

National Lottery Distribution Fund Account 2015-16

Annual Report and Accounts for the year ended 31 March 2016

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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 11 July 2016



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

Print ISBN 9781474128858
Web ISBN 9781474128865

ID 16021607 07/16

Printed on paper containing 75% recycled fibre content minimum

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

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PERFORMANCE REPORT

Overview

The 2015-16 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 NLDF under the control and management of the Secretary of State for Culture, Media and Sport.

This is the twenty second set of accounts to be prepared for the NLDF. These financial statements account to Parliament for the receipt of lottery income and its allocation and distribution to the lottery 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.

Performance and Activities

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 third 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 year to 31 March 2016 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 lottery 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 lottery 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 13 of these accounts.

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 lottery distributing bodies which issue the funds to the good causes.

In managing the NLDF, the Department for Culture, Media and Sport (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 lottery distributing bodies to make payments to successful grant applicants (or to meet administrative expenses). The Department distributes funds to the lottery distributing 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 the Department or by one of the devolved administrations in Scotland, Wales or Northern Ireland. From 1 April 2011 the Cabinet Office assumed the role of sponsor of the Big Lottery Fund. The Secretary of State issues the Financial Directions for all lottery distributing bodies sponsored by the Department, with the consent of relevant Secretaries of State or Ministers as required. 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 distributing body that they have in place adequate systems of internal control for the efficient, effective and equitable distribution of lottery monies. In particular, lottery 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 seek supporting information about lottery distributing bodies' 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 reports to the Department's Audit and Risk Committee and is independently reviewed by the Department's internal audit unit.

Key Risks

Liquidity Risks

Liquidity risk is the risk that NLDF will encounter difficulty raising liquid funds to meet liabilities 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 lottery distributing bodies. The income into the NLDF is available to the lottery distributing bodies for drawdown to pay grant commitments and operating expenses. Lottery distributing bodies can only draw down funds which are in their apportioned share of the portfolio. 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.

The Department's strategy is to avoid negative income returns over a three month period. The Department regularly reviews its investments in partnership with CRND.

Staffing and Organisation

The Department's 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 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.

The Department 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

The Department 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 the Department, disclosure regarding Sustainability Reporting can be found in the 2015-16 DCMS Annual Report and Accounts which will be available, when published, on the Department's website at www.gov.uk/dcms.

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 was the subject of a separate annual accounting process, and the Department prepared a separate set of financial statements for the OLDF which were presented to Parliament as a House of Commons paper.

Following the dissolution of the Olympic Delivery Authority (ODA), subject to an Order made by the Secretary of State under section 28 of the Horserace Betting and Olympic Lottery Act 2004 and to an affirmative resolution in both Houses of Parliament, the fund was closed on 30 January 2015. Prior to the closure of the OLDF the remaining balances were transferred to the NLDF by Statutory Instrument to allow lottery distributing bodies to access these funds.

Important events which have occurred since the year end

These are shown in Note 14 to the accounts.

