

National Lottery Distribution Fund

Annual report and accounts for the year ended 31 March 2019

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Annual report and accounts for the year ended 31 March 2019

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 2018-19 financial statements show, how the National Lottery Distribution Fund (NLDF) operates, and the key risks that the NLDF faces.

The 2018-19 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 Digital, Culture, Media and Sport.

This is the twenty-fifth 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 Expenditure 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 to 31 January 2023. During 2018-19, the Gambling Commission begun the initiation phase of the competition for the Fourth National Lottery Licence. This involved: recruiting a specialist team to run the competition; sourcing external commercial and policy advice; early market engagement; and working with the Department for Digital, Culture, Media and Sports (DCMS, the department) to consider key policy and licence design issues relating to the licence.

The principal categories of income into the NLDF for the year to 31 March 2019 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

Funds held by the NLDF are apportioned to the arts, sports, national heritage and charitable causes as determined by the proportions detailed in the National Lottery etc. Act 1993. The share of the funds received by each lottery distributing body in 2018-19 is shown in notes 10 and 13.

Governance of the fund

Sound management of the NLDF plays a pivotal role in managing the flow of funds between Camelot – the current operator of the National Lottery – and the lottery distributing bodies, which issue the funds to the National Lottery beneficiaries, referred to as 'The Good Causes'.

In managing the NLDF, 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 the National Lottery operator (currently Camelot) 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.

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 (and changing) of Financial Directions to devolved lottery distributors in Scotland and Northern Ireland by the relevant Secretary of State.

Permanent Secretary Statement

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; this can include advice 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.

The National Lottery has generated over £40 billion (including money raised by Olympic Lottery products for Olympic Lottery Good Causes) for good causes since its launch in 1994, and has benefited over 560,000 projects, large and small. In November 2019, the National Lottery will celebrate its 25th birthday, the first draw having taken place on Saturday 19 November 1994. The 25th birthday is an opportunity to celebrate the extraordinary impact The National Lottery has had on the UK and to say thank you to National Lottery players for contributing millions of pounds every week to amazing projects.

The performance analysis on page 6 and 7 provides some analysis of trends and sustainability issues.

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 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 0.67% (2017-18: 0.35%). 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.

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.

Staffing and organisation

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

As a public sector employer, the department is bound by the Equality Act 2010. The Act's public sector equality duty came into force in 2011 and requires all bodies exercising public functions to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

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.

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 2018-19 department annual report and accounts which will be available, when published, on the department's website at <https://www.gov.uk/government/organisations/department-for-digital-culture-media-sport>

Non-financial information

Anti-bribery

The department ensures that all of its staff involved in the NLDF are aware of their obligations under the Bribery Act 2010, and ensure that any gifts received or hospitality offers is compliant with this legislation, as well as the Civil Service Code.

Anti-corruption

All department employees (including those that work on the NLDF) are responsible for ensuring their behaviour meets the standards expected of them in accordance with the Civil Service Code and the Department's Standards of Conduct. See the department annual report and accounts 2018-19 for more detail.

Respect for human rights

The NLDF is an administrative function within the department, and as such the human rights implications of NLDF are minimal. NLDF places reliance on lottery distributing bodies to ensure respect for human rights in the distribution of NLDF funds.

Social matters

The NLDF contributes to significant social impacts, being part of the process for delivering funding for good causes through lottery distributors. The department is aware of this impact and seeks to ensure that the lottery distributors maximise the social benefit of the monies they drawdown from the NLDF.

Important events which have occurred since the year end

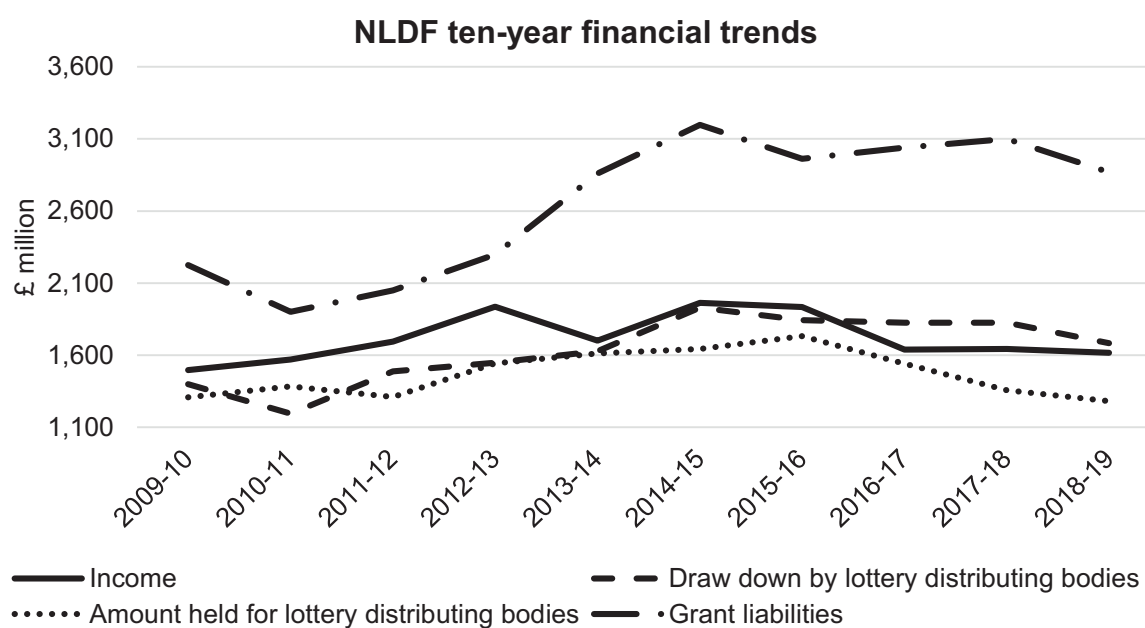
These are shown in note 14 to the accounts.

