

National Lottery Distribution Fund Account 2013-14

Annual Report and Accounts for the year ended 31 March 2014

Presented to Parliament pursuant to section 33(3) of the
National Lottery etc. Act 1993 as amended by the National Lottery Act 1998

Ordered by The House of Commons to be printed on 15 July 2014

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Any enquiries regarding this publication should be sent to us at DCMS, 100 Parliament Street, London SW1A 2BQ.

Print ISBN 9781474108652

Web ISBN 9781474108669

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

ID 01071401 07/14

Printed on paper containing 75% recycled fibre content minimum

Contents

	Page
Strategic Report	1
Directors' Report	8
Remuneration Report	9
Statement of Responsibilities of the Secretary of State, Accounting Officer and the Gambling Commission	10
Governance Statement	11
Certificate and Report of the Comptroller and Auditor General	21
Statement of Comprehensive Net Income for the Year	23
Statement of Changes in Amount Held	24
Statement of Financial Position	25
Statement of Cash Flows	26
Notes to the Financial Statements	27

Strategic Report

The 2013-14 financial statements

The National Lottery Distribution Fund (NLDF) was established in 1994 at the time the National Lottery was launched, to receive and hold monies generated by the National Lottery for good causes. Section 21 of the National Lottery etc Act 1993 places the Fund under the control and management of the Secretary of State for Culture, Media and Sport.

This is the twentieth 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 Statement of Comprehensive Net Income shows income from the lottery and investments in addition to the amounts drawn down and operating expenses for the year; the Statement of Financial Position shows the position at the year-end, and the Statement of Cash Flows shows the movement in cash over the year.

Where the money comes from

Camelot Group plc has held licences to operate the National Lottery since 1994. In 2007 Camelot successfully bid for the 3rd Lottery Licence that runs for ten years from 1 February 2009, with an extension for a further four years awarded in March 2012.

The principal categories of income into the NLDF for the period to 31 March 2014 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 e.g. 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 retention by Camelot.

Since 1 April 2007 interest received on investments is divided between distributors in the same fixed proportions as operator-related income to 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 10.

Prior to October 2010, the share of funds was apportioned so that the arts, sport and heritage good causes received 50% of the income. The other 50% was apportioned to The Big Lottery Fund, whose remit is to distribute funds to charitable, health, education and environment good causes.

Following a reform in the allocation of the share of lottery income to the distributing bodies, the share of income apportioned to the arts, sport and heritage was increased to 60%. The implementation of this was split into two stages. The first stage change came into effect on 1 April 2011 and increased the arts, sport and heritage share of proceeds to 54% overall (18% each). On 1 April 2012 the second stage came into effect, increasing arts, sport and heritage share of proceeds to 60% overall (20% each), as shown in note 14 of these accounts.

Financial Commentary

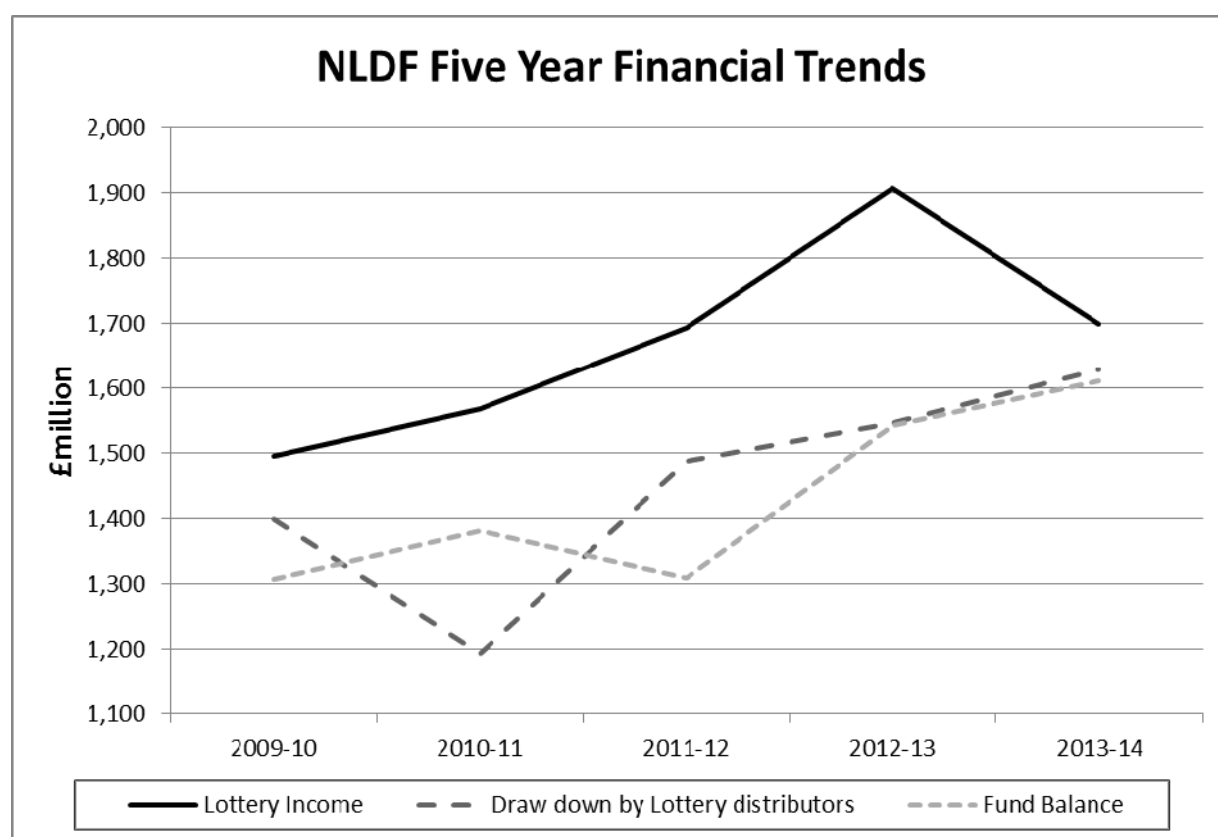
Income

By 31 March 2014, over £31 billion had been raised for good causes since the launch of the National Lottery (including money raised by Olympic Lottery products), £1.7 billion of which was received to NLDF during 2013-14. These figures include investment returns on the balance held in the National Lottery Distribution Fund. £1.6 billion was drawn down during the year to be passed to the good causes.

The trend over the last five years for income, expenditure and the fund balance are shown in the graph below.

£million:	2009-10	2010-11	2011-12	2012-13 ¹	2013-14
Income	1,496	1,569	1,693	1,936	1,700
Draw down by lottery distributors	1,399	1,194	1,488	1,547	1,628
Fund Balance	1,307	1,382	1,309	1,543	1,612

The fund balance in the table above is shown after operational costs of £2.9 million (£2.2 million in 2012-13).



¹ It should be noted that 2012-13 income benefited from significant levels of ticket sales that year, generated by the Millionaires' Raffle held on the night of the Olympic Games opening ceremony, two extended Euromillions rollovers and an unclaimed prize of £64 million.

Distributing Bodies Grant Commitments

In line with the government's December 2005 response to the Public Accounts Committee's report on NLDF fund balance management, the Department has continued to work with the lottery distributing bodies to manage their NLDF balances to realise the public benefits of lottery funding more quickly. At the same time, fund balances must be maintained at a prudent level to ensure commitments already made by distributors can be met. At the year end the Fund balance was £1.6 billion. Against this, distributors had made commitments of £2.9 billion, and expect that £1.3 billion would be drawn down by recipients within one year of 31 March 2014.