Performance Analysis

Financial Commentary

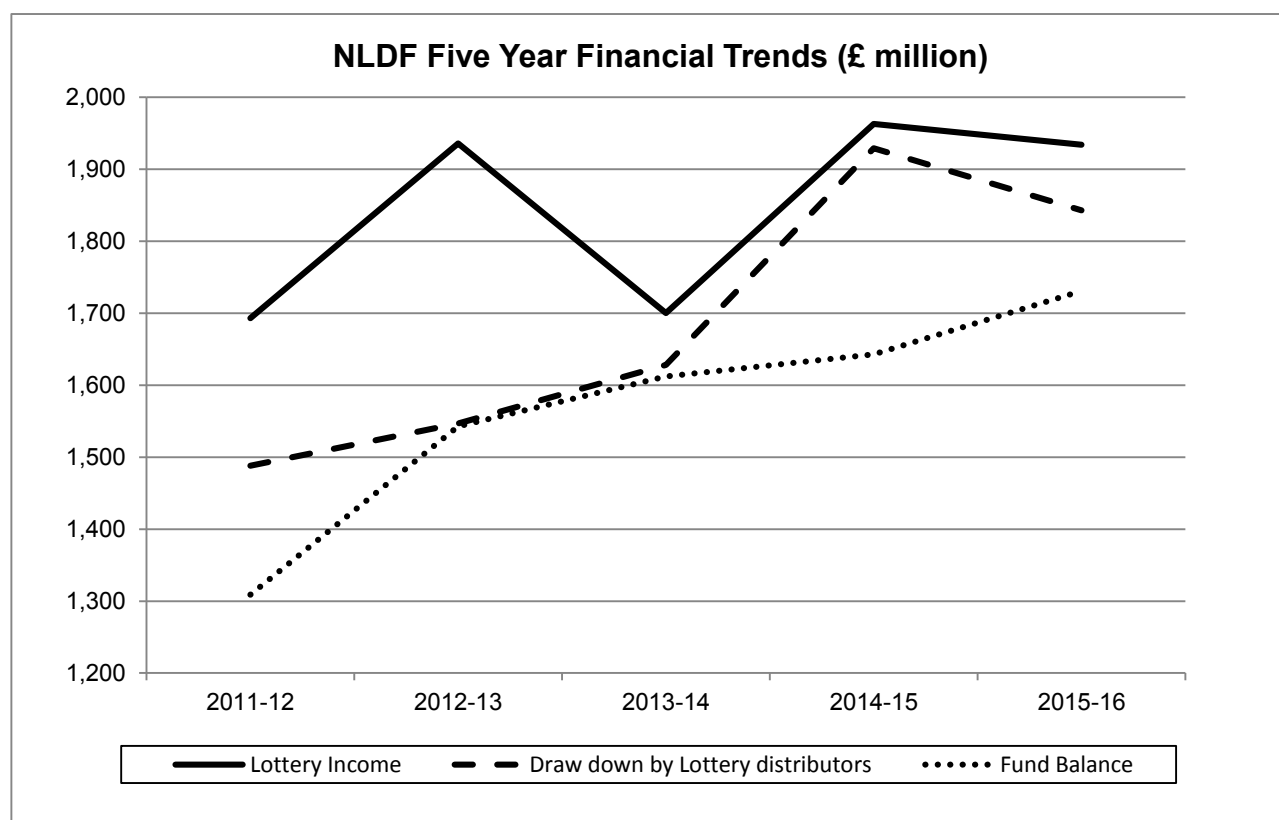
Income

By 31 March 2016, over £35 billion had been raised for good causes since the launch of the National Lottery (including money raised by Olympic Lottery products), £1.9 billion of which was received to NLDF during 2015-16. These figures include investment returns on the balance held in the NLDF. £1.8 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:	2011-12	2012-13 ¹	2013-14	2014-15 ²	2015-16
Income	1,693	1,936	1,700	1,963	1,934
Draw down by lottery distributors	1,488	1,547	1,628	1,929	1,843
Fund Balance	1,309	1,543	1,612	1,643	1,731

The fund balance in the table above is shown after operational costs of £3.1 million (£2.9 million in 2014-15).



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.

² 2014-15 income includes the transfer of funds on the closure of Olympic Lottery Distribution Fund (OLDF) for £149 million.

Lottery distributing bodies' grant liabilities and 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 lottery distributing bodies can be met. At the year end the Fund balance was £1.7 billion. Against this, lottery distributing bodies had made commitments of £3.0 billion, and expect that £1.4 billion would be drawn down by recipients within one year of 31 March 2016.

The figures shown in the table below are based on amounts recorded in the lottery distributing bodies' draft unaudited 2015-16 accounts.

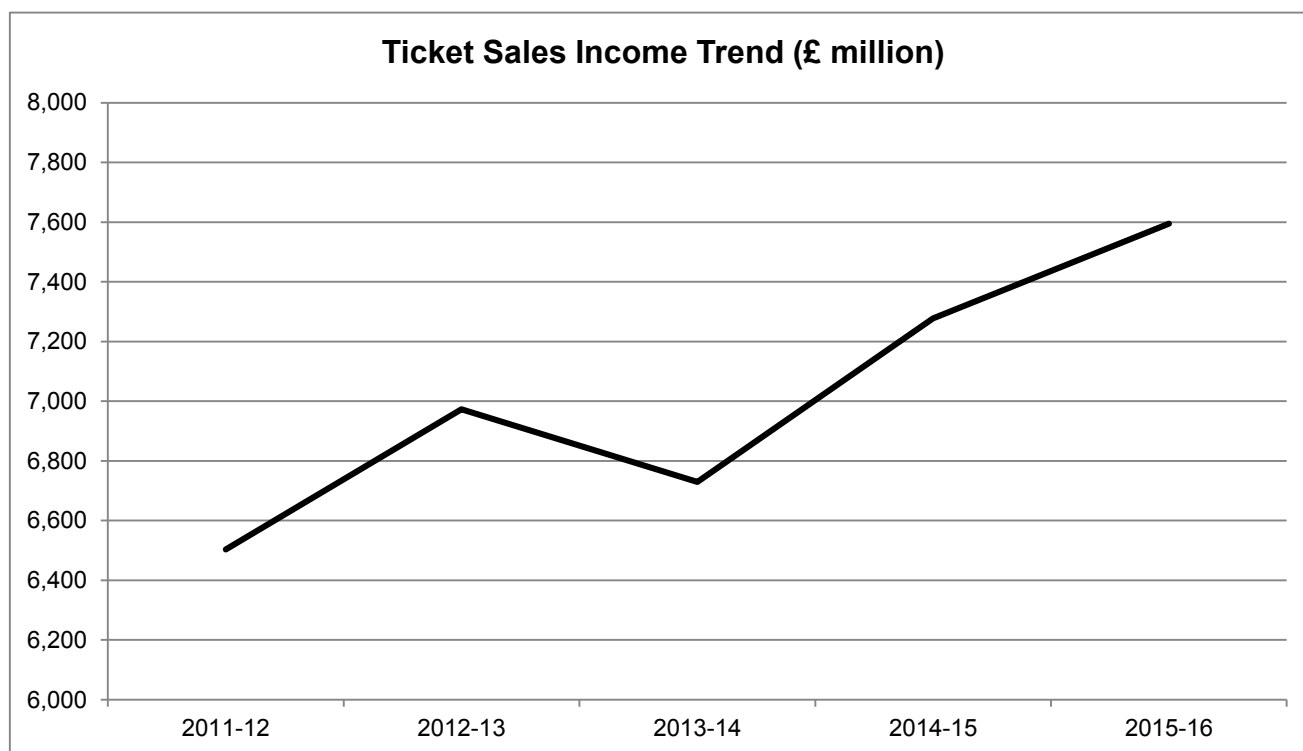
	2016			Total £000	2015 Restated Total £000
	Grant liabilities falling due within one year £000	Grant liabilities falling due in over one year £000	Grant liabilities falling due in over five years £000		
Arts Council of England	209,283	116,906	-	326,189	448,729
Arts Council of Wales	12,621	5,090	-	17,711	18,975
Creative Scotland	19,990	8,075	-	28,065	26,325
Arts Council of Northern Ireland	2,472	268	-	2,740	8,822*
British Film Institute	38,696	-	-	38,696	52,264
Sport England	213,757	42,331	-	256,088	381,413
Sports Council of Northern Ireland	9,089	-	-	9,089	12,873*
Sport Scotland	20,302	1,222	-	21,524	18,061*
Sports Council of Wales	1,799	817	-	2,616	989
UK Sport	6,264	2,445	-	8,709	11,769
Heritage Lottery Fund	352,518	611,386	32,134	996,038	964,120
Big Lottery Fund	477,001	702,771	92,829	1,272,601	1,253,541*
	1,363,792	1,491,311	124,963	2,980,066	3,197,881
NLDF Balance Available				1,731,275	1,643,038
Over committed Balance (see below)				(1,248,791)	(1,554,843)