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) ¹	Grant liabilities of lottery distributing bodies (£m)
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 ²	1,936	1,547	1,543	2,298
2013-14	1,700	1,628	1,612	2,861
2014-15 ³	1,963	1,929	1,643	3,198
2015-16 ⁴	1,934	1,843	1,731	2,962
2016-17	1,638	1,826	1,540	3,042
2017-18	1,644	1,824	1,356	3,104
2018-19 ⁵	1,615	1,682	1,282	2,869



¹ The amount held for lottery distributing bodies is shown after operational costs of the NLDF.

² 2012-13 income benefited from significant ticket sales, generated by the Olympic Games inspired Millionaires' Raffle and two extended EuroMillions rollovers and an unclaimed prize of £64 million.

³ 2014-15 income includes the transfer of funds on the closure of Olympic Lottery Distribution Fund (OLDF) of £149 million.

⁴ 2015-16 income benefited from a 15-week Lotto rollover following the introduction of the 59-ball Lotto game, and two extended EuroMillions rollovers.

⁵ Grant liabilities for 2018-19 are unaudited, and subject to change.

Income

By 31 March 2019, over £40 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 2018-19 (2017-18: £1.6 billion). These figures include investment returns on the balance held in the NLDF. £1.7 billion was drawn down during the year by lottery distributing bodies to meet grant payments for good causes and expenses.

Because of the complex operation of the lottery licence, where each type of lottery product returns varying proportions to 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.

Having experienced a drop in income in 2016-17, income has since been circa £1.6 billion. The department, along with the other partners to the National Lottery, is fully engaged in a range of actions to deliver the strongest possible National Lottery over the remainder of its current licence period, and continuing to maximise good cause income. This includes measures to increase awareness of good cause projects.

The nature of the National Lottery means that good cause income cannot be guaranteed. This is reflected in the framework for the distribution of Lottery good cause money which ensures grants are for time-limited projects and which allows distributors to retain significant reserves in the NLDF to mitigate the impact of uncertain income. The department remains content that all distributors have well-developed strategies to ensure affordability of existing and proposed programmes within a falling income scenario. The department will continue to discuss with distributors the impact of income trends on their budgets and how best to support them in any ongoing period of lower income.

Lottery distributing bodies' grant liabilities and commitments

Lottery distributing bodies' grant liabilities and commitments for 2018-19 and 2017-18 are shown in the table on page 10.

At the year end the amount held for lottery distributing bodies was £1.3 billion (31 March 2018: £1.4 billion).

Total grant liabilities have decreased from £3.1 billion (restated) in 2017-18 to £2.9 billion in 2018-19. This decrease is principally a result of the Arts Council England's (ACE) grant liabilities decreasing to £0.4 billion (31 March 2018: £0.5 billion) due to ACE being one year through their four year funding cycle, and the National Lottery Community Fund's (formerly the BIG Lottery Fund) reducing their grant liabilities to £1.1 billion (31 March 2018: £1.2 billion (restated)) in light of the reduction in good causes income.

In addition to these grant liabilities, contingent liabilities totalling £0.5 billion (31 March 2018: £0.8 billion (restated)) existed. The decrease is primarily due to a decrease in National Lottery Heritage Fund (formerly the Heritage Lottery Fund) contingent liabilities, which have decreased to £0.3 billion (31 March 2018: £0.5

billion) as a consequence of decisions made following the drop in good causes income. 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.

Managing the fund balances

Distributors are expected to commit the maximum amount prudent to programmes and grants, taking account of projected lottery income, available balances in the Fund, existing liabilities and other factors such as likelihood of partnership funding.

Liabilities are made for several years into the future, and it is the case that a proportion of liabilities at 31 March 2019 will relate to distributors' grant decisions made in years of rising income. Distributors have a range of mechanisms at their disposal to respond to reduced income, both in managing their existing liabilities and creating new ones.

The department continues to work with lottery distributing bodies to maintain fund balances at an appropriate level to manage income level fluctuations between years and to ensure commitments already made by lottery distributing bodies can be met. In addition the department, working with the lottery distributing bodies, has developed a suite of key performance indicators that enables the department to monitor their financial sustainability.

From its ongoing interactions and oversights as described earlier, the department is assured that the distributors have well developed strategies to ensure affordability of existing liabilities and proposed spending programmes within a falling income scenario.