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.

The figures shown in the table below are based on amounts recorded in the National Lottery Distributors' draft unaudited 2013-14 accounts.

	Commitments falling due within one year £000	2014 Commitments falling due in over one year £000	Total £000	2013 Total £000
Arts Council of England	23,398	243,221	266,619	311,333
Arts Council of Wales*	11,713	1,436	13,149	11,871
Creative Scotland	18,964	-	18,964	12,506
Arts Council of Northern Ireland*	2,637	265	2,902	3,815
British Film Institute	43,336	26,350	69,686	8,429
Sport England	161,107	132,427	293,534	159,479
Sports Council of Northern Ireland	6,193	97	6,290	7,602
Sport Scotland	14,786	-	14,786	13,024
Sports Council of Wales	1,860	270	2,130	4,434
UK Sport	87,628	129,684	217,312	133,966
Heritage Lottery Fund*	325,497	509,111	834,608	740,217
Big Lottery Fund	559,643	564,845	1,124,488	891,110
	1,256,762	1,607,706	2,864,468	2,297,786
NLDF Balance Available			1,612,234	1,543,247
(Over committed)/Under committed Balance (see below)			(1,252,234)	(754,539)

At 31 March 2014, in addition to these hard commitments, the total level of 'soft'¹ and 'other'² commitments by all Distributors was £755 million (£727 million at 31 March 2013).

* Where an estimate of the commitment value was used last year, this has been amended so that the actual value is now shown.

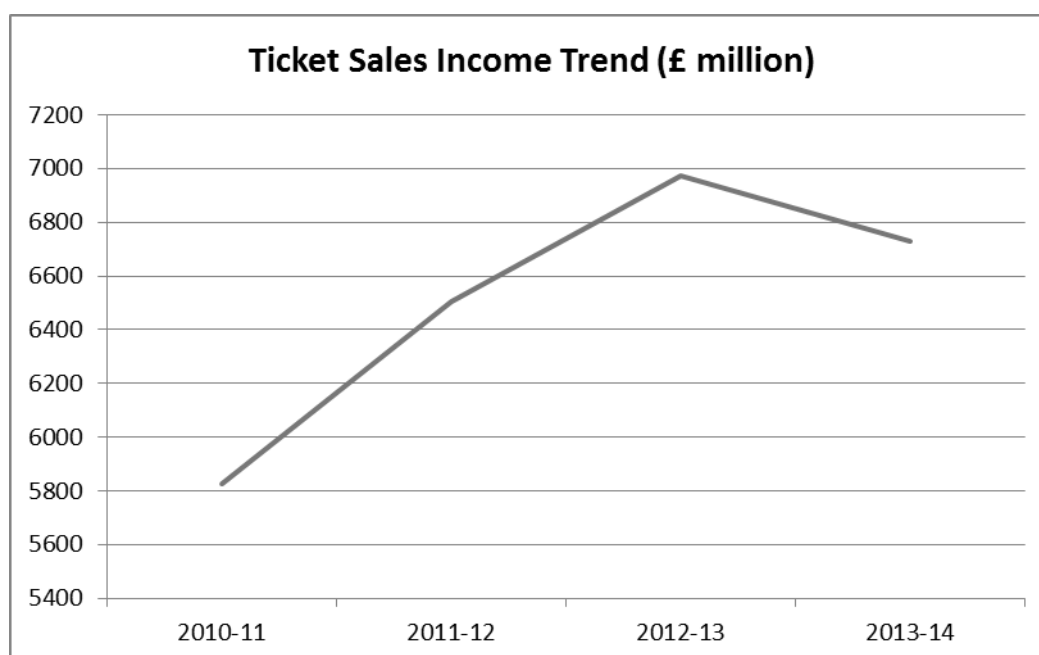
¹ - A soft commitment is where a distributing body has decided in principle to fund a project.

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 two. Stage one approvals more likely to fail at stage two are excluded.
- Money set aside by a distributing body to fund a specific future project in advance of a formal decision being taken.

The balance on the fund at 31 March 2014 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 twelve distributing bodies can be seen in Note 10 to these accounts.

The income trend from the sale of tickets over the period 2010-11 to 2013-14 is shown in the table below.



Because of the complex operation of the lottery licence, which allows for varying proportions of each type of lottery product to be retained for the good causes, there is not a linear relationship between ticket sales and income generated for the NLDF. Also the investment climate affects the levels of investment income achieved on the amounts waiting to be drawn down from the fund.

Operating costs

Expenses incurred in operating the fund by DCMS and CRND and by the Gambling Commission (GC)² for regulating the National Lottery are met from the fund and totalled £2.9 million for the year of which £2.5 million (£1.8 million in 2012-13) related to the GC. The table below provides a breakdown of costs. The GC 2013-14 accounts provide further information on this as well as their continuing role as regulator of the lottery. These can be found on their website, www.gamblingcommission.gov.uk

£million	2009-10	2010-11	2011-12	2012-13	2013-14
DCMS	0.2	0.3	0.3	0.2	0.3
Gambling Commission (National Lottery Commission prior to October 2013)	3.6	4.2	4.7	1.8	2.5
CRND	0.1	0.1	0.1	0.1	0.1

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

² Prior to October 2013 the National Lottery was regulated by the National Lottery Commission. This was merged with the Gambling Commission in keeping with the Government's plans for public bodies' reform.

Olympic Lottery Distribution Fund

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 legal existence from 8 April 2005. The OLDF is the subject of a separate annual accounting process, and the Department for Culture, Media & Sport (DCMS) prepares a separate set of financial statements for the OLDF which are presented to Parliament as a House of Commons paper.

The OLDF is expected to be dissolved in 2014 and, as such, only residual income has been received in 2013-14. The balance on the OLDF as at 31 March 2014 is £79.3 million. £79.0 million of this is to be transferred into the NLDF in summer 2014 by statutory instrument to allow distributors to access these funds. The fund will remain open to receive the Lottery's share of the receipts from the sale of the Olympic Village with amounts remaining in the fund on its closure (expected in the Autumn of 2014) to be transferred back to the NLDF.

Governance of the Fund

Sound management of the NLDF plays a pivotal role in managing the flow of funds between Camelot - the operator of the National Lottery - and the distributing bodies which issue the funds to the good causes.

In managing the NLDF, the Department works closely with the Gambling Commission (GC) 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 GC 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 GC 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 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 Financial Directions, supported by a statement of financial requirements, 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 in Scotland, Wales or Northern Ireland. From 01 April 2011 the Cabinet Office assumed the role of sponsor to the Big Lottery Fund. The Secretary of State issued the Financial Directions for all distributors sponsored by DCMS, and, with the consent of the relevant Secretary of State or Minister, for the Big Lottery Fund and devolved distributors in Wales and Northern Ireland. The Secretary of State's consent is required for the issuing of Financial Directions to devolved distributors in Scotland by the relevant Secretary of State.

As 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, distributing bodies' Accounting Officers are expected 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 supporting information about Lottery distributors' systems and their approach to financial and risk management from the distributors' sponsors in my own department, in Cabinet Office and in the relevant devolved administrations. This assurance reporting process is independently reviewed by the Department's internal audit unit.

