

# National Lottery Distribution Fund

Annual report and accounts for the year ended 31 March 2017



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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

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## Performance report

### Overview

This overview explains what the 2016-17 financial statements show, how the National Lottery Distribution Fund (NLDF) operates, and the key risks that the NLDF faces.

### The 2016-17 financial statements

The 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-third 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 financial 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 (Camelot) 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 2017 comprise:

- a proportion of lottery ticket sales, as determined by the licence granted to Camelot
- 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
- 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, and

- a share of the profits of Camelot when those profits are greater than the profits forecast in Camelot's bid to run the National Lottery.

Under the current licence, the main portion of the money passing to the NLDF is calculated as the major share of the pool that is left after deducting from sales the value of prizes, lottery duty, retailer commission, 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. The share of the funds received by each lottery distributing body in 2016-17 is shown in note 10.

### **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 (DCMS/the department) works closely with the Gambling Commission 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 Gambling Commission 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 Gambling Commission 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, however with effect from 1 April 2016 sponsorship returned to the department under a machinery of government change.

The Secretary of State issues the Financial Directions for all lottery distributing bodies sponsored by the department and, with the consent of relevant ministers, for

devolved distributors in Wales. The Secretary of State's consent is required for the issuing of Financial Directions to devolved distributors in Scotland and Northern Ireland 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 it has 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 asked to confirm to me annually that they are satisfied that their 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 grants, and maintains risk assessment and control procedures and risk registers.

My officials seek supporting information about lottery distributing bodies' systems and their approach to financial and risk management from the distributors' sponsors in my own department and in the relevant devolved administrations. Significant issues arising in relation to distributing bodies' systems are reported up the hierarchy including to the department's audit and risk committee as necessary.

## **Key risks**

### *Liquidity risks*

Liquidity risk is the risk that an entity 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 CRND which manages its investments.

The investments made by CRND are made in accordance with directions made by HM Treasury. The average return on the investments in the financial year was 0.34% (2015-16: 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 the 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 spent 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 CRND whose operations are carried out by the UK Debt Management Office (DMO). CRND charges the NLDF for its 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, energy and water, minimise waste production, 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 2016-17 DCMS annual report and accounts which will be available, when published, on the department's website at <https://www.gov.uk/government/organisations/department-for-culture-media-sport>.

### **Important events which have occurred since the year end**

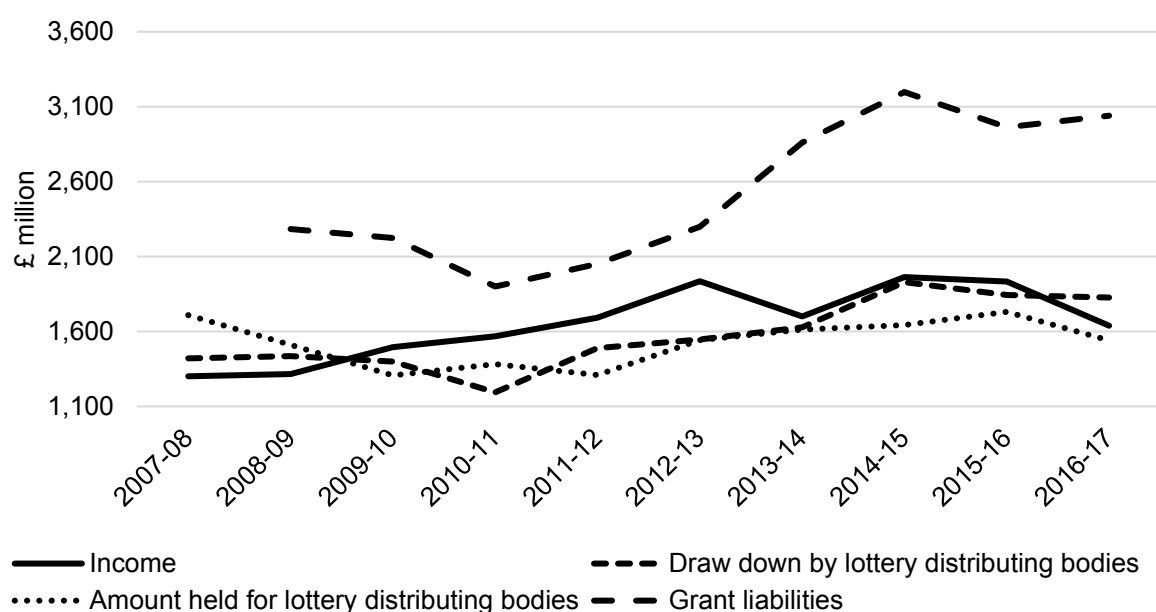
These are shown in note 14 to the accounts.

### **Performance analysis**

The trend over the last ten years for income, expenditure (i.e. drawdowns by lottery distributing bodies), the amount held for lottery distributing bodies, and grant liabilities of lottery distributing bodies (discussed below) are shown in the chart and table below.

## NLDF ten-year financial trends

Year	Income (£m)	Drawdown by lottery distributing bodies (£m)	Amount held for lottery distributing bodies (£m) <sup>1</sup>	Grant liabilities of lottery distributing bodies (£m)
2007-08 <sup>2</sup>	1,301	1,420	1,708	[No data]
2008-09	1,316	1,436	1,510	2,283
2009-10	1,496	1,399	1,307	2,224
2010-11	1,569	1,194	1,382	1,900
2011-12	1,693	1,488	1,309	2,050
2012-13 <sup>3</sup>	1,936	1,547	1,543	2,298
2013-14	1,700	1,628	1,612	2,861
2014-15 <sup>4</sup>	1,963	1,929	1,643	3,198
2015-16 <sup>5</sup>	1,934	1,843	1,731	2,962
2016-17 <sup>6</sup>	1,638	1,826	1,540	3,040



<sup>1</sup> The amount held for lottery distributing bodies is shown after operational costs.

<sup>2</sup> Data is not available for grant liabilities of lottery distributing bodies before 2008-09.

<sup>3</sup> 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.

<sup>4</sup> 2014-15 income includes the transfer of funds on the closure of Olympic Lottery Distribution Fund (OLDF) for £149 million.

<sup>5</sup> 2015-16 income benefited from a 15-week Lotto rollover following the introduction of the 59-ball Lotto game, and two extended Euromillions rollovers.