*Indicates restated figure (restated as draft figures were disclosed in the 2014-15 accounts, now updated for final figures)

At 31 March 2016, in addition to these grant liabilities and commitments, contingent liabilities total £896 million (£968* million at 31 March 2015 (Restated)). Contingent liabilities arise when a lottery distributing body has decided in principle to fund a project but the liability recognition criteria are not yet met. These contingent liabilities are disclosed as a note in the lottery distributing bodies' Financial Statements.

The NLDF balance available on the fund at 31 March 2016 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 lottery distributing bodies can be seen in Note 10 to these accounts.

The income trend from the sale of tickets over the period 2011-12 to 2015-16 is shown in the table below³.



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 the Department, CRND and by the GC for regulating the National Lottery are met from the fund and totalled £3.09 million for the year of which £2.80 million (£2.5 million in 2014-15) related to the GC. The table below provides a breakdown of costs. The GC 2015-16 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	2011-12	2012-13	2013-14	2014-15	2015-16
DCMS (Note 4)	0.28	0.24	0.27	0.23	0.23
Gambling Commission (Note 5)	4.72	1.85	2.53	2.53	2.80
CRND (Note 6)	0.12	0.11	0.11	0.11	0.07

³ Information sourced from Camelot press releases available on www.camelotgroup.co.uk.

The 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.

Signed:

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

5 July 2016

ACCOUNTABILITY REPORT

Corporate Governance Report

Directors' Report

Governance Structure

The Department 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, the Department and its executive Arm's Length Bodies (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 March 2015 can be found here:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/480743/Senior_salaries_and_staff_posts_dataset_31st_March_2015.csv/preview

Organisation charts for the Department 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 Department's 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.

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 the Department, disclosure can be found in the 2015-16 Annual Report and Accounts which will be available, when published, on the Department's website at www.gov.uk/dcms.

Signed:

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

5 July 2016

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 she outlines the compliance work undertaken at Camelot Group plc during the year ended 31 March 2016 which has led her to be satisfied that the payments to the National Lottery Distribution Fund during the year ended to 31 March 2016 are complete and accurate in all material respects.

I take personal responsibility for the annual report and accounts and confirm that they as a whole are fair, balanced and understandable, as are any judgements used to determine this view.

Signed:

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

5 July 2016

Governance Statement

This Statement sets out the governance structures, risk management and internal control procedures that have operated within the Department for Culture, Media and Sport (DCMS or the Department) and consequently applied to the National Lottery Distribution Fund (NLDF) during the financial year 2015-16 and accords with HM Treasury guidance.

The Department has a wide and complex remit incorporating a number of projects and programmes which we are delivering in innovative ways. The governance systems, structures and processes we have in place have evolved over 2015-16 to ensure that we are able to deliver our Departmental objectives and priorities to best effect.

How we have managed DCMS

In order to manage the Department efficiently, I am supported by formal governance structures. These comprise the Departmental, Sub and Executive Boards as well as other Committees including a Programme Board for the UK Broadband programme. These are 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.

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.

Governance structure

The Department is responsible for the architecture of the National Lottery regime. The Department works closely with the Gambling Commission (GC), the independent regulator of the National Lottery licence holder. Among other things, the GC monitors and reports on the performance of Camelot (the current licence holder) and enforces the terms of its Section 5 licence. The Department maintains oversight of the GC's activities through appropriate controls, including a Management Statement covering regularity and propriety issues, and through an established series of regular meetings and ad hoc interactions.

The amounts raised through the National Lottery for Good Causes are paid into the NLDF which is managed and run by staff employed by DCMS. 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 annually conducts an assurance review of key systems of internal control by Lottery Distributors.

National Lottery income is collected by the operator, Camelot (who is overseen by the Gambling Commission, an Arm's Length Body (ALB) of DCMS) and is passed to the NLDF.

During 2015-16, DCMS has significantly enhanced its governance structures, ensuring that boards and committees are better aligned and risk and performance management more robustly monitored. The **Departmental Board**, chaired by the Secretary of State, meets on a quarterly basis and brings together expertise from across the Department. Due to the General Election, the Board only met three times in 2015-16. It focused on strategic decision making, the Department's vision, improving corporate service functions and ALB Governance.

The Departmental Board is comprised of ministers, senior executives and Non Executive Board Members (NEBMs).

To support the strategic leadership of the Departmental Board, the Permanent Secretary chairs a quarterly **Departmental Sub-Board** which gives the Executive Board and Non-Executive Board Members the opportunity to discuss broader operational and policy issues, ensuring that strategic decisions are tested and given the right level of challenge and support before Ministerial scrutiny. The Sub-Board met four times in 2015-16 and focused on issues including telecoms resilience, appointments, the Single Departmental Plan and the BBC Charter. The Sub Committee also welcomed external feedback from Comptroller and Auditor General, Sir Amyas Morse and others.