Liquidity Risks

Liquidity risk is the risk that NLDF will encounter difficulty raising liquid funds to meet commitments as they fall due. 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 and operating expenses. Distributors can only draw down funds which are in their apportioned 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. Currently, the total of the balance of the NLDF is invested in overnight call notice deposits allowing for maximum liquidity. As a result of the policies and procedures outlined above, the department considers that all significant liquidity risks are appropriately managed.

Interest Rate Risks

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. 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. The average return on the investments in the financial year was 0.50%. The Department does not consider that the NLDF is exposed to any significant interest rate risks because of the nature of the assets held.

Foreign Currency Risks

The NLDF is not exposed to any foreign exchange risks, as all the NLDF holdings and transactions are in pound sterling.

Investment risk

HM Treasury has directed CRND that NLDF may hold investments specified in the Trustee Investments Act 1961. This restricts investments to mainly government issues such as gilt edged stock and limits the amount that can be invested outside cash and cash equivalents.

DCMS's strategy is to avoid negative income returns over a three month period and each quarter DCMS reviews its investments in partnership with CRND.

Staffing and Organisation

DCMS staff engaged on NLDF matters are charged to the NLDF in proportion to the amount of time staff spend in discharging the Secretary of State's functions under the National Lottery etc Act 1993, as amended.

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). The CRND make a charge for their investment management, shown in Note 6 of these financial statements.

DCMS is an equal opportunities employer, which does not discriminate against staff or eligible applicants for posts on the grounds of gender, marital status, race, colour, nationality, ethnic origin, religion, disability, age or sexual orientation. For further information on Staffing and Organisation, refer to the Directors' Report within this Annual Report.

Sustainability Report

DCMS is committed to supporting and promoting sustainable development. We endeavour to reduce our use of materials and energy use, minimise waste production and water use, procure sustainably and minimise our carbon footprint.

As the NLDF is managed and operated within DCMS, disclosure regarding Sustainability Reporting can to be found in the 2013-14 DCMS Annual Report and Accounts which will be available, when published, on the DCMS website at <http://www.culture.gov.uk>.

Important events which have occurred since the year end

These are shown in Note 15 to the accounts.

Signed:

08 July 2014

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

Directors' Report

Governance Structure

DCMS is responsible for the oversight of the National Lottery regime. Details of the governance arrangements are contained in the Governance Statement in this annual report.

Disclosure of senior staff salaries and production of organisation charts

As part of the Government's Transparency agenda, DCMS and its executive ALBs regularly publish data on the remuneration of senior staff within their organisations as well as organisation charts which give senior staff structure and summary information for staff at junior levels. The latest remuneration data as at September 2013 can be found here: [https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/262366/DCMS-Government staff and salary data - September 2013-senior-data.csv/preview](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/262366/DCMS-Government_staff_and_salary_data_-_September_2013-senior-data.csv/preview)

Organisation charts for DCMS and each of our ALBs is available here: <http://data.gov.uk/organogram/>
Salary data for our ALBs can be found here: <http://data.gov.uk/publisher>

Directorships and other significant interests

Board members completed their annual declarations of interest. Board members are asked to declare any relevant interests in agenda items at the start of each Board meeting and absent themselves from those discussions. No directorships or other significant interests were held by Executive Board members, which may have conflicted with their management responsibilities.

Ministers and Board members' remuneration

The details of Ministers' and Board members' remuneration are set out in the remuneration report in the DCMS annual report and accounts.

Disclosure of Relevant Audit Information

As Accounting Officer, I am not aware of any relevant audit information of which the fund's auditors are unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the fund's auditors are aware of that information.

The external Auditors were not engaged for any non-audit work undertaken.

Reporting of personal data related incidents

There were no reported instances of personal data related incidents during the period.

As the NLDF is managed and operated within DCMS, disclosure can be found in the 2013-14 DCMS Annual Report and Accounts which will be available, when published, on the DCMS website at <http://www.culture.gov.uk>.

Signed:

08 July 2014

Sue Owen
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. Details of the composition of the DCMS Ministers and Board and remuneration information may be found in the Remuneration Report of the *DCMS Annual Report and Accounts 2013-14* which is subject to audit, and will be available, when published, on the DCMS website at www.culture.gov.uk

Signed:

08 July 2014

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

Statement of Responsibilities of the Secretary of State, Accounting Officer and the Gambling Commission

Under section 33(1) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998), the Secretary of State for Culture, Media and Sport is required to prepare a statement of accounts for each financial year in the form and on the basis directed by the Treasury. A copy of the Accounts Direction may be obtained from the finance team, within the Department for Culture, Media and Sport. The accounts are prepared on an accruals basis and must give a true and fair view of the National Lottery 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 me as the Permanent Secretary of the Department for Culture, Media and Sport to be the Accounting Officer for the National Lottery Distribution Fund. My relevant responsibilities as Accounting Officer, including my 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*".

My responsibilities over the National Lottery Distribution Fund extend to the receipt of lottery revenues from Camelot Group plc, their placement with the Commissioners for the Reduction of the National Debt and disbursements to the lottery distributing bodies. The Gambling 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. I have no locus in operational matters related to the licence.

The Department is notified of amounts due to be paid to the National Lottery Distribution Fund by Camelot; this is overseen by the Gambling Commission. The Gambling Commission's 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 Gambling 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 2014 which has led him to be satisfied that the payments to the National Lottery Distribution Fund during the year to 31 March 2014 are complete and accurate in all material respects.

Signed:

08 July 2014

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

Governance Statement

This Statement sets out the governance structures, risk management and internal control procedures that have operated within DCMS and consequently applied to the NLDF and the OLDF during the financial year 2013-14 and accords with HM Treasury guidance.

How we have managed DCMS

In order to manage the Department efficiently, I am supported by formal governance structures with agreed remits. These governance structures comprise the Departmental and Executive Boards, Committees and a Programme Board for the significant Broadband programme, designed to maintain clarity and accountability, delegate authority to the relevant level and to allow me and other Board and Committee members to make decisions, monitor performance and manage resources and risk.

Ministers

Rt Hon Sajid Javid MP	Secretary of State for Culture, Media and Sport; and Minister for Equalities (from 9 April 2014)
Rt Hon Maria Miller MP	Secretary of State for Culture, Media and Sport; and Minister for Women and Equalities (until 9 April 2014)
Ed Vaizey MP	Minister for Culture, Communications and Creative Industries
Helen Grant MP	Minister for Sport, Tourism and Equalities (from 7 October 2013); previously Minister for Women and Equalities, and also Minister for Victims and the Courts in the Ministry of Justice
Rt Hon Hugh Robertson MP	Minister for Sport and Tourism, (until 7 October 2013); previously Minister for Sport and the Olympics
Rt Hon Nicky Morgan MP	Minister for Women and also Financial Secretary to the Treasury (from 9 April 2014)
Jo Swinson MP	Minister for Women and Equalities and also Minister for Employment Relations and Consumer Affairs in the Department for Business, Innovation and Skills (on maternity leave from December 2013)
Jenny Willott MP	Minister for Women and Equalities and also Minister for Employment Relations and Consumer Affairs in the Department for Business, Innovation and Skills (from December 2013, covering Jo Swinson MP's maternity leave)

Senior staff

Sue Owen*	Permanent Secretary and Accounting Officer (from 1 October 2013)
Sir Jonathan Stephens*	Permanent Secretary and Accounting Officer (until 31 August 2013**)
Sarah Healey*	Director General (from 9 December 2013)
Helen MacNamara*	Director (until 1 December 2013)
Samantha Foley*	Director (Finance)
Jon Zeff*	Director
Clare Pillman**	Director
Rita French	Director (returned from maternity leave on 8 January 2014)
David Brooker	Director (until 5 April 2014)
Rachel Clark	Director
Chris Townsend*	Chief Executive, Broadband Delivery UK (BDUK) (from 1 April 2014)