<sup>6</sup> Grant liabilities for 2016-17 are unaudited, and subject to change.

## **Income**

By 31 March 2017, over £37 billion had been raised for good causes since the launch of the National Lottery (including money raised by Olympic Lottery products), £1.6 billion of which was received by the NLDF during 2016-17 (2015-16: £1.9 billion). These figures include investment returns on the balance held in the NLDF. £1.8 billion was drawn down during the year by lottery distributing bodies to meet grant payments for good causes and expenses.

The decline in income in the year is due to lower ticket sales and to differing rates of participation across the lottery products.

Because of the complex operation of the lottery licence, which allows for varying proportions of each type of lottery product to be retained for 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.

2016-17 income includes £3 million arising from a penalty imposed on Camelot by the Gambling Commission. The penalty relates to a finding by the Commission that Camelot breached the terms of its operating licence in paying out a prize claim in 2009 which has subsequently been determined as more likely than not to have been fraudulent. The Commission's investigation has established that the circumstances of this case were specific and did not uncover systemic failings of the kind that would call into question other prize payouts. Further detail is included in the governance statement.

## **Lottery distributing bodies' grant liabilities and commitments**

The department continues to work with lottery distributing bodies to maintain fund balances at a prudent level to ensure commitments already made by lottery distributing bodies can be met.

Lottery distributing bodies' grant liabilities and commitments for 2016-17 and 2015-16 are shown in the table on page 8.

At the year end the amount held for lottery distributing bodies was £1.5 billion. Against this, lottery distributing bodies had grant liabilities of £3.0 billion, of which £1.4 billion would be drawn down by recipients within one year of 31 March 2017.

At 31 March 2017, in addition to these grant liabilities, contingent liabilities total £1.1 billion (31 March 2016: £0.9 billion (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.



## Operating costs

Expenses incurred in operating the fund by the department (which include the external audit fee), CRND and by the Gambling Commission for regulating the National Lottery are met from the fund and totalled £2.8 million (2015-16: £3.1 million) for the year of which £2.5 million (2015-16: £2.8 million) related to the Gambling Commission. The table below shows a summary of costs since 2012-13. The Gambling Commission 2016-17 annual report and accounts provides further information on this as well as its continuing role as regulator of the lottery. These can be found on their website, [www.gamblingcommission.gov.uk](http://www.gamblingcommission.gov.uk).

	2012-13	2013-14	2014-15	2015-16	2016-17
DCMS (note 4) (£m)	0.24	0.27	0.23	0.23	0.24
Gambling Commission (note 5) (£m)	1.85	2.53	2.53	2.80	2.50
CRND (note 6) (£m)	0.11	0.11	0.11	0.07	0.07
<b>Total (£m)</b>	<b>2.20</b>	<b>2.91</b>	<b>2.87</b>	<b>3.10</b>	<b>2.81</b>

## Amount held for lottery distributing bodies

The NLDF balance available in the fund at 31 March 2017 is held in investments by CRND as set out in note 8 to these accounts. The allocation of these funds across the twelve lottery distributing bodies in 2016-17 can be seen in note 10 to these accounts.

CRND publishes an annual report and accounts 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 CRND can be found on its website, [www.dmo.gov.uk](http://www.dmo.gov.uk).

Signed:

Sue Owen

Permanent Secretary and Accounting Officer

Department for Culture, Media and Sport

4 July 2017

## **Accountability report**

The accountability report is divided into two sections: the corporate governance report, and the remuneration and staff report.

The corporate governance report provides information on the governance of the NLDF. The remuneration and staff report provides information on the remuneration of those charged with governance of the NLDF, and other relevant information on staff costs.

The disclosure of this information complies with best practice standards of corporate governance and contributes to the NLDF's accountability to parliament by virtue of providing a transparent and full account of the corporate governance structure of the NLDF and other relevant information.

### **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 the senior staff structure and summary information for staff at junior levels. The latest remuneration data (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](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 at <http://data.gov.uk/organogram>.

Salary data for our ALBs can be found at <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 and staff 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.

Following the drop in lottery income, the external auditors (the National Audit Office) are undertaking an investigation into lottery income which we expect to be published later in 2017.

**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 2016-17 annual report and accounts which will be available, when published, on the department's website at <https://www.gov.uk/government/organisations/department-for-culture-media-sport>.

Signed:

Sue Owen

Permanent Secretary and Accounting Officer

Department for Culture, Media and Sport

4 July 2017

## **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 HM 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 HM 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.

HM 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 published by HM Treasury.

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 2017 which has led her to be



satisfied that the payments to the National Lottery Distribution Fund during the year ended 31 March 2017 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

4 July 2017

## **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 National Lottery Distribution Fund (NLDF) during the financial year 2016-17 and accords with HM Treasury guidance.

The department has a wide ranging remit incorporating a number of complex projects and programmes. DCMS's formal governance systems, structures and processes enable clarity and accountability facilitating the effective delivery of departmental objectives and priorities.