The further reduction in the grant liabilities and contingent liabilities of the lottery distributing bodies is one indicator of the distributors' management of current and anticipated income levels. The department will continue to maintain its close interest in lottery distributors' management of lottery funds. In particular, the department will continue to discuss with distributors the impact of income trends on their budgets. Distributors are now provided with monthly data which includes a weekly game level breakdown of sales supported by an appropriate commentary. Distributors are also provided with indicative good causes income along with a commentary on progress being made to maximise returns to good causes. We continue to work with the distributors to ensure data shared remains useful and robust in aiding distributors in deciding future grants strategy.

Lottery distributing bodies' grant liabilities and commitments

The figures shown in the table below are based on amounts recorded in the lottery distributing bodies' unaudited 2018-19 accounts. 2017-18 figures are restated, as unaudited figures were disclosed in the 2017-18 NLDF accounts; now updated for audited figures.

	2018-19							2017-18					
	Grant liabilities due within one year	Grant liabilities due later than one year and not later than five years	Grant liabilities due later than five years	Total	NLDF balance available	Grant liabilities made against future income flows	Contingent liabilities	Total commitments against future income flows	Total liabilities (restated)	NLDF balance available	Grant liabilities made against future income flows (restated)	Contingent liabilities (restated)	Total commitments made against future income flows (restated)
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Arts Council England	238,897	183,464	0	422,361	282,630	(139,731)	0	(139,731)	516,426	298,106	(218,320)	0	(218,320)
Arts Council of Wales	9,725	1,464	0	11,189	14,894	3,705	0	3,705	14,950	15,620	670	0	670
Creative Scotland	15,355	3,190	0	18,545	16,974	(1,571)	1,280	(2,851)	18,973	17,062	(1,911)	3,730	(5,641)
Arts Council of Northern Ireland	1,829	308	0	2,137	3,030	893	4,339	(3,446)	2,527	2,865	338	4,536	(4,198)
British Film Institute	37,196	0	0	37,196	52,757	15,561	8,156	7,405	31,188	53,498	22,310	8,391	13,919
Sport England	175,707	113,163	0	288,870	167,368	(121,502)	29,864	(151,366)	252,402	125,949	(126,453)	19,613	(146,066)
Sports Council of Northern Ireland	3,731	0	0	3,731	14,137	10,406	9,434	972	6,639	14,693	8,054	14,925	(6,871)
Sport Scotland	20,233	0	0	20,233	52,803	32,570	6,790	25,780	15,991	51,323	35,332	2,000	33,332
Sports Council of Wales	10,554	24	0	10,578	14,665	4,087	1,365	2,722	586	15,543	14,957	820	14,137
UK Sport	6,969	1,902	0	8,871	47,331	38,460	144,912	(106,452)	8,408	43,410	35,002	178,715	(143,713)
National Lottery Heritage Fund	324,473	485,602	126,362	936,437	338,154	(598,263)	286,418	(884,701)	999,301	406,809	(592,492)	495,369	(1,087,861)
National Lottery Community Fund	540,195	532,678	35,600	1,108,473	277,137	(831,336)	39,521	(870,857)	1,237,065	310,909	(926,156)	36,876	(963,032)
Total	1,384,864	1,321,795	161,962	2,868,621	1,281,880	(1,586,741)	532,079	(2,118,820)	3,104,456	1,355,787	(1,748,669)	764,975	(2,513,644)

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 £7.0 million (2017-18: £4.1 million) for the year of which £6.6 million (2017-18: £3.7 million) related to the Gambling Commission.

The increase in funding paid to the Gambling Commission to £6.6 million (2017-18: £3.7 million) is due to expenditure incurred on the initiation phase of the fourth National Lottery Licence competition (see above). The fourth National Lottery licence will commence in 2023, when the current licence expires.

The table below shows a summary of costs since 2014-15. The Gambling Commission 2018-19 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.

	DCMS (note 4)	Gambling Commission (note 5)	CRND (note 6)	Total
	£m	£m	£m	£m
2014-15	0.2	2.5	0.1	2.8
2015-16	0.2	2.8	0.1	3.1
2016-17	0.2	2.5	0.1	2.8
2017-18	0.3	3.7	0.1	4.1
2018-19	0.3	6.6	0.1	7.0

Amount held for lottery distributing bodies

The NLDF balance available in the fund at 31 March 2019 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 2018-19 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.

Signed:

Sarah Healey

Permanent Secretary and Accounting Officer

Department for Digital, Culture, Media and Sport

2 July 2019

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.

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 relating to the NLDF.

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

Following the drop in lottery income, the external auditors (the National Audit Office) undertook an investigation into lottery income which has been published here:

<https://www.nao.org.uk/wp-content/uploads/2017/12/Investigation-National-Lottery-funding-for-good-causes-.pdf>.