* Senior staff who are or were members of the Departmental Board

** Clare Pillman, Director, was appointed interim Accounting Officer from 1-30 September 2013

Non-Executive Board Members

David Verey	Lead Non-Executive Board Member
Dr Tracy Long	Non-Executive Board Member and Chair of the Audit and Risk Committee
Ajay Chowdhury	Non-Executive Board Member
Ruby McGregor-Smith	Non-Executive Board Member

Audit and risk committee members

Dr Tracy Long	Chair of Audit & Risk Committee
David Verey	Lead Non-Executive Board Member
Michael Higgin	Co-opted independent member
Chris Walton	Co-opted independent member

Pay committee members

Sue Owen	Permanent Secretary and Accounting Officer from 1 October 2013
Sir Jonathan Stephens	Permanent Secretary and Accounting Officer until 31 August 2013
David Verey	Lead Non-Executive Board Member
Dr Tracy Long	Non-Executive Board Member

Governance structure

The Department is responsible for the oversight of the National Lottery regime. The activities of the National Lottery licence holder are regulated by the Gambling Commission (formerly the National Lottery Commission and which merged on 1 October 2013 with the Gambling Commission). The Gambling Commission is the independent regulator, responsible for, among other things, monitoring and reporting on the performance of the licence holder and enforcing the terms of its Section 5 licence. The Department exercises its oversight of the National Lottery regime through controls on the Gambling Commission.

The amounts raised through the National Lottery for Good Causes are paid into the National Lottery Distribution Fund (NLDF) which, together with the residual Olympic Lottery Distribution Fund (OLDF), is managed and run by staff employed by DCMS. I hold separate Accounting Officer responsibility for these Funds. However, their management follows the normal processes for DCMS, and consequently the governance policies of the DCMS operate in the same way with regard to both the NLDF and OLDF. Lottery monies are independent of Government and are distributed by independent Lottery Distributors. DCMS implements appropriate controls over Lottery Distributors, including Financial Directions, to ensure propriety, regularity and accountability in their handling of Lottery monies drawn down. DCMS also conducts annually an assurance review of the existence within, and satisfactory application by, Lottery Distributors of key systems of internal control.

DCMS enhanced its Departmental Board in May 2013, with the introduction of a Performance Review Group, comprising Non-Executive Board Members, the Permanent Secretary and Directors, which scrutinised performance and delivery challenges, reporting the key issues to the Departmental Board until November 2013. In December 2013, the Executive Board took over responsibility for performance monitoring and reporting to the Board. The Departmental Board provides advice and challenge to the Department and its Ministers on strategic and operational issues. The Departmental Board is chaired by the Secretary of State and is composed of Ministers, Senior Executives and Non-Executive Board Members. Committees of the Departmental Board include:

- **Audit and Risk Committee:** reports to and advises the Departmental Board on governance, risk management and control; comprises a Non-Executive Board Member (NEBM) as chair, plus one other NEBM and two other independent members.
- **Pay Committee:** advises on decisions on senior remuneration and reward.

The Board was also supported by the:

- **Executive Board:** provides corporate leadership to the Department and ensures delivery of the business plan in support of the Ministers' objectives. The Executive Board regularly reviews budgets and management internally and across the group. In addition, the sub-committees of the Executive Board are:
 - **Corporate Committee** – manages DCMS resources and infrastructure
 - **Delivery and Resourcing Committee** – provides project/programme assurance and allocates the flexible resourcing pool
 - **Investment Committee** – approves and monitors major capital projects (for the Department and its Arm's Length Bodies {ALBs}). The Investment Committee is supported by the Borrowing Committee
 - **BDUK Programme Board** – supports BDUK to deliver its objectives
 - **Senior People Development Committee** – manages performance and talent of Senior Civil Servants.

In response to an internal audit report on Governance in autumn 2013, the Department introduced the following additional sub-committee to strengthen governance arrangements and to take account of new museum freedoms:

- **ALB Governance Board** – provides assurance that risks are being managed across the department's ALBs (established 3 March 2014) including Lottery Distributors and the Gambling Commission.

Departmental Board and Committee attendance for financial year 1 April 2013 to 31 March 2014				
	Board/Committee members	Departmental Board	Audit & Risk Committee	Pay Committee
Ministers	Rt. Hon. Maria Miller	6/6		
	Rt. Hon. Hugh Robertson	3/3		
	Ed Vaizey	6/6		
	Jo Swinson	2/4		
	Helen Grant	4/6		
	Jenny Willott	2/2		
Non-Executive Board members/ independent members	David Verey	5/6	4/5	1/1
	Dr Tracy Long	5/6	4/5	1/1
	Ajay Chowdhury	6/6		
	Ruby McGregor-Smith	3/6		
	Michael Higgin		5/5	
	Chris Walton		5/5	
Executive	Sir Jonathan Stephens	2/2	2/2	1/1
	Sue Owen	3/3	3/3	
	Sarah Healey	2/2	2/2	
	Helen MacNamara	4/4		
	Samantha Foley	6/6	5/5	
	Jon Zeff	4/5		

Note: late but unavoidable changes to some meeting dates meant that some members were unable to attend meetings due to previous commitments.

During 2013-14 the boards and committees have been effective in delivering policy, projects/programmes and operational priorities. An internal audit review of DCMS governance arrangements in August and September 2013 found that they provided reasonable assurance that the Department's operating environment is effective, but lacks formal process and some corporate discipline and administrative rigour. The Department is currently strengthening its governance arrangements, and implementing internal audit's recommendations.

The Departmental Board met six times in 2013-14 and provided advice and challenge to the Department and its Ministers on strategic and operational issues. It focused its attention on growth, the value of culture, soft power, broadband, equality, First World War centenary commemorations, ALB risk assessment, prioritisation of work and resources, capability and capacity as well as Departmental performance and finance.

David Verey, the Lead Non-Executive Board Member (NEBM), carried out the annual review of the Board's effectiveness in April and May 2014, with independent input from Dame Sue Street. It noted that DCMS has been through a period of considerable change, including to the membership of the Departmental Board with a change of Permanent Secretary, new Ministers and most recently a new Secretary of State and Minister for Women. Naturally, this has affected the Departmental Board but provides the opportunity to build a new team and refocus on providing support and challenge to the department on future direction, change, performance, strategic risk management and succession planning.

Notable improvements have been made to take forward issues from the last annual Board Effectiveness Evaluation; including content of the meetings; quality of information provided to the Board and strengthened secretariat support. All of this has improved the effectiveness of the meetings and the engagement of Board members in the meetings. There is more to do in the coming year to clarify the Board's priorities, and further refine the management information and progress reporting against key performance indicators. With over 50% of the Board membership having changed over the course of the last year, another priority will be making time for Board members to spend time together to build an effective team and agree an operating framework with clear priorities.

The NEBMs have worked in various areas of the Department to share their expertise, including ALB governance, risk, women and equality, recruitment of senior staff and public appointees, broadband, arts, DCMS's property portfolio and the flexible resourcing model. Systematic engagement of NEBMs across the business outside of formal Board meetings is a priority for 2014/15.