The **Audit and Risk Committee (ARC)** reports to and advises the Departmental Sub-Board on governance, risk management and audit control. In 2015-16, the Committee met on four occasions and held one extraordinary meeting. The Committee is chaired by a Non Executive Board Member (Dr Tracy Long CBE until 20 January 2016, Fields Wicker-Miurin OBE from 20 January 2016 onwards) and was attended by the Department's lead Non Executive Board Member, Sir David Verey, and two independent members. In discharging her responsibility, the ARC Chair meets regularly with the Accounting Officer, Director General, Finance Director, members of the Executive Board, Internal Audit and the National Audit Office (NAO) to discuss issues and assess the performance of the ARC to ensure that it is fulfilling its objectives and remit. In 2015-16, the ARC provided substantial advice and challenge to the Department in the preparation of the DCMS consolidated Annual Report & Accounts and the NLDF Annual Report & Accounts, as well as considering external and internal audit plans and reports. The ARC also held strategic risk workshops and provided regular oversight of corporate resilience including the strategic review of resources, improving security and financial systems and shared services.

The **Executive Board** provides corporate leadership to the Department and ensures the effective delivery of departmental priorities and ministerial objectives. In 2015-16, work was undertaken to improve performance and risk reporting across the Department. The Executive Board convene on a monthly basis to review departmental performance and strategic risk in addition to policy and delivery decisions. An observer programme open to all DCMS staff together with a monthly read out to staff on the intranet, ensures visibility and transparency of decision making across the Department.

As part of the 2015-16 'Governance Refresh', a set of Executive Board Sub Committees were established with clear remits and accountability focusing on the following areas:

- **Arm's Length Bodies Risk and Governance Board.** A sub-committee of the Executive Board, which provides assurance to the Executive Board that the Department's sponsorship functions are properly embedded across the Department and that the risks presented to the Department by its ALBs are managed appropriately.
- **Delivery and Policy Committee.** A sub-committee of the Executive Board, replacing the previous Resourcing and Delivery Committee.
- **Finance Committee.** A sub-committee of the Executive Board, responsible for monitoring the department's financial risks and capital spend.
- **Knowledge and Information Management Committee.** A sub-committee of the Executive Board, responsible for delivering and implementing the Department's Knowledge and Information Management policies.

- **People Committee.** A sub-committee of the Executive Board, responsible for the strategic management of people issues within DCMS.
- **DCMS/Broadband Delivery UK (BDUK) Management Board.** The board ensures alignment between the work of BDUK and the government's wider telecoms strategy, formally agrees any changes to the strategic objectives, and discusses and escalates risks

Information Management

The Departmental Board and its sub-committees are provided with a range of management information in order to review the Department's performance and capability including performance reports, risk registers and corporate service data. The Head of Governance oversees this information and ensures the quality of data complies with the departmental guidance on writing Board papers in order to facilitate informed discussion and decision making.

DCMS provides information including the 'online system for central accounting and reporting' (OSCAR) returns to HM Treasury and transparency information which is published at data.gov.uk and announced in a Cabinet Office Quarterly Written Ministerial Statement. The quality of this data is regularly assessed by DCMS, Cabinet Office and HM Treasury as well as being available for public scrutiny. This data is consistent with data provided to the board.

Non Executive Board Members

The Secretary of State was pleased to welcome two new board members in 2016, following the departure of Ruby McGregor-Smith CBE and Dr Tracy Long CBE. Fields Wicker-Miurin OBE and Neil Mendoza joined the Department in January 2016 after a process of fair and open competition in line with the Office of the Commissioner for Public Affairs (OCPA) guidelines. All NEBM positions were advertised openly and centrally through the Cabinet Office Public Appointments website. To ensure the independence of NEBMs is maintained, appointments are made for a three year fixed period, which can be extended by a maximum of three further years.

Outside of the Board, our NEBMs have played an active and much valued role across the Department. In 2015-16, our NEBMs contributed to work relating to the Single Departmental Plan, Public Appointments, ALB Governance and Shared Services. Furthermore, NEBMs have worked across government on a number of cross cutting initiatives including ALB Transformation, the Blythe House project and audit and risk management.

Board and Committee Attendance

Departmental Board and Committee attendance for financial period 1 April 2015 to 31 March 2016					
	COMMITTEE/ BOARD MEMBERS	DEPARTMENTAL BOARD	SUB BOARD	AUDIT & RISK COMMITTEE	PAY COMMITTEE
MINISTERS	John Whittingdale	3/3			
	Ed Vaizey	2/3			
	Tracey Crouch	1/2			
	David Evennett	0/1			
	Baroness Shields	1/3			
	Baroness Neville-Rolfe	1/3			
NON EXECUTIVE BOARD MEMBERS/ INDEPENDENT MEMBERS	Sir David Verey	3/3	1/4	4/4	1/1
	Dr Tracy Long	2/2	3/3	3/3	1/1
	Ajay Chowdhury	2/3	3/4		
	Ruby McGregor-Smith	1/2	1/2		
	Fields Wicker-Miurin	1/1	2/2	1/1	
	Neil Mendoza	1/1	2/2		
	Michael Higgin			4/4	
	Chris Walton			4/4	
EXECUTIVE BOARD	Sue Owen	3/3	3/4	4/4	1/1
	Sarah Healey	3/3	4/4	4/4	
	Chris Townsend	3/3	3/3	4/4	
	David Rossington	2/3	3/3	4/4	
	Clare Pillman		3/4		
	Andrea Young		3/4		
	Hugh Harris		4/4		
	Rosemary Pratt		2/2		
	Alison Pritchard		0/1		