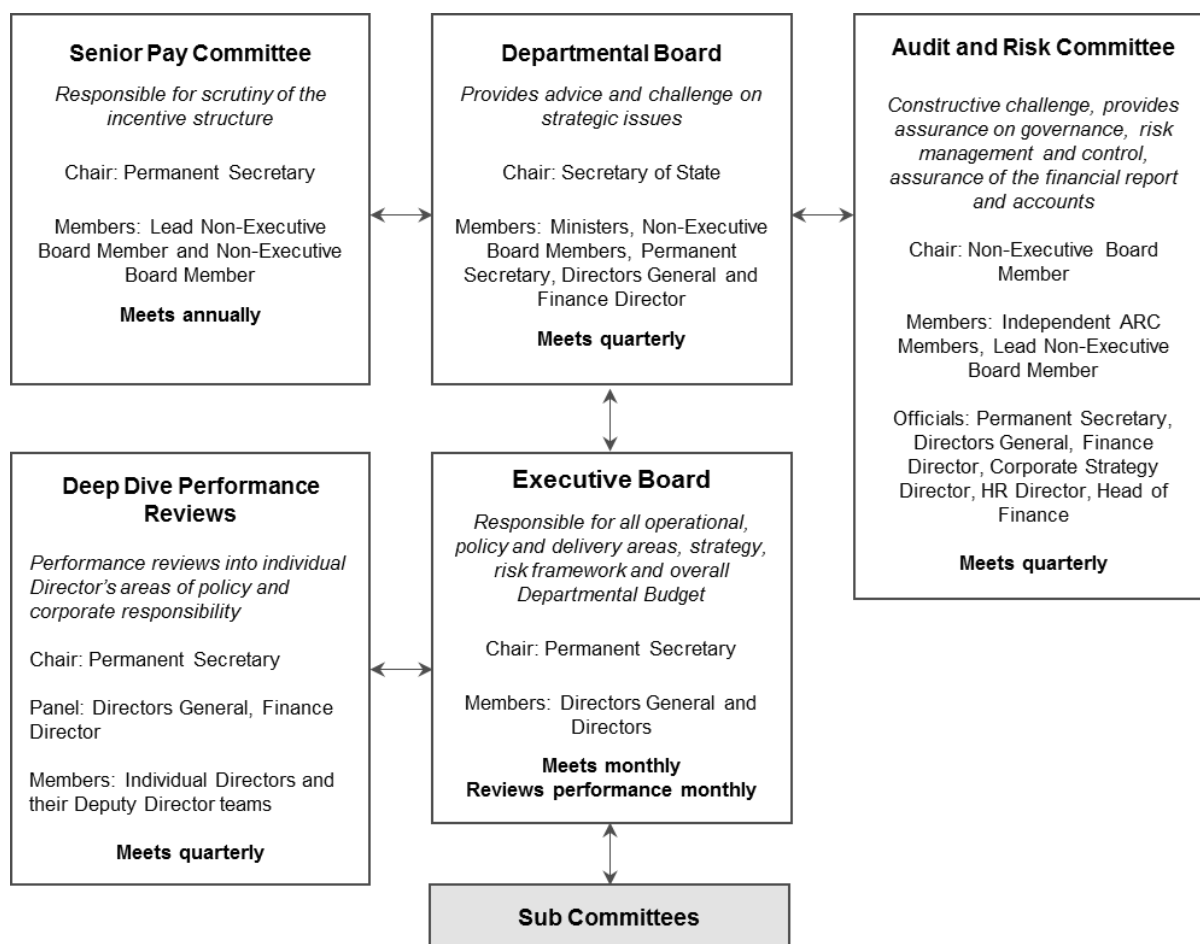
### **Oversight of the National Lottery**

The department is responsible for the architecture of the National Lottery regime and works closely with the Gambling Commission, the independent regulator of the National Lottery licence holder. Amongst other things, the Gambling Commission 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 Gambling Commission'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 seeks annual confirmation from all Lottery Distributors of key systems of internal control in relation to their handling of Lottery monies.

### **Governance structure**

The governance structure shown in the diagram below applies to the core department, also referred to as DCMS in this Statement.



During 2016-17, DCMS has sought and implemented feedback from Departmental Board members in order to enhance the board and make better use of its non-executives to provide scrutiny and challenge. It has also integrated the Office for Civil Society into its board and committee structure as part of a Machinery of Government change, and continued to improve its performance and risk management in line with the DCMS Single Departmental Plan.

### Departmental Board

The Departmental Board, chaired by the Secretary of State, is due to meet on a quarterly basis and is comprised of ministers, senior executives and non-executives. Due to the change in government, the Departmental Board only met twice in 2016-17. However there were four meetings of the Executive Team and non-executives without ministers, both as the Sub-Board (two occasions) and as exceptional meetings (two sessions): see Departmental Sub-Board below for more details.

The Departmental Board focused on strategic decision making, performance, risk, finance, resource, the Single Departmental Plan, balancing priorities for EU Exit work and managing change within the department.

Biographies of all Departmental Board members can be found on the DCMS homepage: <https://www.gov.uk/government/organisations/department-for-culture-media-sport>.

### **Departmental Sub-Board**

The Departmental Sub-Board supported the Departmental Board until it was disbanded in October 2016. It was attended by senior members of the Executive Board and non-executives with meetings held in July and October 2016. The Sub-Board discussed broader operational and policy issues such as the Single Departmental Plan, state aid, the BBC Charter Review and the best use of non-executives outside of board meetings, as well as performance, risk, finance and EU Exit work priorities.

Following the arrival of the new ministerial team, the time allocated to Departmental Board meetings was extended and the Departmental Sub-Board discontinued. In place of the Sub-Board, there is now a more flexible arrangement whereby non-executives and senior DCMS executives meet when key strategic issues require scrutiny and challenge. Two meetings were held in 2016-17, the first to review the Strategic Review of Resources – which examined our deployment of staff across our objectives and recommended changes in line with new priorities – and the second to discuss the Single Departmental Plan, resourcing issues related to EU exit work and an expanding digital agenda.

### **Audit and Risk Committee**

The Audit and Risk Committee (ARC) reports to and advises the Departmental Board on governance, risk management and audit control. In 2016-17, the Committee met on five occasions. The Committee is chaired by a Non-Executive Board Member, Fields Wicker-Miurin OBE. Other members are the Lead Non-Executive Board Member and two independent members. It is attended by the DCMS Permanent Secretary and other senior staff.

The ARC appointed two new independent members on 1 February 2017, Phill Wells and Brian Porritt, who replace Chris Walton (departed role on 8 March 2017) and Michael Higgin (departing role on 1 August 2017). In discharging her responsibilities, the ARC chair meets regularly with the Accounting Officer, Directors General, Finance Director, members of the Executive Board, Internal Audit and the NAO to discuss issues and assess the performance of the ARC to ensure that it is fulfilling its objectives and remit.

In 2016-17, the ARC provided substantial advice and challenge to the department in the preparation of the DCMS consolidated Annual Report and Accounts and the NLDF Annual Report and Accounts, and on risk, business continuity, cyber security, the Blythe House major project, shared services and whistleblowing. The Committee also reviewed and approved external and internal audit plans and reports.

Fields Wicker-Miurin, chair of the DCMS Audit and Risk Committee has also established a new forum bringing together Audit and Risk Committee chairs from over across DCMS ALBs to discuss risks, issues and share best practice across the DCMS group.

## **Executive Board**

The Executive Board provides corporate leadership to the department and ensures the effective delivery of departmental priorities and ministerial objectives. The Executive Board meets monthly to review departmental performance, finance and strategic risk; and take policy and delivery decisions. In 2016-17, improvements continued to be made to performance and risk reporting across the department. Items discussed at the Executive Board are published on the intranet and an observer programme open to all DCMS staff assists visibility and transparency of decision making across the department.