The Departmental Board has been supported in its work by the Audit and Risk Committee, and the Senior Pay Committee.

The Audit and Risk Committee (ARC) met five times during the year. In line with the ARC's Terms of Reference to support the Accounting Officer and the DCMS Board in their responsibilities for governance, risk management and control, the ARC focused its attention primarily on high risk and high profile items, especially Olympics, the Broadband programme including the urban voucher scheme, liabilities that DCMS will inherit from Olympic Delivery Authority, national lottery assurance review, ALB risk review and identification of potential future risks, and preparedness for Ceremonial events.

Additionally, the ARC provided substantial advice and challenge to the Department in the preparation of the DCMS consolidated Annual Report & Accounts, the OLDF and the NLDF Annual Report & Accounts for 2012-13, as well as considering external and internal audit findings and opinions for 2012-13 and 2013-14, NAO's management letters, internal and external Audit Strategy/Plans. The ARC also provided regular oversight of corporate resilience including the improvement programme, people resourcing, compliance with Government management information requirements, information assurance and system security, and fraud, error and debt.

In discharging her responsibility, the ARC Chair meets regularly with the Accounting Officer, Finance Director, members of the Executive Board, Internal Audit and the NAO, and holds strategic risk workshops with senior management.

Appointment of head of the Department and the DCMS Board

The head of the Department (the Permanent Secretary) and other executive members of the DCMS Board are appointed on terms and conditions set out in the Civil Service Management Code. These members of staff have

individual contracts of employment which specify the length of their appointment (if appropriate) and termination procedures (where appropriate).

Compliance with the Corporate Governance Code

DCMS fully complies with the Code of Corporate Governance.

Quality of data received by the Board

The Departmental Board received regular updates on departmental performance in addition to corporate information covering finance, human resources and correspondence. The information provided to the Board was sourced from the departmental performance plan and the Integra and Oracle databases. Work continues to ensure that data going to the Board are quality assured by the relevant committee or member of the Executive Board. DCMS receives a considerable number of data requests from the Cabinet Office and HM Treasury as well as other Government Departments, and following a comprehensive data audit is focusing on improving the quality and coverage of critical returns, in particular the Quarterly Departmental Summary (QDS), and on providing proportionate responses to other requests of a more peripheral nature to the DCMS business.

Internal Controls, Risk Management and Assurance

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department for Culture, Media and Sport's policies, aims and objectives, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*. That also applies across the DCMS Group, within the context of the governance arrangements applicable to each body within the Group.

The Department completed an extremely ambitious four year change programme in summer 2013 to meet public sector spending challenges and best manage other changes in the sectors for which we have responsibility. The recently started Departmental Improvement Programme will improve DCMS' strategic focus, with existing resource rebalanced and flexibly deployed in accordance with priorities and supported by more effective governance and performance reporting arrangements. When considering the Department's control systems and risk management I have taken into account the impact of these major changes.

I work closely with Ministers, meeting them to discuss significant matters individually or at the Board. I alert them promptly to risks, especially those strategic to DCMS or its major policies and to potential regularity, propriety or value for money implications of their decisions.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of Departmental policies, aims and objectives, 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 in the Department for the year ended 31 March 2014 and up to the date of approval of the Accounts, and accords with Treasury guidance. Similarly, individual Accounting Officers and Boards are responsible for maintaining adequate systems of internal control within their own organisations.

Managing the risk of fraud in the DCMS

The Department's policy towards fraud, malpractice and corruption is one of zero tolerance, whether by the Department itself or in the OLDF and the NLDF for which it is responsible. The Department's Fraud Policy which sets out the policy in more detail and the Department's Fraud Response Plan, which sets out the arrangements for reporting and responding to fraud, have both been updated as part of a new Action Plan, which the Department has developed, to address fraud. There were no instances of reported fraud in 2013-14 in DCMS, the OLDF and the NLDF. The main emphasis of the Action Plan is on keeping staff alert to risks. To facilitate this process DCMS has a Fraud, Error and Debt Champion, supported by an Alerts System Co-ordinator. They keep up with and disseminate good practice across DCMS, including lessons arising from fraud investigations, and inform the National Fraud Intelligence Bureau of frauds.

Capacity to handle risk

As Accounting Officer, my responsibility for high standards of corporate governance includes effective management of risk throughout the Department.

Within the core Department, risk is managed actively and risk management is embedded into all Departmental processes. The Department's risk framework identifies risk management as a key role of the Board, the Executive Board and its sub-committees. Policy and guidance are available to staff on the intranet and risk management master-classes have been provided. The Corporate Committee has overall responsibility for the risk management framework.

The Risk Management framework consists of three management levels at which risks are managed: Local/Project, Committee, and Board levels.

- At the Local level, risk is managed and risk registers maintained by policy and operational teams and by project and programme teams across the Department.
- At the Committee level risk is managed by the Corporate Committee. The Corporate Committee maintains its own risk register and manages red rated operational risks within the corporate area. The Investment Committee considers the financial implications of and risks inherent in individual large DCMS and ALB capital projects. Senior Responsible Officers and project/programme boards monitor major programmes such as the Change Programme and Broadband delivery, as well as ALB risk.
- Risks escalated by the Corporate and investment Committees, and Department-wide operational, delivery and strategic risks are managed by the Executive Board, which also considers risk at workshops facilitated by the Chair of the Audit and Risk Committee.

In addition, while responsibility for managing risk remains with ALBs, the Department has a system of regularly reviewing known ALB risks. The outputs of these reviews were discussed by the Departmental Board, and are used to set the level of Departmental engagement with individual ALBs.

An Internal Audit review of the Department's risk management systems carried out in March 2013 found that they provided reasonable assurance. It concluded that the Department understood and was managing key business risks for business as usual and programme activities. However, differing approaches to risk management methodology showed there is not universal compliance with the agreed risk management framework or single risk severity scoring method, and that it needed to develop a more structured and consistent approach to monitoring and comparing risks in these areas.

To address the issues identified by Internal Audit, the escalation process from local level/committee to the Executive Board was formalised, providing greater clarity on the type of risks to escalate and when. This escalation process will complement the existing risk management framework and link with the ALB risk management process, providing consistent risk management across the Department.

The risk and control framework

The Department's Risk Management Policy Statement and Guidance defines what "risk" and "risk management" mean and outlines the key principles underpinning our approach to risk management, the hierarchy for managing risks, the risk identification and management process and the roles and responsibilities of staff.

The Department aims to be an organisation that assesses and manages risk effectively. The combined "impact" and "likelihood" scores provide a risk rating scale of green, amber-green, amber and red. Risk tolerance is amber-green, above which all risks must be actively monitored.

In line with the scope of my responsibility, the Department has agreements with The Royal Parks and all directly funded ALBs setting out the Departments' expectations in return for the public funds supplied, and associated financial arrangements or accountability lines. Lottery Distributors and Regulators have similar arrangements relating to their own circumstances.

Assurance reporting exercises supplement the Department's risk management process. Senior managers and Directors are requested to report six-monthly on their compliance with internal control procedures and must identify any significant exceptions. Those responsible for key internal control systems must indicate what main risks exist and their responses to them. Internal Audit are auditing the end of year responses and will report later in the year.

The end of year assurance exercise did not identify any significant exceptions that needed to be drawn to the attention of the Audit and Risk Committee and Permanent Secretary in respect of the 2013-14 financial year.