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

Approach to Risk Management

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

The Risk Management framework consists of four management levels where risks are managed:

- **Local/Project:** Most risk is dealt with at the local/project level. Risk is managed by policy and operational teams across the Department, who when appropriate escalate risk to the Group or Committee level.
- **Group:** managed by Directors who review risks which have been escalated from the local/policy areas.
- **Committees of the Executive Board** such as the People Board or Finance Committee have their own risk registers, which are reviewed at every meeting and decide whether the risk should continue to be monitored at Committee level or escalated to the Executive Board.
- **Board levels such as the Executive Board**, Departmental Sub-Board and Departmental Board. The Executive Board has an overview of strategic risk across the Department and reviews risks in the monthly performance management reports and the Strategic Risk Register. The DCMS Sub-Board provides advice and challenge on the departmental risk process and reviews risks at its quarterly meetings. The DCMS Board reviews any critical risks which have been escalated from the DCMS Sub-Board.

Models Statement of Assurance

I am satisfied that quality assurance of key systems of internal control which are business critical to DCMS is of appropriate design and has been conducted according to professional standards. Sixteen models of key control systems were reviewed as part of the quality assurance exercise. 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. A review of the Department's assurance processes was carried out by Internal Audit in 2015-16. As a result of the recommendations in the report, the process was improved to give a higher standard of assurance that there had been no significant exceptions to key controls. As a consequence, I conclude that the Department's business critical models pose low business risks.

Significant Risks in 2015-16 and Mitigating Factors

Fraud and Error

The Department's policy towards fraud, malpractice and corruption is one of zero tolerance, whether by the Department itself or the ALBs for which it is responsible. The Department's fraud policy sets this out in detail, and the Department's fraud response plan, sets out the arrangements for reporting and responding to fraud, both these have been reviewed and were updated in June 2015 to strengthen the process and controls.

The main emphasis of the fraud response plan is 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 disseminate good practice across DCMS and its ALBs, including lessons arising from fraud investigations, and inform the National Fraud Intelligence Bureau of frauds. There was one significant instance of attempted fraud in 2015-16 for the core Department which was picked up through the banking control processes. Internal Audit have since reviewed all processes and controls and all recommendations have been implemented.

We continue to work with our ALBs and the Cabinet Office to identify and counter fraudulent activities. Our lottery bodies operate a Fraud Operations Group where they share information and best practice. The Heritage Lottery Fund have participated in the Random Sampling Audit this year with the report due in May, findings from this will be shared and implemented over the next year. Through continued working with the Cabinet Office Counter Fraud Network and supporting our ALB's we will strengthen our awareness, processes and controls and reduce our risk of fraud.

In June 2015 there was an attempt made by an external party to divert a Grant in Aid payment made to one of our Arm's Length Bodies. The Department's Fraud Response Plan was activated, evidence was secured and the matter was reported to the police, senior management and Internal Audit. Whilst banking controls were effective and no monies were lost we immediately commissioned our Internal Auditors to review our controls and processes. The review identified that significant improvements were needed, and control procedures have subsequently been tightened.

During its routine annual audit of the British Library, the National Audit Office identified an error in the calculation that creates the annual Public Lending Right (PLR) figures. The PLR is the right for authors to receive payment for the loans of their books by public libraries. As a result of a manual input error, the overall loans figure was under represented when calculating the total sample. This resulted in the authors whose payments are affected receiving an extra payment. The incorrect PLR rate had been approved by Parliament, and all the authors informed that this would be the rate they would receive. Every author, therefore, received a rate consistent with the approved figure resulting in all the authors being paid a slightly inflated rate. The total additional cost of £264,115 came from the British Library's cash reserves.

Following this miscalculation, an investigation and permanent corrective action took place. This included a review of the system architecture, a mechanism of over check, and measurement and statistical analysis.

Lottery Distributing Bodies

The Sports Council Northern Ireland (SCNI)

SCNI is one of twelve Lottery Distributing Bodies that are funded by The National Lottery Distribution Fund Account. During the period March 2015 to March 2016, a number of significant changes took place in the key personnel of SCNI. The changes are summarised below:

- 10 March 2015 - the Chief Executive has been suspended since this date. The Principal Accounting Officer for the Department of Culture, Arts and Leisure (Northern Ireland) has ensured that interim cover has been in place for these key roles.
- 6 July 2015 - nine members of the board resigned. To assist the remaining five members with their leadership and oversight role, suitable senior civil servants were co-opted to the Committees of the Board. With effect from 1 January five new members have joined the five remaining board members.
- 31 March 2016 - both the Chair and Vice Chair resigned. The Minister of Culture, Arts and Leisure has appointed interims.

Further details will be included in the 2015-16 SCNI Lottery Distribution Account when published.

Big Lottery Fund (BIG): Funding Management System (FMS)

BIG implemented a new grant funding system in 2013. This failed to deliver the full functionality planned and the system was impaired on the basis of unused modules in each of the last two years and concerns over the system were noted within the Department's Governance Statement.

As a result of a further review in 2015-16, BIG has applied an impairment of £9.5m. Under the new strategic framework for grant giving, the FMS does not provide the full functionality and flexibility to meet the new grant making strategy. The system continues to fully support grant activity with appropriate controls but further changes will be required to meet the medium term aims of BIG. This will include the potential for replacement or partial replacement of the system. The NAO have reviewed the decisions and basis for valuation and impairment and have confirmed these are appropriate.