## **Executive Board Sub-Committees**

The Executive Board Sub-Committees have clear remits and accountability focussing on the following areas:

- The Arm's Length Bodies Risk and Governance Board provides assurance on the department's relationship with its Arm's Length Bodies including risk management.
- The Delivery and Policy Committee is responsible for improving how policy is made and delivered in DCMS.
- The Finance Committee monitors the department's financial risks and capital spend. The newly formed Investment Sub-Committee reports into the Finance Committee and is responsible for approving business cases for projects with a total whole life cost of £15m or below and light-touch acquisitions cases.
- The Knowledge and Information Management Committee delivers and implements the department's Knowledge and Information Management policies.
- The People Committee is responsible for the strategic management of people issues within DCMS.
- The DCMS/Broadband Delivery UK (BDUK) Management 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.

Sub-Committees provide governance reports after each meeting to the Executive Board, to ensure there is oversight of agendas, key issues, risks to be escalated and other notable items.

Deep Dive Performance Reviews are undertaken with each directorate on a quarterly basis. These are attended by DCMS' Permanent Secretary, Directors-General, Finance Director and key senior managers who scrutinise performance, risk, finance and staffing information.

## **International Oversight Board**

The International Oversight Board was established in October 2016 with the aim of monitoring and discussing progress on DCMS EU, trade and international work. The

board incorporates monthly 'deep dives' into DCMS areas, to understand the effect of EU Exit on DCMS sectors. The deputy director level International Board reports into the International Oversight Board on a monthly basis.

### **Non-Executive Board Members**

In 2016-17, the department welcomed Charles Alexander and Matthew Campbell-Hill as Non-Executive Board Members following a process of fair and open competition in line with the Office of the Commissioner for Public Affairs (OCPA) guidelines. All non-executive positions were advertised openly and centrally through the Cabinet Office Public Appointments website. To ensure the independence of non-executives is maintained, appointments are made for a three year fixed period, which can be extended by a maximum of three further years. Charles Alexander was appointed by the Secretary of State as the Lead Non-Executive Board Member for DCMS following Sir David Verey's departure in December 2016. Ajay Chowdhury also stood down in September 2016.

Outside of the board, non-executives provided expertise and valued contributions across a range of departmental priorities and work programmes such as the Single Departmental Plan, the Strategic Review of Resources, ALB Governance, Blythe House project, as well as audit and risk management. Non-executives have also chaired Challenge Panels for the reviews of the Heritage Lottery Fund, Arts Council England and UK Anti-Doping, and served as lead reviewer for the Museums Review.

## Board and Committee Attendance for financial period 1 April 2016 to 31 March 2017

	Committee/Board Members	Departmental Board	Sub Board	Audit and Risk Committee	Executive Board	Pay Committee
Ministers	Karen Bradley MP	1/1				
	Matt Hancock MP	1/1				
	Tracey Crouch MP	0/1				
	Rob Wilson MP	1/1				
	Lord Ashcroft of Hyde	0/1				
	John Whittingdale MP	1/1				
	Ed Vaizey MP	1/1				
	David Evennett MP	1/1				
	Baroness Neville-Rolfe	0/1				
	Baroness Shields	1/1				
Non-Executive Board Members/Independent Members	Sir David Verey	2/2	2/2			1/1
	Charles Alexander	2/2	2/2	5/5		
	Matthew Campbell-Hill	1/1	1/1			
	Ajay Chowdhury	1/1	1/1			
	Neil Mendoza	2/2	2/2			
	Fields Wicker-Miurin	2/2	2/2	5/5		1/1
	Michael Higgin			5/5		
	Brian Porritt			1/1		
	Chris Walton			5/5		
	Phill Wells			1/1		
Executive Board	Sue Owen	2/2	2/2	4/5	11/11	1/1
	Matthew Gould	1/1	1/1	3/3	7/8	
	Sarah Healey	1/1	1/1	1/1	3/3	
	David Rossington	2/2	2/2	5/5	11/11	
	Tim Sparrow	1/1	1/1	3/4	8/8	
	Mark Fisher				5/8	
	Hugh Harris		1/1		8/9	
	Kate Joseph/Claudia Kenyatta		1/1		11/11	
	Clare Pillman		1/1		10/11	
	Rosemary Pratt		1/1		7/9	
	Chris Townsend	2/2	1/2	3/4	9/11	
	Andrea Young				1/2	

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

### Declaration of Interests

The Non-Executive Board Members and Independent Members have disclosed a range of interests, further details of which can be found in the Directors' Report of the DCMS group annual report and accounts.

## **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 board secretariat 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. During the board effectiveness review, board members indicated they were satisfied with the information they received.

## **Board Performance and Effectiveness**

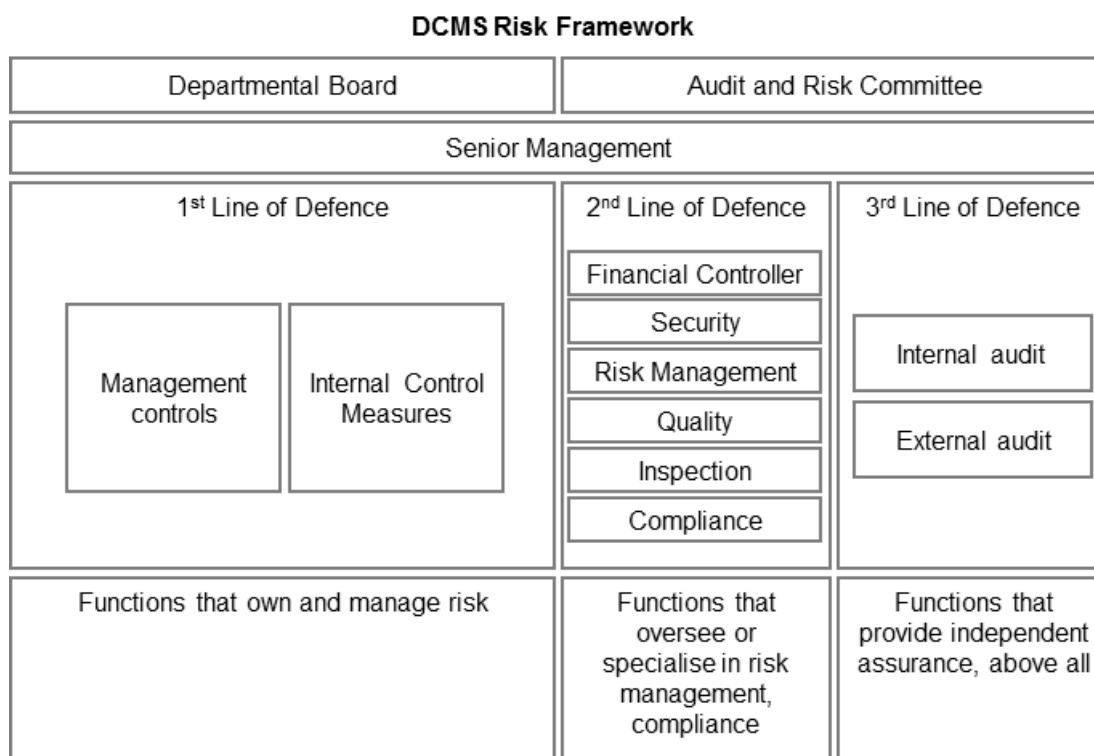
Charles Alexander, the DCMS Lead Non-Executive Board Member conducted a review of the Departmental Board in spring 2017. The board membership had undergone substantial change in 2016-17, with the new board only having met once by the time of the review. Therefore the review was a forward-looking exercise that considered existing terms of reference, roles and responsibilities, frequency, type of information provided to the board and how the board can be better supported. The review recommendations focused on how to improve board effectiveness in the future and will be implemented in 2017-18.