The Department holds very little personal data; its information risks have been identified and are mitigated in line with Cabinet Office requirements. The Department completed the Information Assurance Maturity Matrix in March 2014 and has raised awareness of information management within the Department through presentations and the issue of a security guide. This was timed to support the rollout of the new government security classifications.

Models Statement of Assurance

I am satisfied that quality assurance of the models which are business critical to DCMS is of appropriate design and has been conducted according to professional standards. All models are professionally managed under adequate systems of supervision and control and, over the past year, have been used only for purposes related to those for which they were designed. As a consequence, I conclude that the Department's business critical models pose low business risks.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control, key elements of which are set out above. My review is informed by:

- Key elements of the Department's governance structure: the DCMS Departmental Board, the Executive Board and the Audit and Risk Committee.
- The work of the internal auditors and all executive managers within the Department who have responsibility for the development and maintenance of the internal control framework.

- Comments made by the external auditors in their management letter and other reports.
- Relationships with DCMS's ALBs, including reviews of their own individual accounts, and any information passed to me via the ALB audit committees.

Despite all the systems, processes and controls that I have put in place, exceptions do occur, and I have emphasised that I need to be promptly alerted to any significant ones. I consider all such control issues for potential inclusion in this statement and for wider dissemination to minimise the likelihood of similar occurrences.

Big Lottery Fund's Financial Management System

Issues in relation to the roll out of the Big Lottery Fund's Financial Management System (which is detailed by Big Lottery Fund in its 2013-14 Annual Report and Accounts) have been reported to me by both the Big Lottery Fund's Accounting Officer and the Cabinet Office sponsoring team. I and my senior team have received regular updates on progress. I am satisfied that appropriate action has been and continues to be taken to address the issues arising.

No other significant control issues relating to the Lottery bodies merit mention in this statement.

Internal Audit Annual Report

The Cross Departmental Internal Audit Services (XDIAS) operates to Government Internal Audit Standards. XDIAS discusses its programme of assurance work with the Department to focus it most efficiently on key Departmental risks. XDIAS submits regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of arrangements for risk management, control and governance, plus actions for improvement agreed with management. Implementation within agreed timescales of these actions is monitored by XDIAS but is a management responsibility. For the year ended 31 March 2014, as a consequence of their work, IAS gave substantial assurance on the adequacy and effectiveness of the system of internal control over the course of the year. The XDIAS also undertook an audit of the NLDF and provided assurance that appropriate governance arrangements, risk management and control processes are in place.

Accounting Officer changes

Sir Jonathan Stephens was Permanent Secretary and Accounting Officer until 31 August 2013. I was appointed Permanent Secretary and Accounting Office on 1 October 2013. Clare Pillman, Director, was appointed interim Accounting Officer during the intervening period, from 1 to 30 September 2013. As part of comprehensive hand over procedures I have received appropriate assurance that controls were in place throughout the financial year 2013-14.

Signed:

08 July 2014

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

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

I certify that I have audited the financial statements of the National Lottery Distribution Fund for the year ended 31 March 2014 under the National Lottery etc. Act 1993. These comprise the Statements of Comprehensive Net Income, Changes in Amount Held for Distributing Body, Financial Position, Cash Flows 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 auditor

As explained more fully in the Statement of Responsibilities of the Secretary of State, Accounting Officer and the Gambling Commission, the Secretary of State for Culture, Media and Sport is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the National Lottery etc. Act 1993. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the National Lottery Distribution Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the National Lottery Distribution Fund; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the National Lottery Distribution Fund's affairs as at 31 March 2014 and of its net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 and HM Treasury's directions issued thereunder.

Opinion on other matters

In my opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

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

10 July 2014

Statement of Comprehensive Net Income for the Year Ended 31 March 2014

	Note	2013-14 £000	2012-13 £000
Income			
National Lottery	2	1,692,088	1,908,674
Investment Income	3a	7,759	9,418
Gain/(Loss) on Sale of Investments	3b	-	17,634
Total Income		1,699,847	1,935,726
Less: Operational Costs			
Department for Culture, Media and Sport	4	266	239
Gambling Commission	5	2,534	1,847
Other Expenses	6	113	114
		2,913	2,200
Net Realised Income for Distribution		1,696,934	1,933,526
Amounts authorised for payment to Distributing Bodies	10	(1,627,947)	(1,546,675)
Transfer to OLDF		-	(136,000)
Increase/(decrease) in realised amount held for distributing bodies		68,987	250,851
Other comprehensive income:			
Fair value gains on revaluation of investments		-	937
Less: realised gains transferred to income		-	(17,634)
Other comprehensive income/(expenditure)	11	-	(16,697)
Total comprehensive income/(expenditure)		68,987	234,154

All transactions are in respect of continuing operations
The notes on pages 27 to 36 form an integral part of these accounts.

Statement of Changes in Amount Held for Distributing Bodies for the year ended 31 March 2014

	Note	£000
Amount held for distributing bodies at 1 April 2012		1,309,093
Total comprehensive income/(expenditure) for the year 2012-13		234,154
Amount held for distributing bodies at 31 March 2013		1,543,247
Total comprehensive income/(expenditure) for the year 2013-14		68,987
Amount held for distributing bodies at 31 March 2014	10	1,612,234

The notes on pages 27 to 36 form an integral part of these accounts.

Statement of Financial Position as at 31 March 2014

	Note	2013-14 £000	2012-13 £000
<u>Current Assets</u>			
Receivables	7	41,340	48,070
Investments held by CRND at fair value	8	1,571,160	1,495,598
Cash at Bank and in Hand		-	-
Total current assets		<u>1,612,500</u>	<u>1,543,668</u>
<u>Current liabilities</u>			
Payables: Amounts falling due within one year	8	(266)	(421)
Total assets less liabilities		<u>1,612,234</u>	<u>1,543,247</u>
<u>Represented by:</u>			
Statement of comprehensive net income: realised amount held for distributing bodies		1,612,234	1,543,247
Amounts held for Distributing Bodies	10	<u>1,612,234</u>	<u>1,543,247</u>

The notes on pages 27 to 36 form an integral part of these accounts.

Signed:

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

08 July 2014

Statement of Cash Flows for Year Ended 31 March 2014

		2013-14	2012-13
Cash flows from operating activities	Note	£000	£000
Cash received from Lottery operator		1,698,818	1,891,448
Cash paid for operating expenses		(3,068)	(2,238)
Cash paid to OLDF		0	(136,000)
Cash paid to Distributing Bodies	10	(1,627,947)	(1,546,675)
Net cash inflow/(outflow) from operating activities	9	67,803	206,535
Cash flows from investing activities			
Cash Paid to CRND for investment		(1,711,463)	(1,889,210)
Cash transferred by CRND to OLDF		0	136,000
Cash received from CRND for distribution		1,643,660	1,546,675
Net cash inflow/(outflow) from management of liquid resources		(67,803)	(206,535)
Change in cash		-	-

All investment income is re-invested by the Commissioners for the Reduction of the National Debt.

Included in 'Cash Paid to CRND for investment' and 'Cash received from CRND for distribution' is £15.7m drawn down from CRND that was subsequently returned to CRND for investment, rather than being paid to distributing bodies.

The notes on pages 27 to 36 form an integral part of these accounts.

Notes to the Financial Statements

1. Statement of Accounting Policies

1.1 Basis of Accounting

These accounts have been prepared in accordance with the Accounts Direction given by the Treasury. This Direction has been applied consistently in dealing with items that are considered material to the accounts. The accounting policies apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector by the Government Financial Reporting Manual.