Following this report, the Public Accounts Committee (PAC) published a report titled The Future of the National Lottery:

<https://publications.parliament.uk/pa/cm201719/cmselect/cmpublic/898/898.pdf>

The Government's response to these recommendations is published in a Treasury Minute, at: <https://www.gov.uk/government/publications/treasury-minutes-28-june-2018>

The Government's progress update to these recommendations is published in a Treasury Minutes Progress Report, at:
<https://www.gov.uk/government/publications/treasury-minutes-progress-report-march-2019>

Reporting of personal data related incidents

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

As the NLDF is managed and operated within the department, disclosure can be found in the 2018-19 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:

Sarah Healey
Permanent Secretary and Accounting Officer
Department for Digital, Culture, Media and Sport
2 July 2019

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), HM Treasury has directed the Secretary of State for Digital, Culture, Media and Sport to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction, a copy of which may be obtained from the finance team within the department. 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, Statement of Financial Position and cash flows for the financial year. HM Treasury has appointed the Permanent Secretary of the Department for Digital, Culture, Media and Sport to be the Accounting Officer for the National Lottery Distribution Fund.

Secretary of State Responsibilities

In preparing the accounts, the Secretary of State is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular 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 as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts,
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the fund will continue in operation, and
- confirm the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

Accounting Officer Responsibilities

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the National Lottery Distribution Fund's assets, 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 he outlines the compliance work undertaken at Camelot Group plc during the year ended 31 March 2019 which has led him to be satisfied that the payments to the National Lottery Distribution Fund during the year ended 31 March 2019 are complete and accurate in all material respects.

As Accounting Officer, 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. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

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:

Sarah Healey

Permanent Secretary and Accounting Officer

Department for Digital, Culture, Media and Sport

2 July 2019

Governance statement

This statement sets out the governance structure, risk management framework and internal control procedures that have operated within the department and consequently applied to the NLDF during the financial year 2018-19 and accords with HM Treasury guidance.

The department has a wide ranging remit incorporating a number of complex projects and programmes. The department's formal governance systems, structures and processes enable clarity and accountability to support it to effectively meet its objectives and priorities. There are terms of reference for each board and committee to enable the respective members to make effective decisions, monitor performance, and manage resources and risk.

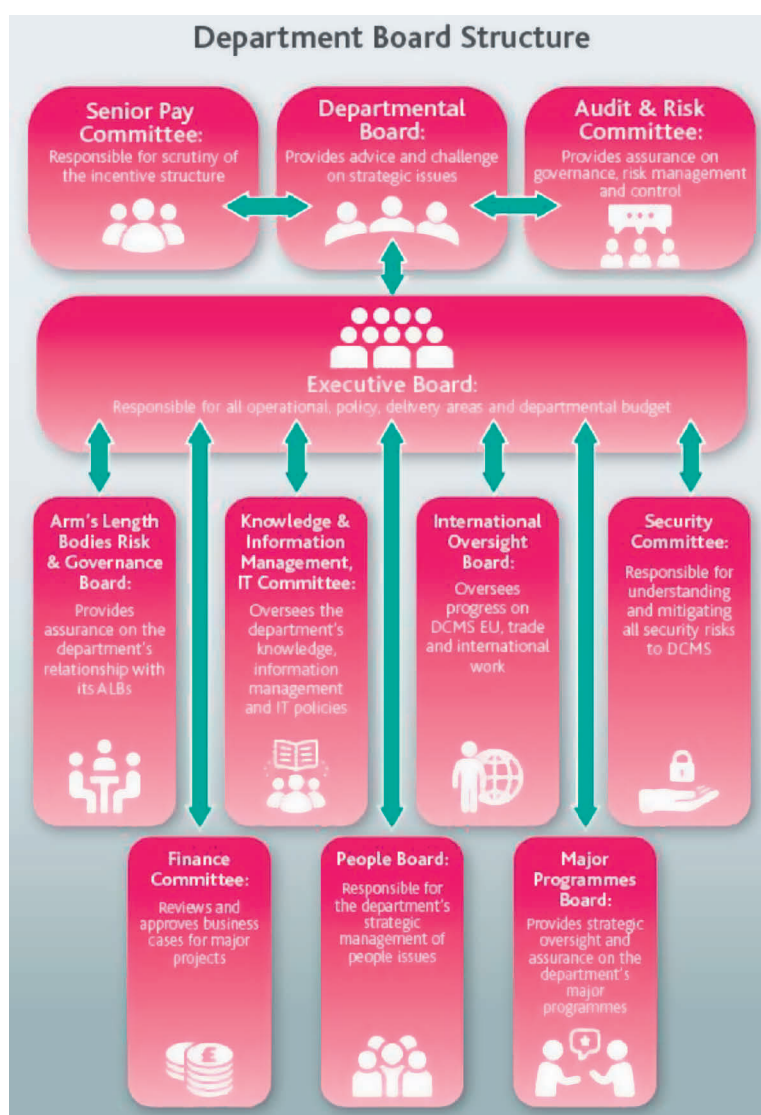
Oversight of the National Lottery

The department is responsible for the architecture of the National Lottery regime and works closely with the Gambling Commission (GC), the independent regulator of the National Lottery licence holder. Amongst 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 the department. Lottery monies are independent of government and are distributed by independent lottery distributors. The department 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 DMCS core department, also referred to as 'the department' in this statement.