In March 2017, the Government Internal Audit Agency launched a review of the Executive Board and how it can work more effectively. The report gave a 'moderate' assessment and the recommendations of the report will be considered as we continue to improve our governance processes in 2017-18.

## **Approach to Risk Management**

The DCMS Accounting Officer is responsible for maintaining high standards of corporate governance, including effective management of risk throughout the department. The department's risk framework identifies risk management as a key role of the Departmental Board, the Executive Board and its sub-committees. A Risk Appetite Statement has been introduced, and outlines the tolerances around controls. Policy and guidance is available to staff on the intranet.





The department's risk framework is best characterised as three lines of defence:

- The 1st line of defence is operational management which has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.
- The 2nd line of defence consists of control activities and embedded functions (compliance, risk management, quality, and IT) that support internal governance. This line of defence monitors and facilitates the implementation of effective risk management through operational management, and further assists risk owners in reporting risk related information up and down the organisation.
- The 3rd line of defence uses internal audit (GIAA) and external audit (NAO). An independent audit function will, through a risk-based approach, provide assurance to the organisation's board of directors and senior management. This assurance will cover how effectively the organisation assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of risk management (from risk identification, risk assessment and response, to communication of risk related information) and all categories of organisational objectives: strategic, ethical, operational, reporting and compliance.

Risks are managed and categorised at all levels within, across and throughout the department. Escalation of risks consists of three 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. Depending on complexity and level of risk, local teams may manage risk registers, however all major projects have risk registers.

- Committee: Committees of the Executive Board such as the People Board or Finance Committee have their own risk registers, which are reviewed at meetings and decide whether the risk should continue to be monitored at Committee level or escalated to the Executive Board.
- Board level: Through the Executive 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 Executive Board and Audit and Risk Committee (ARC) provides advice and challenge on the departmental risk process and reviews risks at monthly and/or quarterly meetings. The DCMS Board reviews any critical risks which have been escalated from the DCMS Executive Board.

### **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, whilst the fraud response plan sets out the arrangements for reporting and responding to fraud. The policy and plan have been reviewed and updated in line with Cabinet Office guidelines.

The main emphasis of the fraud policy is keeping staff alert to risks. To facilitate this process DCMS has a Fraud and Error Champion, a role held by the head of Strategic Finance, who disseminates good practice across DCMS and its ALBs, including lessons arising from fraud investigations, and information received from the National Fraud Intelligence Bureau.

DCMS continues to work with its ALBs and the Cabinet Office to identify and counter fraudulent activities, and the DCMS lottery bodies operate a Fraud Operations Group where they share fraud information and best practice. Alongside this Sport England have participated in the Random Sampling Audit this year with the report due in the summer. Findings from this will be shared and implemented over the next year. Through continued working with the Cabinet Office Counter Fraud Network and supporting ALBs, DCMS will strengthen processes and controls to reduce the risk of fraud. In addition over the coming year we will offer training and awareness activities across the Department and ALBs, drawing on expert knowledge from the Cabinet Office.

Across the department's many Arm's Length Bodies there were a small number of suspected fraud activities in 2016-17 that will impact both Exchequer and lottery funding, and in early 2017-18 one of our ALBs was unfortunately successfully targeted. They continue to work with their Counter Fraud Specialists, other lottery bodies and the police on any ongoing investigations and will report their outcomes both to their Audit and Risk Committees and the Department as they occur. DCMS's

Internal Audit Service has also supported the ALB in reviewing its controls and procedures.

### **Core Department and Shared Services**

The department agreed a business case in April 2016 to partner with Historic England (HE) for HR and accounting services and commenced work on migration. DCMS is taking a phased approach to migrating to further HE systems and services, prioritising the areas in most urgent need of stabilisation. In December 2016, DCMS began receiving finance and expenses services from HE; the next phases, which involve HE systems processing simple HR transactions, have commenced from April 2017.

### **Group write-offs**

The nature of the grant giving activities of lottery distributing bodies is such that losses do arise. During 2016-17 the only loss that exceeded £300,000 was at the Big Lottery Fund, which incurred a loss of £372,000 as a result of the liquidation (in 2012) of the Barge Inn Community Project.

### **Lottery distributing bodies**

The Sports Council Northern Ireland (SCNI) is one of twelve Lottery Distributing Bodies that are funded by the NLDF. The 2015-16 NLDF annual report and accounts reported on a number of changes to key personnel in SCNI. Issues reported on have largely been resolved. A new Board, Chair and Vice Chair is in place, although the CEO position remains occupied by an interim appointee. A transformation programme is underway to ensure continued fitness for purpose, although at no time has SCNI's capability as a lottery distributing body been in question. SCNI's 2014-15, 2015-16 and 2016-17 accounts remain outstanding due to unresolved difficulties with content and presentation.