The particular policies adopted by the fund are described below.

1.2 Basis of Preparation

These accounts have been prepared on a going concern basis.

1.3 Accounting Convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of assets at fair value.

1.4 Functional and Presentational Currency

These accounts are presented in pounds sterling, the functional currency of the fund, and all values are rounded to the nearest thousand pounds (£000).

1.5 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 date the Statement of Financial Position was signed, 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.

1.6 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 2013 in respect of all draws within the year up to and including 31 March 2014.

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 Gambling 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 GC 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. This occurs 30 days after a pack is activated or once 60% of the low tier prizes have been won, whichever is the sooner.

The Secondary Contribution relates to the profits of Camelot. When Camelot makes a profit, greater than the one that it had predicted in its bid, it will share these profits with the Good Causes. The amount is based on a formula that varies depending on how much the actual profit before interest and tax varies from the forecast. This secondary contribution is recognised when it becomes payable to NLDF.

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

Interest on the Players Trust Fund is recognised in the accounts on an accruals basis. Tax refunded on this is recognised when the refund is receivable.

Payments for ancillary activities and adjustments for the National Lottery Promotion Unit are recognised when the cash is receivable by the department.

1.7 Recognition of Amounts Drawn by Distributors

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

1.8 Investments

Investments are available for sale financial assets.

Investments held by the Commissioners For The Reduction of National Debt (CRND) are valued in these accounts at fair value as at 31 March 2014, these accounts only disclose the cash flows for the movement of cash between CRND, NLDF and the lottery distributors.

HM Treasury has directed CRND, under sections 32(1) and 32 (2) of the 1993 Act, that the NLDF may be invested in those investments specified in paragraphs 1, 2, 3, 5, 5A, 5B, 9 and 9A of Part II of Schedule 1 of the Trustee Investments Act 1961 in such manner as CRND shall, at their absolute discretion, determine.

Having taken account of DCMS's wish to avoid negative income returns over a 3-month period, but without prejudice to their absolute discretion, CRND intend to exercise their investment powers in accordance with the investment framework.

Each quarter, DCMS reviews the investments in partnership with CRND.

1.9 Investment income

Investment income is recognised when it is receivable.

1.10 Cash and cash equivalents

Cash and cash equivalents are cash in hand and deposits held on call with banks. 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 the receipt. For the purpose of the cash flow statement highly liquid cash equivalents are treated as an investment rather than cash in accordance with IAS 7.

1.11 Financial Instruments

The fund accounts for financial instruments in accordance with IAS 32 Financial Instruments: Presentation; IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments: Disclosures.

A financial instrument is any contract that gives rise to a financial asset in one entity, and a financial liability in another. Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. IAS 39 requires financial instruments to be measured in a way that reflects the fair value of the asset or liability.

Available for sale financial assets are adjusted to fair value annually with any revaluation posted to a revaluation reserve. Any premium or discount on cost is amortised in the Statement of Comprehensive Net Income as an adjustment to the investment income (see Investments note 1.8 above).

Receivables are classified as loans and receivables and are recognised at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

Payables are short term and measured at amortised cost, which reflects the fair value of these liabilities as they fall due within one year.

1.12 Impact of new IFRS and Financial Reporting Manual Amendments

There are no standards and interpretations in issue yet to be adopted, that the NLDF anticipates will have a material effect on future reporting periods.

2 Income from Lottery Activities

	2013-14 £000	2012-13 £000
Primary contribution ¹	1,574,820	1,728,394
Secondary contribution	6,254	3,668
Unclaimed prizes ¹	110,668	175,692
Interest on Players Trust Fund	-	-
Income from ancillary activities and other items	346	920
	<u>1,692,088</u>	<u>1,908,674</u>

¹ Primary contribution and unclaimed prizes have decreased due to 2012-13 income benefiting from significant levels of ticket sales that year, generated by the Millionaires' Raffle held on the night of the Olympic Games opening ceremony and two extended Euromillions rollovers. In addition, income in 2012-13 was increased by inclusion of a £64m unclaimed prize.

3 Investment income

	2013-14 £000	2012-13 £000
3a <u>Investment Income</u>		
Interest Received on investments	<u>7,759</u>	<u>9,418</u>
3b <u>Gain on sale of investments</u>		
Gain on sales of investments	-	17,634
(Losses) on sales	-	-
	<u>-</u>	<u>17,634</u>

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

Profits and losses realised on the disposal of gilts reflect the differences between the original market prices paid and the disposal/redemption values.

In September 2012 all the remaining gilts previously purchased by CRND were sold. All investments in 2013-14 were held as Call Notice deposits.

4 Operational Costs: Department for Culture, Media and Sport

	2013-14 £000	2012-13 £000
Admin costs	214	214
External auditor's remuneration	*50	23
Bank of England charges	<u>2</u>	<u>2</u>
	<u>266</u>	<u>239</u>

In 2013-14 the DCMS Finance and Lottery Distribution and Investment Teams were engaged on NLDF matters for a proportion of their time. 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 accommodation costs per FTE. Similarly a share of the central service costs incurred by DCMS has been charged on the basis of central costs per FTE.

*To align audit costs with the year they relate to, the external auditor's remuneration charged in 2013-14 includes both 2012-13 of £25,000 and 2013-14 of £25,000. The external auditor remuneration charged in 2012-13 relates to costs for 2011-12.

5 Reconciliation of Gambling Commission Operational Costs

DCMS recover the net costs of running the Gambling Commission (GC) from the NLDF and the Olympic Lottery Distribution Fund (OLDF). The net cost consists of the grant in aid paid to GC less the licence fee income received by GC 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 2013-14, licence fee income of £63,400 relating to new NLDF games was received by DCMS.

	2013-14 £000	2012-13 £000
Funding recovered by DCMS	2,597	1,897
Lottery Operator licence fee income	(63)	(50)
Amount payable to DCMS	<u>2,534</u>	<u>1,847</u>

6 Other expenses

	2013-14 £000	2012-13 £000
Commissioners for the Reduction of the National Debt (CRND)*	<u>113</u>	<u>114</u>

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

7 Receivables

	2013-14	2012-13
	£000	£000
Income due as a result of draws prior to year end	41,340	48,070
	41,340	48,070
The carrying value of receivables approximates their fair value.		
Intra-government balances		
Balances with bodies external to government	41,340	48,070

8 Reconciliation of Investments held by CRND at fair value to Amounts Held for Distributing Bodies

	at 31 March 2014		at 31 March 2013	
	Cost	Fair Value	Cost	Fair Value
	£000	£000	£000	£000
Investments held by the CRND	1,571,160	1,571,160	1,495,598	1,495,598
Receivables (note 7)	41,340	41,340	48,070	48,070
Payables	(266)	(266)	(421)	(421)
Balance held	1,612,234	1,612,234	1,543,247	1,543,247

Payables: Intra-government Balances

Other central government	(266)	(266)	(421)	(421)
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Under s32 of the National Lottery etc. Act 1993, all monies held by the CRND are regarded as "Investments by the Secretary of State". Investments represent call notice deposits that are demand deposits with the Debt Management Account and the National Loans Fund (NLF).

Funds held by CRND meet the definition of cash under IAS 7 if they were held directly under the control of the Secretary of State as they are repayable on demand within one working day.

The funds are held in a revolving investment fund i.e. investment returns re-invested directly into the fund. For further details on the investing activities of CRND, refer to the NLDF Investment Account published by CRND.