Compliance with the Corporate Governance Code

DCMS fully complies with the Code of Corporate Governance with the following variations:

- The Pay Committee, which comprises the Permanent Secretary and two NEBMs, fulfils the role of the Nominations and Governance Committee, focusing primarily so far on scrutinising the incentive structure, and is supported by the Senior People Development Committee
- The Head of Internal Audit attends the Audit and Risk Committee. The chair of the Audit and Risk Committee regularly reports to the board on key issues and the work of the Committee.

Board Performance and Effectiveness

In 2015-16 the Government Internal Audit Agency (GIAA) undertook a review of governance arrangements in the Department, following on from recommendations made in the 2013-14 GIAA review. It was noted that:

- the processes in place in DCMS were appropriate, effective and met the requirements of good governance;
- the positive support of the Executive Team was driving effective delivery of good governance, supported by a strong central governance team;
- DCMS' existing framework included an effective and flexible approach governing management's responses to urgent, unanticipated issues and crises.

The Board have also made their own assessment of its effectiveness and have concluded that there have been many positive improvements over the last reporting year which have notably bolstered governance functions and performance within the Department. The Executive Board will continue to drive forward further improvements over the next twelve months, in areas such as risk and performance management.

Other Key Governance Activities

Machinery of Government Changes

As a result of a number of Machinery of Government changes the Department has taken on responsibility for the Digital Economy Unit (previously operating as a joint unit with the Department for Business, Innovation and Skills); data protection policy including sponsorship of the Information Commissioner's Office (an ALB) (both transferred from the Ministry of Justice) and the Digital Inclusion Unit (transferred from the Cabinet Office).

Whilst responsibility for the Government Equalities Office (GEO) and the Equality and Human Rights Commission (an ALB) transferred from DCMS to the Department for Education.

Internal Audit Annual Report

The Government Internal Audit Agency (GIAA) operate to the Public Sector Internal Audit Standards. GIAA discusses its programme of assurance work with the Department to focus most efficiently on key Departmental risks. GIAA 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 GIAA but is a management responsibility.

The financial year saw the General Election, new ministers and Secretary of State, a comprehensive spending review, multiple Machinery of Government transfers, and more disruption in the Shared Transactional Services project, all combined with the increasing pressure to deliver. As a result, GIAA gave moderate assurance on the adequacy and effectiveness of the system of internal control over the course of the year whilst noting that DCMS has raised its standards despite the challenges.

The auditors noted the Department's introduction of the strategic risk register, internal control activities (such as the financial transformation project) and the clear pathway for improved governance processes.

Overall, the Department has shown improvement in relation to the 2014-15 review. However, the DCMS continues to have opportunity to ensure greater consistency.

GIAA also undertook an audit of the NLDF and gave moderate assurance as some work improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

Accounting Officer's Conclusion

I have considered the evidence provided regarding the production of the Annual Governance statement including from the Department's governance structures, reviews of our ALB's and the independent advice provided by the Audit and Risk Committee. I conclude that the Department has satisfactory governance and risk management systems in place with effective plans to ensure continuous improvement.

Signed:

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

5 July 2016

Remuneration and Staff Report

Remuneration Policy

Administration of the NLDF is undertaken on a part-time basis by a small number of officials in the Department, whose costs are reimbursed by the NLDF. The Department does not recharge the NLDF for the remuneration costs of Departmental Ministers or the Departmental Board.

Management and control of the NLDF is vested in the Secretary of State. Details of the composition of the Department Ministers and Board and remuneration information may be found in the Remuneration Report of the *DCMS Annual Report and Accounts 2015-16* which is subject to audit, and will be available, when published, on the Department's website at www.gov.uk/dcms.

Signed:

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

5 July 2016

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 2016 under the National Lottery etc. Act 1993. The financial statements comprise: the Statements of Comprehensive Net Income, Changes in Amount Held for Lottery Distributing Bodies, 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 2016 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 Performance Report and Accountability 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

6 July 2016

FINANCIAL STATEMENTS

Statement of Comprehensive Net Income for the Year Ended 31 March 2016

	Note	2015-16 £000	2014-15 £000
Income			
National Lottery	2	1,926,418	1,806,002
Transfer of funds on closure of the OLDF		-	148,671
Investment Income	3	7,849	7,891
Total Income		1,934,267	1,962,564
Less: Operational Costs			
Department for Culture, Media and Sport	4	227	232
Gambling Commission	5	2,798	2,531
Other Expenses	6	69	110
		3,094	2,873
Net Realised Income for Distribution		1,931,173	1,959,691
Amounts authorised for payment to lottery distributing bodies	10	(1,842,936)	(1,928,887)
Increase in realised amount held for lottery distributing bodies		88,237	30,804
Total comprehensive income		88,237	30,804

All transactions are in respect of continuing operations.
The notes on pages 26 to 35 form an integral part of these accounts.

Statement of Changes in Amount Held for Lottery Distributing Bodies for the year ended 31 March 2016

	Note	£000
Amount held for lottery distributing bodies at 1 April 2014		1,612,234
Total comprehensive income for the year 2014-15		30,804
Amount held for lottery distributing bodies at 31 March 2015		1,643,038
Total comprehensive income for the year 2015-16		88,237
Amount held for lottery distributing bodies at 31 March 2016	10	<u>1,731,275</u>

The notes on pages 26 to 35 form an integral part of these accounts.