### **Lottery operator (Camelot)**

In October 2015, the Department was alerted to an alleged fraud against the National Lottery dating from 2009. This concerned the payout of a £2.5m jackpot against a damaged ticket. Had the jackpot not been paid out, it would have gone to the NLDF as an unclaimed prize. In December 2016 an investigation by the Gambling Commission concluded it was more likely that a fraud had occurred than not and that Camelot had committed licence breaches in three areas. A police investigation is ongoing. The Gambling Commission further determined that Camelot had breached the terms of its licence in investigating the claim to the jackpot prize. In respect of these breaches, Camelot was fined £3m by the Gambling Commission in December 2016, which was paid to the NLDF in the same month. Camelot accepted the Gambling Commission's decision without contest and the fine was paid over to the NLDF in the same month, for onward distribution to good causes.

My officials were regularly kept in touch with the Gambling Commission investigation. The Gambling Commission has given further assurances that the circumstances of this case were specific and they have not uncovered systemic failings of the kind that would call into question other prize payouts. Action has been

taken by Camelot to ensure a similar issue could not occur and has commissioned external assurances of its controls and processes around prize payouts. Key changes to strengthen these processes have now been implemented.

### **Compliance with the Corporate Governance Code**

DCMS fully complies with the Code of Corporate Governance for central government departments with the following variations:

- The Pay Committee, which comprises the Permanent Secretary, Lead Non-Executive Board Member and a second Non-Executive Board Member, fulfils the role of the Nominations and Governance Committee, focusing primarily 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 rather than the Departmental Board. The chair of the Audit and Risk Committee reports key issues and the work of the Committee to the Departmental Board.

### **Other Key Governance Activities**

#### *Machinery of Government changes*

As part of a Machinery of Government change in 2016-17, sponsorship of and policy responsibility for the Big Lottery Fund transferred to DCMS from the Cabinet Office.

#### *Internal audit annual report*

NLDF wasn't subject to an internal audit in 2016-17. With the agreement of the Accounting Officer and the Audit and Risk Committee, the Government Internal Audit Agency (GIAA) decided not to conduct an audit of NLDF due to the NLDF's low risk to the department and the levels of assurance that the annual audits had received in the previous three years (respectively: substantial, moderate and moderate).

#### *Conflict of Interest Policy and Procedure*

Non-executives, along with all other board members, are required to declare any personal or business interest which may, or may be reasonably perceived (by a member of the public), to influence their judgement in performing their functions and obligations. These are recorded in a register of interests. Where a board member declares a potential conflict at meetings, it is recorded in the minutes and the board member takes no part in the meeting for the duration of that item of discussion.

#### *Whistleblowing Policy and Procedure*

In 2016-17 DCMS reported two whistleblowing cases. One case is now closed whilst the other is ongoing. All cases are investigated in accordance with whistleblowing policies.

DCMS adopts and implements the latest Civil Service model policy on whistleblowing. The DCMS whistleblowing policy guidance, procedures and FAQs are published on the department's intranet.

DCMS has updated information on the internal intranet for employees to use as guidance in the event of raising concerns about perceived wrongdoings or actions

that contradict the Civil Service Code. This information is also incorporated into the DCMS Anti-Bullying policy.

DCMS has two independent nominated officers that staff can approach to anonymously report any perceived wrongdoings. These officers attended formal training in 2016. Although not directly responsible for the whistleblowing policy across its ALBs, the DCMS HR team use ALB HR Directors as a channel for sharing best practice and have shared the DCMS policy and guidance with ALBs.

In the 2016 People Survey, DCMS obtained the highest score for inclusion and fair treatment at 83% across the Civil Service. This was broken down to 94% staff being aware of the Civil Service Code, 67% know how to raise concern under the Code and 79% confirmed they were confident that a concern raised under the Civil Service Code would be properly investigated.

*Further information on key governance activities*

Further information on key governance activities may be found in the governance statement of the DCMS annual report and accounts 2016-17 which is subject to audit, and will be available, when published, on the department's website at <https://www.gov.uk/government/organisations/department-for-culture-media-sport>.

Such key governance activities include:

- Tax policy of off-payroll appointees
- Ministerial directions
- Machinery of Government changes
- Personal data incidents
- Accounting Officer system statement
- Internal audit annual report

**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

4 July 2017

## **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 2016-17 which is subject to audit, and will be available, when published, on the department's website at <https://www.gov.uk/government/organisations/department-for-culture-media-sport>.

Signed:

Sue Owen

Permanent Secretary and Accounting Officer

Department for Culture, Media and Sport

4 July 2017

## **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 2017 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 2017 and of its decrease in realised amount for lottery distributing bodies 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

Date: 7 July 2017



## Financial statements

### Primary statements

#### Statement of Comprehensive Net Income for the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
<b>Income</b>			
Income from the National Lottery	2	<b>1,632,742</b>	1,926,418
Investment income	3	<b>5,312</b>	7,849
Total income		<b>1,638,054</b>	1,934,267
<b>Less: operational costs</b>			
Department for Culture, Media and Sport	4	<b>(235)</b>	(227)
Gambling Commission	5	<b>(2,496)</b>	(2,798)
Other expenses	6	<b>(69)</b>	(69)
Total operational costs		<b>(2,800)</b>	(3,094)
<b>Net realised income for distribution</b>		<b>1,635,254</b>	1,931,173
Amounts authorised for payment to lottery distributing bodies	10	<b>(1,826,447)</b>	(1,842,936)
<b>(Decrease)/increase in realised amount held for lottery distributing bodies</b>		<b>(191,193)</b>	88,237
<b>Total comprehensive (expenditure)/income</b>		<b>(191,193)</b>	88,237

All transactions are in respect of continuing operations.

The notes on pages 33 to 45 form an integral part of these accounts.

**Statement of Financial Position as at 31 March 2017**

	Note	2016-17 £000	2015-16 £000
<b>Current assets</b>			
Receivables	7	37,565	35,680
Investments held by CRND at fair value	8	1,502,752	1,696,309
Cash at bank and in hand		-	-
Total current assets		<u>1,540,317</u>	<u>1,731,989</u>
<b>Current liabilities</b>			
Payables: amounts falling due within one year	8	(235)	(714)
Total assets less liabilities		<u>1,540,082</u>	<u>1,731,275</u>
<b>Represented by:</b>			
Realised amount held for distributing bodies		<u>1,540,082</u>	<u>1,731,275</u>
Amounts held for lottery distributing bodies	10	<u>1,540,082</u>	<u>1,731,275</u>

The notes on pages 33 to 45 form an integral part of these accounts.