Departmental Board (DB)

DB is chaired by the Secretary of State, it meets on a quarterly basis and is comprised of Ministers, Non-Executive Board Members, the Permanent Secretary, Directors General and the Finance and Commercial Director. DB provides advice and challenge to the department on strategic issues.

DB discussions centred on performance and strategic risk, financial review, Spending Review preparation, EU exit preparation and the Single Departmental Plan. It met three times in 2018-19.

Audit and Risk Committee (ARC)

ARC is chaired by Fields Wicker-Miurin OBE, it meets five times a year. Its membership includes Charles Alexander (Lead Non-Executive Board Member) and independent members Brian Porritt and Phill Wells. It is also attended by the Permanent Secretary, Directors General, Finance and Commercial Director and representatives from the Government Internal Audit Agency (GIAA) and the National Audit Office (NAO). ARC reports to, and advises DB on governance, risk management and internal control. It met five times in 2018-19.

In discharging her responsibility, the chair meets regularly with the Accounting Officer, Directors General, Finance and Commercial Director, members of the Executive Board, the ALB Risk and Governance Board, GIAA and the NAO to discuss issues and assess ARC's performance to ensure that it is fulfilling its objectives and remit. In 2018-19 ARC continued to provide advice and challenge on the preparation of the DCMS consolidated annual report and accounts, the NLDF, strategic risk, risk management framework, ALB assurance processes, EU exit preparedness, Commonwealth Games preparations and planning and progress of both the external and internal audit plans.

Executive Board (EB)

EB is chaired by the Permanent Secretary, it meets on a monthly basis and is comprised of Directors General, Directors of Finance and Commercial and HR. All other Directors from across the department attend as advisors on a six-monthly rotational basis. It is responsible for all operational policy, delivery areas and the departmental budget.

EB met 11 times in 2018-19 and reviewed departmental performance, finance, and strategic risks. In 2018-19, ongoing improvements continued to be made to performance and risk reporting, EB agreed to introduce a new evidence based system for 2019-20. EB continued to take collective ownership of the annual Internal Audit plan. A summary of items discussed are published on the intranet, and an observer programme, open to all staff, assists visibility and transparency of decision making across the department.

EB Sub-Committees

The department has a range of sub-committees that report up to each EB meeting to ensure oversight of discussion, issues and risks. This enables issues to be escalated as appropriate. Each committee has a clear remit and terms of reference.

Roles of each committee are summarised here:

- The **Arm's Length Bodies Risk and Governance Board** provides assurance on the department's relationship with its ALBs, including risk management. It is chaired by the Director of Corporate Strategy.⁶
- The **Finance Committee** is responsible for reviewing and approving business cases for major projects (including museum loans) with a total whole life cost that either exceeds £15 million or exceeds an arm's length body's delegated limit, where relevant. It is supported by the Investment Sub-Committee. It is chaired by the Finance and Commercial Director.
- The **Knowledge, Information Management and IT Committee** is responsible for oversight of the department's knowledge, information

⁶ The Board was paused in December 2018, whilst the department prioritised 'no deal' activity. EB maintained oversight whilst the group was paused.

management and IT policies. It is chaired by the Finance and Commercial Director.

- The **People Board** is responsible for the strategic management of people issues within the department. It is chaired by the Director General for Performance and Strategy.
- The **International Oversight Board** monitors and reviews progress on the department's EU, trade and international work. The International Board and EU Funding Board report into the International Oversight Board on a monthly basis. It is chaired by the Director General for Digital and Media.
- The **Major Programmes Board** provides strategic oversight and assurance on the department's major programmes and helps create the right operating environment for programme/project delivery across the department. It is chaired by the Permanent Secretary.
- The **Security Committee** is responsible for understanding and mitigating all security risks to the department. It is chaired by the Director General for Performance and Strategy.

In 2018-19 EB convened two additional 'time limited' sub-committees, one to support a strategic approach to the department's Spending Review preparations and one to oversee and drive forward departmental readiness for a 'No Deal' EU Exit. The Spending Review Oversight Board was chaired by the Director General for Performance and Strategy. The No Deal Oversight Board was chaired by the Director General for Digital and Media.

Non-Executive Board Members

The department appointed Sherry Coutu to its Non-Executive team in March 2019. Sherry brings vast experience and expertise of the Digital Sector and will support the department at a vitally important time for its ambition and Digital objectives⁷. Fields Wicker-Miurin, Neil Mendoza and Charles Alexander all agreed contract extensions, as their first terms all expired in early 2019. Lengths of contracts were varied to ensure that the department did not lose their expertise all at the same time in future years.

Outside of DB and ARC, Non-Executive Board Members continued to provide advice and challenge across the full range of departmental priorities, work programmes and projects. For example, they supported the department's Spending Review preparations, Single Departmental Plan, ALB risk and governance issues, including a challenge panel as part of the Historic England Tailored Review and the department's EU exit preparation. Fields Wicker-Miurin, Chair of the DCMS Audit

⁷ <https://www.gov.uk/government/publications/department-for-digital-culture-media-and-sport-single-departmental-plan/department-for-digital-culture-media-and-sport-single-departmental-plan>

and Risk Committee, continued to convene a forum to bring together audit and risk committee chairs from our ALBs to discuss risks, issues and share best practice across the DCMS group. The forum met in November 2018.