Statement of Financial Position as at 31 March 2016

	Note	2015-16 £000	2014-15 £000
<u>Current Assets</u>			
Receivables	7	35,680	48,371
Investments held by CRND at fair value	8	1,696,309	1,594,899
Cash at Bank and in Hand		-	-
Total current assets		1,731,989	1,643,270
<u>Current liabilities</u>			
Payables: Amounts falling due within one year	8	(714)	(232)
Total assets less liabilities		1,731,275	1,643,038
<u>Represented by:</u>			
Statement of comprehensive net income: realised amount held for lottery distributing bodies		1,731,275	1,643,038
Amounts held for lottery distributing bodies	10	1,731,275	1,643,038

The notes on pages 26 to 35 form an integral part of these accounts.

Signed:

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

5 July 2016

Statement of Cash Flows for Year Ended 31 March 2016

		2015-16	2014-15
<u>Cash flows from operating activities</u>	Note	£000	£000
Cash received from Lottery operator		1,939,109	1,798,972
Cash received from OLDF		-	148,671
Cash paid for operating expenses		(2,612)	(2,908)
Cash paid to lottery distributing bodies	10	(1,842,936)	(1,928,887)
Net cash inflow from operating activities	9	93,561	15,848
 <u>Cash flows from investing activities</u>			
Cash Paid to CRND for investment		(1,936,497)	(1,944,735)
Cash received from CRND for distribution		1,842,936	1,928,887
Net cash outflow from management of liquid resources		(93,561)	(15,848)
Change in cash		-	-

All investment income is re-invested by the CRND.

The notes on pages 26 to 35 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 (FreM).

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 lottery 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 committed liabilities.

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 2015 to 31 March 2016.

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 GC 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 the 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 Down by Distributors

The amounts recorded as drawn down by the lottery distributing bodies represent their actual cash claims.

1.8 Investments

Investments are available for sale financial assets.

Investments held by the CRND are valued in these accounts at fair value as at 31 March 2016, 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 the Department'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.

The Department regularly 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

	2015-16 £000	2014-15 £000
Primary contribution	1,788,121	1,668,980
Secondary contribution	8,595	8,045
Unclaimed prizes	128,707	127,831
Interest on Players Trust Fund	20	3
Income from ancillary activities and other items	975	1,143
	<u>1,926,418</u>	<u>1,806,002</u>

3 Investment income

	2015-16 £000	2014-15 £000
<u>Investment Income</u>		
Interest Received on investments	<u>7,849</u>	<u>7,891</u>

The NLDF's objective is to provide for the lottery 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.

All investments in 2015-16 were held as Call Notice deposits.

4 Operational Costs: Department for Culture, Media and Sport

	2015-16	2014-15
	£000	£000
Admin costs	205	208
External auditor's remuneration	20	22
Bank of England charges	2	2
	<u>227</u>	<u>232</u>

In 2015-16 the Department's Finance and Lotteries Team 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 the Department has been charged to the NLDF, on the basis of accommodation costs per FTE. Similarly a share of the central service costs incurred by the Department has been charged on the basis of central costs per FTE.

5 Reconciliation of Gambling Commission Operational Costs

The Department recovers the net costs of running the GC from the NLDF. The net cost consists of the grant in aid paid to GC less the licence fee income received by GC and surrendered to the Department 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 2015-16, licence fee income of £60,900 relating to new National Lottery games was received by the Department.

	2015-16	2014-15
	£000	£000
Funding recovered by the Department	2,859	2,628
Lottery Operator licence fee income	(61)	(97)
Amount paid to the Department	<u>2,798</u>	<u>2,531</u>

6 Other expenses

	2015-16	2014-15
	£000	£000
CRND Management Fee/Charge*	<u>69</u>	<u>110</u>

*The above represents the amounts paid to the CRND for management of the NLDF Investment Fund Account. In 2014-15 this includes £12,250 which was paid on behalf of the OLDF for the management of the OLDF Investment Fund Account.

7 Receivables

	2015-16	2014-15
	£000	£000
Income due as a result of draws prior to year end	35,680	48,371

The carrying value of receivables approximates their fair value.

8 Reconciliation of Investments held by CRND at fair value to Amounts Held for lottery distributing bodies

	at 31 March 2016		at 31 March 2015	
	Cost	Fair Value	Cost	Fair Value
	£000	£000	£000	£000
Investments held by the CRND	1,696,309	1,696,309	1,594,899	1,594,899
Receivables (Note 7)	35,680	35,680	48,371	48,371
Payables	(714)	(714)	(232)	(232)
Balance held	1,731,275	1,731,275	1,643,038	1,643,038

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).

The funds are held in a revolving investment fund i.e. investment returns re-invested directly into the fund. The funds are repayable on demand within one working day. 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 the Department's recharges.

9 Reconciliation of Amounts Held for lottery distributing bodies as disclosed in Statement of Comprehensive Net Income with Net Cash Inflow from Operating Activities.

	2015-16	2014-15
	£000	£000
Increase in realised amounts held for lottery distributing bodies	88,237	30,804
Investment income	(7,849)	(7,891)
	80,388	22,913
Decrease/(increase) in lottery operator receivables	12,691	(7,031)
(Decrease)/increase in payables for operating expenses	482	(34)
Net cash inflow from operating activities	93,561	15,848

10 Amounts held for lottery distributing bodies at 31 March 2016

BENEFICIARY SECTORS	Arts	Sports	Heritage Lottery Fund	Big Lottery Fund	TOTAL
	£000	£000	£000	£000	£000
National Lottery proceeds					
Share of income from lottery	385,284	385,284	385,284	770,566	1,926,418
Less share of operational costs	(619)	(619)	(619)	(1,237)	(3,094)
	384,665	384,665	384,665	769,329	1,923,324
Amount authorised for payment to lottery distributing bodies	(376,671)	(426,391)	(357,328)	(682,546)	(1,842,936)
Investment Income	1,570	1,570	1,570	3,139	7,849
Increase/ (decrease) in balance available	9,564	(40,156)	28,907	89,922	88,237
Amounts held for lottery distributing bodies at market value at 1 April 2015	433,263	319,667	565,997	324,111	1,643,038
Amounts held for lottery distributing bodies at market value at 31 March 2016	442,827	279,511	594,904	414,033	1,731,275