Signed:

Sue Owen

Permanent Secretary and Accounting Officer

Department for Culture, Media and Sport

4 July 2017

**Statement of Cash Flows for the year ended 31 March 2017**

	Note	<b>2016-17</b> <b>£000</b>	2015-16 £000
<b>Cash flows from operating activities</b>			
Cash received from lottery operator		<b>1,630,857</b>	1,939,109
Cash paid for operating expenses		<b>(3,279)</b>	(2,612)
Cash paid to lottery distributing bodies	10	<b>(1,826,447)</b>	(1,842,936)
Net cash inflow/(outflow) from operating activities	9	<b>(198,869)</b>	93,561
<b>Cash flows from investing activities</b>			
Cash paid to CRND for investment		<b>(1,627,578)</b>	(1,936,497)
Cash received from CRND for distribution		<b>1,826,447</b>	1,842,936
Net cash inflow/(outflow) from management of liquid resources		<b>198,869</b>	(93,561)
Change in cash		<b>-</b>	-

All investment income is reinvested by CRND.

The notes on pages 33 to 45 form an integral part of these accounts.

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**Statement of Changes in amount held for lottery distributing bodies for the year ended 31 March 2017**

	Note	£000
<b>Amount held for lottery distributing bodies at 1 April 2015</b>		<b>1,643,038</b>
Total comprehensive (expenditure)/income 2015-16		88,237
<b>Amount held for lottery distributing bodies at 31 March 2016</b>		<b>1,731,275</b>
Total comprehensive (expenditure)/income 2016-17		(191,193)
<b>Amount held for lottery distributing bodies at 31 March 2017</b>	10	<b>1,540,082</b>

The notes on pages 33 to 45 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 HM 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 2016 to 31 March 2017.

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 approval from the Gambling Commission for any promotional events that may reduce the net weekly proceeds into the NLDF. The Gambling Commission 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 the NLDF. The Gambling Commission notifies the NLDF of the level of secondary income.

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 2017 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.

Licensee penalty payments are penalty payments made by Camelot when it has breached the terms of its operating licence. Licensee penalty payments are imposed by the Gambling Commission.

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 lottery distributing bodies*

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 CRND are valued in these accounts at fair value as at 31 March 2017. These accounts only disclose the cash flows for the movement of cash between CRND, the 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 its absolute discretion, determine.

Having taken account of the department's wish to avoid negative income returns over a three-month period, but without prejudice to their absolute discretion, CRND intends to exercise its 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 with the bank. It is the policy of the NLDF to hold a nil cash balance whenever possible and to transfer all funds to CRND for investment on the day of the receipt. Cash transferred to CRND is treated as investments in the Statement of Cash Flows 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 note 1.8 – Investments 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 the National Lottery**

	<b>2016-17</b>	2015-16
	<b>£000</b>	£000
Primary contribution	<b>1,486,930</b>	1,788,121
Secondary contribution	<b>8,802</b>	8,595
Unclaimed prizes	<b>132,500</b>	128,707
Interest on Players Trust Fund	-	20
Licensee penalty payments	<b>3,300</b>	-
Income from ancillary activities and other items	<b>1,210</b>	975
	<b>1,632,742</b>	1,926,418

**3 Investment income**

	<b>2016-17</b>	2015-16
	<b>£000</b>	£000
Interest received on investments	<b>5,312</b>	7,849

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 2016-17 were held as call notice deposits.

**4 Operational costs: Department for Culture, Media and Sport**

	<b>2016-17</b>	2015-16
	<b>£000</b>	£000
Administrative costs	<b>212</b>	205
External auditor's remuneration	<b>20</b>	20
Bank charges	<b>3</b>	2
	<b>235</b>	227

In 2016-17 the department's finance and lotteries 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 spent 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.

No non-audit services were provided by the external auditors in 2016-17 (2015-16: nil).



**5 Operational costs: Gambling Commission**

The department recovers the net costs of running the Gambling Commission from the NLDF. The net cost consists of the grant-in-aid paid to the Gambling Commission less the licence fee income received by the Gambling Commission and surrendered to the department as 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 2016-17, licence fee income of £43,400 relating to new National Lottery games was received by the department.

	<b>2016-17</b>	2015-16
	<b>£000</b>	£000
Funding recovered by the department	<b>2,539</b>	2,859
Lottery operator licence fee income	<b>(43)</b>	(61)
Amount payable to the department	<b>2,496</b>	2,798

**6 Other expenses**

	<b>2016-17</b>	2015-16
	<b>£000</b>	£000
CRND management fee	<b>69</b>	69

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

**7 Receivables**

	<b>2016-17</b>	2015-16
	<b>£000</b>	£000
Income due as a result of draws prior to year end	<b>37,522</b>	35,680
Lottery operator licence fee income due	<b>43</b>	-
	<b>37,565</b>	35,680

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**

	<b>At 31 March 2017</b>		<b>At 31 March 2016</b>	
	<b>Cost</b>	<b>Fair value</b>	<b>Cost</b>	<b>Fair value</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Investments held by CRND	<b>1,502,752</b>	<b>1,502,752</b>	1,696,309	1,696,309
Receivables (note 7)	<b>37,565</b>	<b>37,565</b>	35,680	35,680
Payables	<b>(235)</b>	<b>(235)</b>	(714)	(714)
Balance held	<b>1,540,082</b>	<b>1,540,082</b>	1,731,275	1,731,275

Under s32 of the National Lottery etc. Act 1993, all monies held by 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, available online at <https://www.gov.uk/government/collections/national-lottery-distribution-fund-investment-account>.

The carrying value of payables approximates their fair value. Payables are in respect of accruals for the department's recharges.