Attendance for financial period 1 April 2018 to 31 March 2019

	DB	ARC	Senior Pay Committee	EB
Number of meetings held	3	5	1	11
Ministers				
Jeremy Wright MP	2/2	-	-	-
Mims Davies MP	1/1	-	-	-
Michael Ellis MP	2/3	-	-	-
Margot James MP	1/3	-	-	-
Lord Ashton of Hyde	2/3	-	-	-
Matt Hancock	1/1	-	-	-
Tracey Crouch	1/2	-	-	-
Non-Executive Board Members and Independent Members				
Charles Alexander	3/3	5/5	1/1	-
Fields Wicker-Miurin	2/3	5/5	1/1	-
Neil Mendoza	3/3	-	-	-
Matthew Campbell-Hill	3/3	-	-	-
Phill Wells	-	4/5	-	-
Brian Porritt	-	5/5	-	-
Management⁸				
Sue Owen	3/3	5/5	1/1	11/11
Matthew Gould	0/3	2/5	-	7/11
Helen Judge	3/3	3/5	-	11/11
Tim Sparrow	3/3	5/5	-	11/11
Debra Lang	-	-	1/1	11/11

* '-' denotes individual is not a member of this group or invited to attend.

The department is an open, inclusive and diverse department, and takes into account the widest possible range of views at the Executive Board, as such whilst attendance at EB continues to include all Directors on a rotational basis, from 2018-19 all Directors (other than the Finance and Commercial Director and Human Resource Director) attended in an advisory capacity. The Permanent Secretary, Directors General, Finance and Commercial Director and HR Director attend all EB meetings.

Declaration of interests

DB, ARC and EB Members have disclosed a range of interests, further details can be found in the Director's Report of the DCMS group annual report and accounts.

Board performance and effectiveness

The Cabinet Office Corporate Governance in Central Government Departments: Code of Good Practice requires all departments to undertake an annual board

⁸ Management refers to Civil Servants.

effectiveness evaluation. In 2018-19 DB, ARC and EB all undertook self-evaluation exercises. The reviews found that each group was operating effectively and meeting their respective terms of reference. To ensure compliance with the HM Treasury audit and risk assurance committee handbook the ARC self-evaluation was aligned to the NAO Audit Committee self-assessment checklist. In general it was found that agendas for all meetings had improved throughout the year to ensure that the right items were being considered at the right times. Supporting paperwork had improved and an objective for 2019-20 will be to continue improving information presented to each board.

These self-evaluation exercises were also supported by a GIAA review of the department's Governance Structure. The review found that the structure remained fit for purpose. As the department continues to evolve in size and scope this will be kept under annual review.

Compliance with the Corporate Governance code

The department fully complies with the HM Treasury Corporate Governance Code for central government departments with the following variations:

- The Pay Committee, which comprises the Permanent Secretary, Lead Non-Executive Board Member, a second Non-Executive Board Member and the Director of HR, fulfils the role of a Nominations and Governance Committee, primarily to scrutinise the incentive structure.
- The Head of Internal Audit attends the Audit and Risk Committee rather than the Departmental Board. In 2018-19 the Internal Audit team were invited to attend an Executive Board meeting. The Audit and Risk Committee chair reports risks, issues and an overview of the committee's work to the Departmental Board.

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. This includes a progress review of the Information Management Assessment report provided by the National Archives; annual departmental board effectiveness evaluation; performance reports; risk registers and corporate data. The board secretariat oversees this information, and ensures the data's quality complies with the departmental guidance on writing board papers in order to facilitate informed discussion and decision making. The Knowledge, Information Management and Information Technology Committee (KIMIT) approved the Department's IT strategy during the year and an Information Governance Strategy is planned for 2019-20.