Amounts held for lottery distributing bodies at 31 March 2016 (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	268,851	34,290	19,264	10,787	52,092	385,284
Less share of operational costs	(432)	(55)	(31)	(17)	(84)	(619)
	268,419	34,235	19,233	10,770	52,008	384,665
Amount authorised for payment to lottery distributing bodies	(260,926)	(31,508)	(20,292)	(11,672)	(52,273)	(376,671)
Investment Income	1,096	140	78	44	212	1,570
Increase/ (decrease) in balance available	8,589	2,867	(981)	(858)	(53)	9,564
Amounts held for lottery distributing bodies at market value at 1 April 2015	325,697	18,519	22,360	5,528	61,159	433,263
Amounts held for lottery distributing bodies at market value at 31 March 2016	334,286	21,386	21,379	4,670	61,106	442,827

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	238,878	31,208	17,337	10,017	87,844	385,284
Less share of operational costs	(384)	(50)	(28)	(16)	(141)	(619)
	238,494	31,158	17,309	10,001	87,703	384,665
Amount authorised for payment to lottery distributing bodies	(273,802)	(28,850)	(15,100)	(8,891)	(99,748)	(426,391)
Investment Income	973	127	71	41	358	1,570
Increase/ (decrease) in balance available	(34,335)	2,435	2,280	1,151	(11,687)	(40,156)
Amounts held for lottery distributing bodies at market value at 1 April 2015	157,703	58,676	19,386	14,736	69,166	319,667
Amounts held for lottery distributing bodies at market value at 31 March 2016	123,368	61,111	21,666	15,887	57,479	279,511

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 lottery distributing bodies.

11 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.

NLDF investments are held by CRND at fair value and due to the nature of these funds NLDF is not exposed to the degree of financial risk faced by business entities.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The investments in CRND comprise of deposits either with the Debt Management Account or the National Loans Fund. These deposits are obligations of HM Government and therefore considered to have no exposure to credit risk. Receivables relate to income due as a result of draws prior to year end. These monies are also considered to have no exposure to credit risk as legislation requires Camelot to transfer these monies to the NLDF.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the NLDF relate to changes in market interest rates. The interest return on investments is closely linked to the official Bank Rate. The Department does not consider that the NLDF is exposed to any significant interest rate risks because of the nature of the assets held.

Liquidity risk

Liquidity risk is the risk that NLDF will encounter difficulty raising liquid funds to meet liabilities as they fall due. All investments are held as Call Notice deposits on CRND and therefore are highly liquid.

12 Related Party Transactions

The NLDF is maintained under the control and management of the Secretary of State for Culture, Media and Sport. The Department is considered to be a related party. During the year, a number of staff employed by the Department worked on NLDF related activities and the NLDF used a number of the assets owned by the Department. These costs were recharged to the NLDF by the Department and are reflected in Note 4 of the accounts.

The Department is also the sponsoring Department of the UK wide and English based lottery distributors except for The Big Lottery Fund. 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.

CRND, which is ultimately part of HM Treasury, is also considered a related party. Payments made during the year total £69k and are reflected in Note 6 of the accounts.

The GC, 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. Net payments made to the GC totaling £2,798k were recharged to the NLDF by the Department and are reflected in Note 5.

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 2015-16 DCMS Annual Report and Accounts.

13 Lottery distributing body share of Fund

The percentages received by each Lottery 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.

Statutory Instrument 2010 No. 2863 'The Apportionment of Money in the National Lottery Distribution Fund Order 2010' amended percentages to be as follows:

	01.04.11 to 31.03.12	01.04.12 to 31.03.16
The Arts	18.000	20.000
Sports	18.000	20.000
The National Heritage	18.000	20.000
Charitable, health, education and the environment	46.000	40.000

Arts	01.04.11 to 31.03.12	01.04.12 to 31.03.16
Arts Council of England	12.560	13.956
Creative Scotland	1.602	1.780
Arts Council for Wales	0.900	1.000
Arts Council of Northern Ireland	0.504	0.560
British Film Institute	2.434	2.704
Total Arts	18.000	20.000

Sports	01.04.11 to 31.03.12	01.04.12 to 31.03.16
English Sports Council	11.160	12.400
Scottish Sports Council	1.458	1.620
Sports Council for Wales	0.810	0.900
Sports Council of Northern Ireland	0.468	0.520
UK Sports Council	4.104	4.560
Total Sports	18.000	20.000

14 Events after the reporting period

Up to the date the Accounts were approved by the Accounting Officer for issue to Parliament, which was the date the Comptroller and Auditor General signed the audit opinion, the following events occurred:

EU Referendum

The result of the referendum held on 23 June 2016 was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made.

Other Changes

Non-Executive Board Member Change

Charles Alexander was appointed as a Non-Executive Board Member of the Department for Culture, Media and Sport on 18 April 2016.

Changes to the Executive Board

On 5 July 2016, Sarah Healey, Director General, moved to the Cabinet Office as Director General for Europe in the new Europe Unit.

Following Sarah's move, David Rossington (Finance & Commercial Director) has become Acting Director General and Tim Sparrow (Deputy Director) will cover David's Finance Director role.

ISBN 978-1-4741-2885-8



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