**9 Reconciliation of (decrease)/increase in amounts held for lottery distributing bodies with net cash inflow/(outflow) from operating activities**

	<b>2016-17</b>	<b>2015-16</b>
	<b>£000</b>	<b>£000</b>
(Decrease)/increase in realised amounts held for distributing bodies	<b>(191,193)</b>	88,237
Investment income	<b>(5,312)</b>	(7,849)
	<b>(196,505)</b>	80,388
Decrease/(increase) in lottery operator receivables	<b>(1,885)</b>	12,691
(Decrease)/increase in payables for operating expenses	<b>(479)</b>	482
Net cash inflow/(outflow) from operating activities	<b>(198,869)</b>	93,561

**10 Amounts held for lottery distributing bodies at 31 March 2017***Beneficiary sectors*

	Arts £000	Sport £000	Heritage Lottery Fund £000	Big Lottery Fund £000	<b>Total £000</b>
Share of income from lottery	326,548	326,548	326,548	653,098	1,632,742
Less share of operational costs	(560)	(560)	(560)	(1,120)	(2,800)
<b>Share of net operational proceeds</b>	<b>325,988</b>	<b>325,988</b>	<b>325,988</b>	<b>651,978</b>	<b>1,629,942</b>
Amount authorised for payment to lottery distributing bodies	(350,948)	(380,922)	(425,199)	(669,378)	(1,826,447)
Investment income	1,063	1,063	1,063	2,123	5,312
<b>(Decrease)/increase in balance available</b>	<b>(23,897)</b>	<b>(53,871)</b>	<b>(98,148)</b>	<b>(15,277)</b>	<b>(191,193)</b>
Amounts held for lottery distributing bodies at market value at 1 April 2016	442,827	279,511	594,904	414,033	1,731,275
<b>Amounts held for lottery distributing bodies at market value at 31 March 2017</b>	<b>418,930</b>	<b>225,640</b>	<b>496,756</b>	<b>398,756</b>	<b>1,540,082</b>

**Amounts held for lottery distributing bodies at 31 March 2017 (continued)***Arts bodies*

	Arts Council England £000	Creative Scotland £000	Arts Council of Wales £000	Arts Council of Northern Ireland £000	British Film Institute £000	<b>Subtotal - arts £000</b>
Share of income from lottery	227,866	29,063	16,327	9,143	44,149	326,548
Less share of operational costs	(390)	(50)	(28)	(16)	(76)	(560)
<b>Share of net operational proceeds</b>	<b>227,476</b>	<b>29,013</b>	<b>16,299</b>	<b>9,127</b>	<b>44,073</b>	<b>325,988</b>
Amount authorised for payment to lottery distributing bodies	(247,988)	(28,176)	(16,439)	(10,575)	(47,770)	(350,948)
Investment income	741	95	53	30	144	1,063
<b>(Decrease)/increase in balance available</b>	<b>(19,771)</b>	<b>932</b>	<b>(87)</b>	<b>(1,418)</b>	<b>(3,553)</b>	<b>(23,897)</b>
Amounts held for lottery distributing bodies at market value at 1 April 2016	334,286	21,386	21,379	4,670	61,106	442,827
<b>Amounts held for lottery distributing bodies at market value at 31 March 2017</b>	<b>314,515</b>	<b>22,318</b>	<b>21,292</b>	<b>3,252</b>	<b>57,553</b>	<b>418,930</b>

**Amounts held for lottery distributing bodies at 31 March 2017 (continued)***Sport bodies*

	Sport England £000	Sport Scotland £000	Sport Wales £000	Sport Northern Ireland £000	UK Sport £000	<b>Subtotal - sport £000</b>
Share of income from lottery	202,460	26,450	14,695	8,490	74,453	326,548
Less share of operational costs	(347)	(45)	(25)	(15)	(128)	(560)
<b>Share of net operational proceeds</b>	<b>202,113</b>	<b>26,405</b>	<b>14,670</b>	<b>8,475</b>	<b>74,325</b>	<b>325,988</b>
Amount authorised for payment to lottery distributing bodies	(228,800)	(34,123)	(18,300)	(9,238)	(90,461)	(380,922)
Investment income	659	86	48	28	242	1,063
<b>(Decrease)/increase in balance available</b>	<b>(26,028)</b>	<b>(7,632)</b>	<b>(3,582)</b>	<b>(735)</b>	<b>(15,894)</b>	<b>(53,871)</b>
Amounts held for lottery distributing bodies at market value at 1 April 2016	123,368	61,111	21,666	15,887	57,479	279,511
<b>Amounts held for lottery distributing bodies at market value at 31 March 2017</b>	<b>97,340</b>	<b>53,479</b>	<b>18,084</b>	<b>15,152</b>	<b>41,585</b>	<b>225,640</b>

## **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 the 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 the 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 England-based lottery distributors. These bodies are therefore also considered related parties.

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 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. Net payments made to the Gambling Commission totalling £2.5 million were recharged to the NLDF by the department and are reflected in note 5.

No minister, board member, key manager or other related party has undertaken any material transactions with the NLDF during the year.

For further details please see the 2016-17 DCMS annual report and accounts.

### 13 Lottery distributing bodies' 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:

	<b>1 April 2011 to 31 March 2012</b>	<b>1 April 2012 to 31 March 2017</b>
Arts	18.000	20.000
Sport	18.000	20.000
National heritage	18.000	20.000
Charitable, health, education and the environment	46.000	40.000

<b>Arts</b>	<b>1 April 2011 to 31 March 2012</b>	<b>1 April 2012 to 31 March 2017</b>
Arts Council England	12.560	13.956
Creative Scotland	1.602	1.780
Arts Council of Wales	0.900	1.000
Arts Council of Northern Ireland	0.504	0.560
British Film Institute	2.434	2.704
<b>Total arts</b>	<b>18.000</b>	<b>20.000</b>

<b>Sport</b>	<b>1 April 2011 to 31 March 2012</b>	<b>1 April 2012 to 31 March 2017</b>
Sport England	11.160	12.400
Sport Scotland	1.458	1.620
Sport Wales	0.810	0.900
Sport Northern Ireland	0.468	0.520
UK Sport	4.104	4.560
<b>Total sport</b>	<b>18.000</b>	<b>20.000</b>

### 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:

#### *Changes to ministers*

Following the general election of 8 June 2017, on 13 June 2017 John Glen MP was appointed as Parliamentary Under Secretary of State for Arts, Heritage, Tourism and Libraries.



*Changes to the Executive Board*

Mark Fisher, Director of Office for Civil Society, moved to the Cabinet Office as Director General on 26 June 2017. Following Mark's move, David Rossington (Finance Director) took over as Director of Office for Civil Society and Tim Sparrow (Deputy Director) will cover David's role as DCMS Finance Director.

*Change to the name of the department*

On 3 July 2017 the name of the department was changed to the Department for Digital, Culture, Media and Sport.





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