
	14,644	13,585	39,703	7,686	3,847	29,405	108,870
	(30,199)	(20,085)	(104,163)	(2,512)	(48,351)	(146,878)	(352,185)
Market Value at 1 April 2005	315,531	313,373	900,577	174,462	107,534	690,659	2,502,136
Market Value at 31 March 2006	<u>285,330</u>	<u>293,289</u>	<u>796,413</u>	<u>171,949</u>	<u>59,183</u>	<u>543,782</u>	<u>2,149,946</u>
Balance at cost at 31 March 2006	<u>287,285</u>	<u>295,298</u>	<u>801,864</u>	<u>173,129</u>	<u>59,184</u>	<u>547,500</u>	<u>2,164,260</u>

ARTS BODIES	Arts Council of England £'000	Scottish Arts Council £'000	Arts Council of Wales £'000	Arts Council of N Ireland £'000	UK Film Council £'000	Scottish Screen £'000	SUBTOTAL ARTS £'000
National Lottery proceeds							
Share of income from Lottery	164,815	17,942	11,590	6,491	28,280	2,689	231,807
LESS Share of Operational Costs	(989)	(108)	(70)	(39)	(170)	(16)	(1,392)
	<u>163,826</u>	<u>17,834</u>	<u>11,520</u>	<u>6,452</u>	<u>28,110</u>	<u>2,673</u>	<u>230,415</u>
Amount authorised for payment to DB's	(191,968)	(22,374)	(11,087)	(10,963)	(35,967)	(2,901)	(275,260)
Investment Income (Decrease)/Increase in balance available	8,115	1,608	931	1,565	2,205	220	14,644
	(20,028)	(2,931)	1,365	(2,946)	(5,651)	(8)	(30,199)
Market Value at 1 April 2005	<u>173,262</u>	<u>37,448</u>	<u>20,008</u>	<u>35,282</u>	<u>44,780</u>	<u>4,751</u>	<u>315,531</u>
Market Value at 31 March 2006	<u>153,235</u>	<u>34,516</u>	<u>21,372</u>	<u>32,336</u>	<u>39,128</u>	<u>4,743</u>	<u>285,330</u>
Balance at cost at 31 March 2006	<u>154,284</u>	<u>34,754</u>	<u>21,518</u>	<u>32,557</u>	<u>39,397</u>	<u>4,774</u>	<u>287,285</u>

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	175,246	18,776	10,431	6,027	21,326	231,806
LESS Share of Operational Costs	(1,051)	(113)	(63)	(36)	(128)	(1,391)
	<u>174,195</u>	<u>18,663</u>	<u>10,368</u>	<u>5,991</u>	<u>21,198</u>	<u>230,415</u>
Amount authorised for payment to DB's	(202,100)	(23,524)	(12,662)	(6,651)	(19,147)	(264,084)
Investment Income (Decrease)/Increase in balance available	8,972	2,582	565	1,134	332	13,585
	(18,934)	(2,279)	(1,728)	472	2,384	(20,085)
Market Value at 1 April 2005	210,740	56,992	13,478	24,473	7,690	313,373
Market Value at 31 March 2006	<u>191,807</u>	<u>54,713</u>	<u>11,749</u>	<u>24,947</u>	<u>10,073</u>	<u>293,289</u>
Balance at cost at 31 March 2006	<u>193,119</u>	<u>55,087</u>	<u>11,830</u>	<u>25,117</u>	<u>10,143</u>	<u>295,298</u>

Some figures in this note may not cast arithmetically to the totals shown elsewhere in the account due to roundings and 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 2006 the distributors had committed £2.522 billion of the balance held within the National Lottery Distribution Fund and expect that the respective grant awardees would draw down £1.354 billion of those funds within one year of the 31st March 2006 and the balance in the period after that date.

The figures shown are based on amounts recorded in the National Lottery Distributors' accounts. At the time of preparing these accounts, distributors figures marked * are from draft accounts, and not from final, signed accounts.

	2005-06		2004-05	
	Commitments Falling Due Within One Year £000	Commitments Falling Due in Over One Year £000	Total £000	Total £000
Arts Council of England	101,963	106,125	208,088	187,768
Arts Council of Wales	13,301	5,000	18,301	18,649
*Scottish Arts Council	17,505	828	18,333	23,838
Arts Council of Northern Ireland	18,475	6,441	24,916	19,672
Sport England	71,883	60,023	131,906	178,302
Sports Council for Northern Ireland	7,163	9,591	16,754	6,767
Sport Scotland	22,888	3,124	26,012	33,797
Sports Council for Wales	7,763	6,105	13,868	16,805
National Heritage Memorial Fund	340,180	358,916	699,096	732,933
Community Fund	239,060	199,262	438,322	328,661
Millennium Commission	32,386	991	33,377	59,480
UK Film Council	17,051	10,930	27,981	25,784
Scottish Screen (no breakdown made)	–	–	1,980	4,244
New Opportunities Fund	451,132	328,573	779,705	1,129,737
UK Sport	31,777	51,892	83,669	18,228
	<u>1,372,527</u>	<u>1,147,801</u>	<u>2,522,308</u>	<u>2,784,665</u>
NLDF Balance Available (Over committed)/ Under committed Balance (see below)			<u>2,149,951</u> <u>(372,357)</u>	<u>2,502,137</u> <u>(282,528)</u>

At 31st March 2006, the total level of 'soft'¹ and 'other'² commitments by all Distributors was around £718m (£1,178m at March 2005).