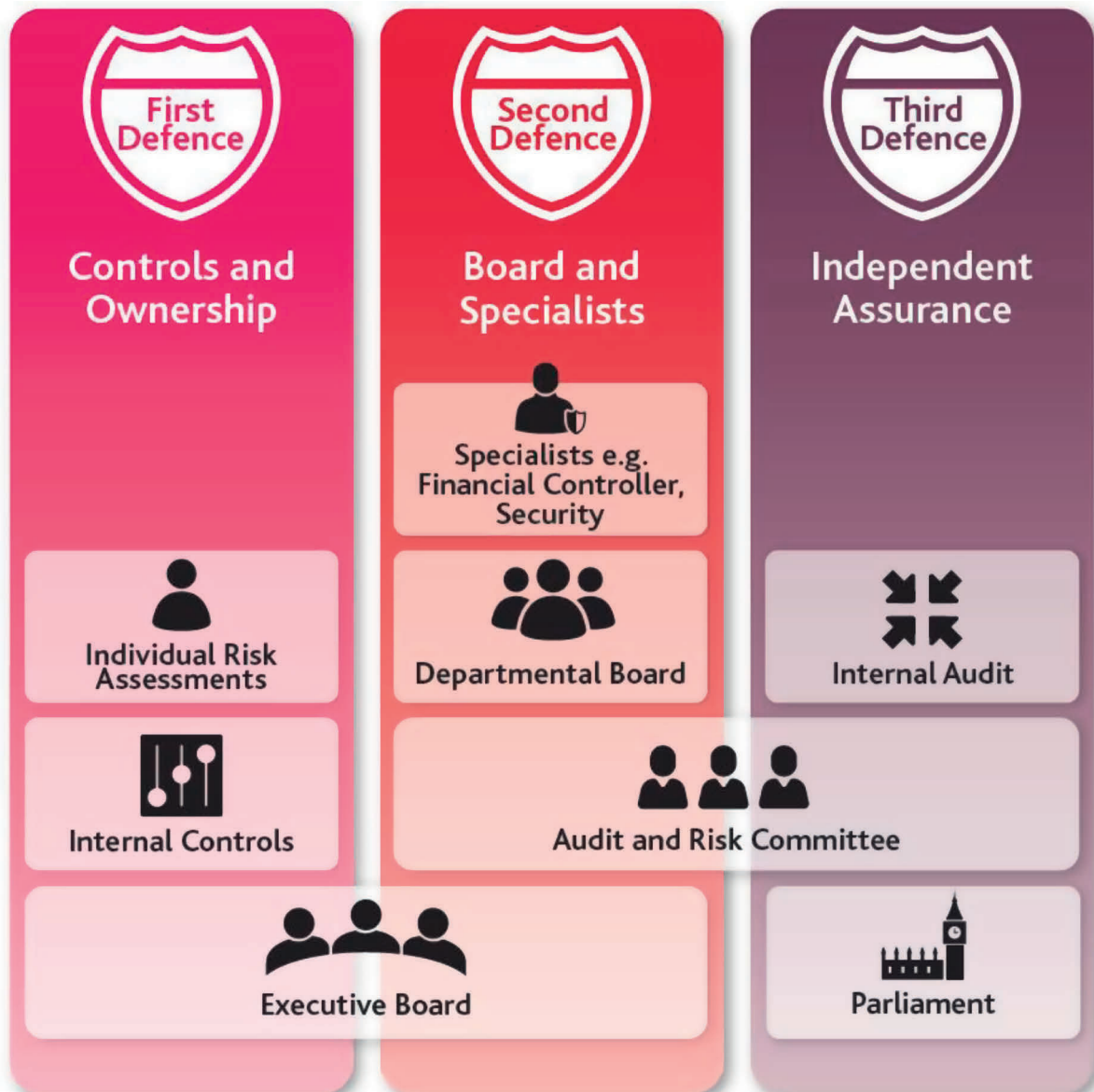
External reporting

The department provides information, including the Online System for Central Accounting and Reporting (OSCAR) returns, to HM Treasury and transparency information, which is published on data.gov.uk and announced in a Cabinet Office Quarterly Written Ministerial Statement. DCMS and HM Treasury regularly assess

the quality of this data, which is also available for public scrutiny. This data is consistent with data provided to the board.

Approach to risk management in the department

Managing risk is an important part of the Accounting Officer's role in the department. Strategic and Work Programme level risk is currently discussed at DB, ARC and EB, and also features in most sub-committees. The department's current risk policy is available internally on the department's intranet – although this has been updated with a new framework, introduced in April 2019. The policy for 2018-19 holds three lines of defence, as summarised in the below graphic:



- 1) The first line of defence is made up of operational controls and contingencies taken to reduce the risk at first sight, with EB fulfilling this role on a strategic level.
- 2) The second line of defence involves the department's risk and assurance professionals across Finance, Security, IT, the central Performance and Risk team, and beyond. It is supported by all three central boards.

- 3) The third and final line of defence includes external organisations who provide assurance (e.g. the GIAA), challenge (e.g. Parliament), and regular third-party oversight (such as through the Non-Executive Board Members on the Audit and Risk Committee).

In addition to these three lines the NAO provide general oversight and assurance around the department's risks and controls.

Risks in the department are considered to be anything that may damage or disrupt the achievement of our objectives. These often represent key uncertainties around our objectives. Headline indicators annually monitor the department's progress and performance against these same objectives. Negative scoring in these Key Performance Indicators may also be used to gain a quantitative long view of strategic risks.

Strategic risks are categorised by Strategic Objective, so the department's top-level board members know which area of the department's Single Departmental Plan the department's risks could damage. Risks are tracked centrally at the Work Programme level. Top-level boards (DB, ARC and EB) all use the same Strategic Risk Register, while sub committees of EB (such as the Finance Committee and the People Committee) have their own registers. Top risks affecting achievement against the department's objectives can be found in the department's annual report and accounts.

Assurance exercises

For assurance purposes, all Senior Civil Servants in the department are required to detail potential control issues twice a year. A subset of respondents are then interviewed, to test for further control issues/risks. No significant exceptions were found during the latest review for 2018-19.

Changes to risk management

The new Risk Framework to be adopted from April 2019 seeks to improve the current risk framework – in particular, making it more accessible for all members of staff, tying it to a risk reporting system that holds evidence at its core, and enshrining a concrete system of escalation alongside specific criteria to ensure the most critical risks continue to be seen by the department's leadership.