The carrying value of payables approximates their fair value. Payables are in respect of accruals for DCMS recharges.

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

	2013-14	2012-13
	£000	£000
Increase/(decrease) in realised amounts held for distributing bodies	68,987	250,851
Investment income	(7,759)	(9,418)
(Gain) / Loss on Sale of Investments	-	(17,635)
	61,228	223,798
(Increase)/decrease in lottery operator receivables	6,730	(17,226)
Increase/(decrease) in payables for operating expenses	(155)	(37)
Net cash inflow/(outflow) from operating activities	67,803	206,535

10 Amounts held for Distributing Bodies at 31st March 2014

BENEFICIARY SECTORS	Arts	Sports	Heritage Lottery Fund	Big Lottery Fund	TOTAL
	£000	£000	£000	£000	£000
National Lottery proceeds					
Share of income from lottery	338,418	338,418	338,418	676,834	1,692,088
Less share of operational costs	(583)	(583)	(583)	(1,164)	(2,913)
	337,835	337,835	337,835	675,670	1,689,175
Amount authorised for payment to distributing bodies	(336,044)	(358,186)	(297,547)	(636,170)	(1,627,947)
Investment Income	1,552	1,552	1,552	3,103	7,759
Increase/ (decrease) in balance available	3,343	(18,799)	41,840	42,603	68,987
Amounts held for distributing bodies at market value at 1 April 2013	383,453	347,436	469,533	342,825	1,543,247
Amounts held for distributing bodies at market value at 31 March 2014	386,796	328,637	511,373	385,428	1,612,234

Amounts held for Distributing Bodies at 31st March 2014 (continued)

ARTS BODIES	Arts Council of England £000	Creative Scotland £000	Arts Council of Wales £000	Arts Council of N. Ireland £000	British Film Institute £000	SUBTOTAL ARTS £000
National Lottery proceeds						
Share of income from lottery	236,148	30,119	16,921	9,476	45,754	338,418
Less share of operational costs	(407)	(52)	(29)	(16)	(79)	(583)
	235,741	30,067	16,892	9,460	45,675	337,835
Amount authorised for payment to distributing bodies	(227,461)	(38,817)	(17,017)	(10,624)	(42,125)	(336,044)
Investment Income	1,083	138	78	43	210	1,552
Increase/ (decrease) in balance available	9,363	(8,612)	(47)	(1,121)	3,760	3,343
Amounts held for distributing bodies at market value at 1 April 2013	278,146	27,716	20,312	5,222	52,057	383,453
Amounts held for distributing bodies at market value at 31 March 2014	287,509	19,104	20,265	4,101	55,817	386,796

SPORTS BODIES	Sports Council of England £000	Scottish Sports Council £000	Sports Council of Wales £000	Sports Council of N. Ireland £000	UK Sports Council £000	SUBTOTAL SPORTS £000
National Lottery proceeds						
Share of income from lottery	209,819	27,412	15,229	8,799	77,159	338,418
Less share of operational costs	(362)	(47)	(26)	(15)	(133)	(583)
	209,457	27,365	15,203	8,784	77,026	337,835
Amount authorised for payment to distributing bodies	(224,740)	(25,128)	(14,500)	(8,194)	(85,624)	(358,186)
Investment Income	962	126	70	40	354	1,552
Increase/ (decrease) in balance available	(14,321)	2,363	773	630	(8,244)	(18,799)
Amounts held for distributing bodies at market value at 1 April 2013	191,376	51,537	15,326	12,640	76,557	347,436
Amounts held for distributing bodies at market value at 31 March 2014	177,055	53,900	16,099	13,270	68,313	328,637

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

11 Revaluation reserve

	2013-14	2012-13
	£000	£000
Balance at 1 st April	-	16,697
Realised gains transferred to income	-	(17,634)
Fair value adjustment: gain/(loss)	-	937
Balance at 31 st March	-	-

Gains and losses arising from changes in the fair value of gilts purchased by CRND were recognised in the revaluation reserve until sold. At the point of sale the cumulative gain is transferred to the Statement of Comprehensive Net Income. In 2013-14 there were no gilts held by the NLDF, in September 2012 all remaining gilts previously purchased by CRND were sold – see Note 3 for details.

12 Financial Instruments

IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7: Financial Instruments: Disclosures, have been applied. IFRS 7 requires disclosures that allow users of the accounts to evaluate the significance of financial instruments for the entity's financial position and performance, and the nature and extent of risks arising from financial instruments during the period.

13 Related Party Transactions

The NLDF is maintained under the control and management of the Secretary of State for Culture, Media and Sport. DCMS is considered to be a related party. During the year, a number of staff employed by DCMS worked on NLDF related activities and the NLDF used a number of the assets owned by DCMS. These costs were recharged to the NLDF 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.

OLDF is maintained under the control and management of the Secretary of State for Culture, Media and Sport. OLDF is considered to be a related party.

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

The Gambling Commission, whose role is to monitor and provide assurance that the payments to the NLDF during the year are complete and accurate in all material respects, forms part of the DCMS Group accounts and is a related party. Payments made to the Gambling Commission are reflected in Note 5.

The Cabinet Office became the sponsor department of The Big Lottery Fund with effect from 01 April 2011 and hence is considered a related party.

No Minister, Board member, key manager or other related parties has undertaken any material transactions with the NLDF during the year.

For further details please see the 2013-14 DCMS Annual Report and Accounts.

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:

	1.12.06 to 31.03.11	01.04.11 to 31.03.12	01.04.12 to 31.03.13	01.04.13 to 31.03.14
The Arts	16.6666667	18.0000000	20.0000000	20.0000000
Sports	16.6666667	18.0000000	20.0000000	20.0000000
The National Heritage	16.6666667	18.0000000	20.0000000	20.0000000
Charitable expenditure	-			
Millennium projects	-			
Health, education and the environment	-			
Charitable, health, education and the environment	50	46	40.00000	40.00000

Arts	01.04.07 to 31.03.10	01.07.10 to 31.03.11	01.04.11 to 31.03.12	01.04.12 to 31.03.13	01.04.13 to 31.03.14
Arts Council of England	11.6300000	11.6300000	12.5604000	13.9560000	13.9560000
Creative Scotland	-	1.4833333	1.6020000	1.7800000	1.7800000
Arts Council for Wales	0.8333333	0.8333333	0.9000000	1.0000000	1.0000000
Arts Council of Northern Ireland	0.4666667	0.4666667	0.5040000	0.5600000	0.5600000
British Film Institute	-	-	2.4336000	2.7040000	2.7040000
UK Film Council	2.2533333	2.2533333	-	-	-
Scottish Screen	0.1933333	-	-	-	-
Scottish Arts Council	1.29	-	-	-	-

Sports	01.04.06 to 31.03.11	01.04.2011 to 31.03.12	01.04.12 to 31.03.13	01.04.13 to 31.03.14
English Sports Council	10.3333333	11.1600000	12.4000000	12.4000000
Scottish Sports Council	1.35	1.4580000	1.6200000	1.6200000
Sports Council for Wales	0.75	0.8100000	0.9000000	0.9000000
Sports Council of Northern Ireland	0.4333333	0.4680000	0.5200000	0.5200000
UK Sports Council	3.8	4.1040000	4.5600000	4.5600000

15 Events after the reporting period

There were no significant events after the reporting period. These accounts were authorised for issue by the Accounting Officer on 08 July 2014.

ISBN 978-1-4741-0865-2



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