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 FRS13, debtors and creditors which mature or become payable within 12 months of the balance sheet date have been omitted from this note.

The investment strategy for the NLDF is to seek a trade-off between liquidity risks and interest rate risks. During 2005-06, the strategy sought to maintain a 50-50 split of the funds between fixed interest securities (gilts) and variable interest rate deposits, with the exception of balances held for the Millennium Commission. These have been wholly held by CRND in cash instruments, primarily to avoid liquidity risks as the Commission winds down its activities and plans for the transfer of capital sums to its legacy partners.

Liquidity Risks

The NLDF receives its income from the National Lottery and from returns accruing on funds, which have not been drawn down by Distributors. The income into the NLDF is available to the Distributors for drawdown to pay grant commitments, less any operating expenses. Distributors can only draw down funds which are in their share of the portfolio. The investment strategy for the fund is informed by the Department's review of quarterly returns from Distributors on their forward commitment profiles. As a result of the policies and procedures outlined above, the Department considers that all significant liquidity risks are appropriately managed.

Interest Rate Risks

The Financial assets of the NLDF are invested with the CRND which manages its investments. The investments made by the CRND are made in accordance with directions made by HM Treasury and are therefore not controlled by the NLDF. The average return on the investments in the financial year was 4.7297% for the main part of the Fund and 4.6362% for the Millennium part of the Fund. The difference in return is due to different investment strategies being in place for the two funds, with the Millennium part of the Fund is more heavily weighted in favour of cash instruments. The Department does not consider that the NLDF is exposed to any significant interest rate risks.

Foreign Currency Risks

The NLDF is not exposed to any foreign exchange risks.

13 Related Party Transactions

The NLDF is maintained under the control and management of the Secretary of State of the Department for Culture, Media and Sport (DCMS). The DCMS is considered to be a related party. During the year, a number of staff employed by the DCMS worked on NLDF related activities and the Fund used a number of the assets owned by DCMS. These costs were recharged to the Fund by DCMS and are reflected in Note 4 of the accounts. DCMS is also the sponsoring Department of the UK wide and English based lottery distributors. CRND, which is ultimately part of HM Treasury, is also considered a related party.

14 Distributing Body share of Fund

The percentages received by each Distributing Body were set out in sections 22 and 23 of the National Lottery etc. Act 1993 as amended by section 6 of the National Lottery Act 1998 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 31.3.06
The Arts	20	16.6666667	5	16.6666667	16.6666667
Sports	20	16.6666667	5	16.6666667	16.6666667
The National Heritage	20	16.6666667	5	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

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

Arts	To 13.10.97	14.10.97 to 14.02.99	15.2.99 to 16.05.99	17.05.99 to 30.09.99	01.10.99 to 06.04.00	07.04.00 to 31.03.06
Arts Council of England	16.66	13.8833333	4.165	13.8833333	11.8500000	11.850000
Scottish Arts Council	1.78	1.4833333	0.445	1.4833333	1.4833333	1.2900000
Arts Council for Wales	1.0	0.8333333	0.25	0.8333333	0.8333333	0.8333333
Arts Council of Northern Ireland	0.56	0.4666667	0.14	0.4666667	0.4666667	0.4666667
UK Film Council	–	–	–	–	2.0333333	2.0333333
Scottish Screen	–	–	–	–	–	0.1933333

Sports	To 13.10.97	14.10.97 to 14.02.99	15.02.99 to 16.05.99	17.05.99 to 30.06.99	01.07.99 to 31.03.06
English Sports Council	16.66	13.8833333	4.165	13.8833333	12.6000000
Scottish Sports Council	1.78	1.4833333	0.445	1.4833333	1.3500000
Sports Council for Wales	1.0	0.8333333	0.25	0.8333333	0.7500000
Sports Council of Northern Ireland	0.56	0.4666667	0.14	0.4666667	0.4333333
UK Sports Council	–	–	–	–	1.5333333

15 Post Balance Sheet Events

The *National Lottery etc. Act 1993 (Amendment of Section 23) Order 2006* [SI 2006 No 654], made on 8 March 2006 came into force from 1 April 2006. Under the Order, the sum of £7m held in the NLDF as a balance for distribution by Sport England is transferred to the balance held for distribution by UK Sport. This transfer resulted from the Government's response, announced in September 2005, to Lord Carter's report on the organization of sport in England. £2m is to cover Sport England's commitment for 2006/07 and 2007/08 to the Talented Athlete Scholarship Scheme (2012 Scholarships), which has been transferred to UK Sport. A further transfer of £5m to UK Sport is to support their cashflow and balance management.

The order also increased the UK Sports Council's percentage share of proceeds to 3.8000000%, and reduced the English Sport's Council's share to 10.3333333, with effect from 1 April 2006.

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