Fraud and Error

The department's policy towards fraud, malpractice and corruption is one of zero tolerance, whether in the core department 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 on fraud prevention, achieved through risk assessment, process design informed by awareness of fraud risk, and by keeping staff alert to risks. The department has two Co-Counter Fraud Responsible Officers (CFROs) at board level who are responsible for ensuring that the department's

overall arrangements for managing the risk of fraud are appropriate. They are the Director of HR, Organisational Development & Change, and the Director of Finance and Commercial who are also accountable to the Board for the department's performance in countering fraud, bribery and corruption; personally approve the direction of each fraud investigation; ensure that any lessons learned are translated into strengthened departmental controls; and ensure the department undertakes an annual fraud risk assessment exercise.

The core department works with its ALBs and the Cabinet Office to identify and counter fraudulent activities, and the DCMS lottery bodies operate a Lottery Bodies Forum where they share fraud information and best practice. Through working with the Cabinet Office Centre of Expertise for Counter Fraud and supporting ALBs, the core department will continue to strengthen its processes and controls to reduce the risk of fraud. Over the coming year, we will offer training and awareness activities, drawing on the Cabinet Office's expert knowledge.

Where a suspected fraud arises, it must, as a matter of policy, be investigated swiftly and thoroughly to maximise the opportunity to recover funds, and identify options for improving the existing counter fraud arrangements. Across our ALBs, there were a few frauds which affected Exchequer funding, including a vishing fraud against a museum. Frauds against lottery funds were also reported to the department.

Lottery distributing bodies

We report in this section on any matters of interest arising in the lottery distribution network, in seeking to be assured about onward regularity and propriety in the handling of good cause monies.

The Sports Council Northern Ireland (SCNI) is one of twelve lottery distributing bodies that are funded by the NLDF. The distribution of good causes funding for sport in Northern Ireland is channelled through SCNI, an arms-length body of the Department for Communities Northern Ireland (DfCNI).

We reported in the 2017-18 NLDF annual report and accounts that the 2014-15, 2015-16, 2016-17 and 2017-18 SCNI annual report and accounts, including the Lottery accounts remained outstanding. The necessary delay in closure impacted on the finalisation of the 2014-15, 2015-16, 2016-17 and 2017-18 Lottery accounts due to a lack of expertise in accounts preparation. These issues primarily related to the Exchequer Accounts. Work to conclude this issue has moved on significantly and it is hoped that the Northern Ireland Audit Office (NIAO) will certify the 2014-15 and 2015-16 Exchequer accounts in the next few weeks. The 2014-15 and 2015-16 SCNI Lottery Distribution Accounts are currently with NAO for its consideration. Once completed SCNI will re-commence work on 2016-17 and 2017-18 Exchequer and Lottery Accounts. In the meantime, it is DfCNI's view, based on its sponsorship and accountability arrangements, that SCNI continues to operate effectively as a Lottery Fund Distributor and in meeting the requirements of the Policy Direction and the broad strategic direction for Sports Development.

Other key governance activities

Internal audit annual report

With the agreement of the Accounting Officer and the Audit and Risk Committee, the GIAA decided not to conduct an audit of NLDF in 2018-19 (or 2017-18 and 2016-17) due to the NLDF's low risk to the department and the levels of assurance that the annual audits had received in previous years (respectively: 2013-14: substantial, 2014-15: moderate and 2015-16: moderate).

Conflicts of Interest policy and procedure

All members of DB, ARC and EB 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. 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

In 2018-19, there were no whistleblowing cases reported in the core department. 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 two independent nominated officers that staff can approach to anonymously report any perceived wrongdoings. DCMS takes part in the annual Civil Service Whistleblowing Awareness Week.

In the 2018 People Survey, DCMS obtained a score of 85% for inclusion and fair treatment. In addition, 94% staff reported that they were aware of the Civil Service Code, 61% know how to raise concern under the code, and 77% confirmed they were confident that a raised concern under the Civil Service Code would be properly investigated.

Although not directly responsible for the whistleblowing policy across its ALBs, the DCMS HR team use ALB HR and Finance Directors as a channel for sharing best practice and have shared the current DCMS policy and guidance with ALBs. ALBs are required to report separately on their whistleblowing arrangements in their annual reports and accounts.

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 2018-19 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-digital-culture-media-sport>.

Such key governance activities include:

- Core department and shared services
- Group write-offs

- Tax Policy for off-payroll appointees
- Ministerial directions
- 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

Sarah Healey

Permanent Secretary and Accounting Officer

Department for Digital, Culture, Media and Sport

2 July 2019

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 2018-19 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:

Sarah Healey

Permanent Secretary and Accounting Officer

Department for Digital, Culture, Media and Sport

2 July 2019

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

Opinion on financial statements

I certify that I have audited the financial statements of the National Lottery Distribution Fund for the year ended 31 March 2019 under the National Lottery etc. Act 1993. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Amount Held for Lottery Distributing Bodies and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

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 2019 and of its comprehensive net expenditure 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 directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the National Lottery Distribution Fund in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Lottery Distribution Fund's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to

draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

Responsibilities of the Secretary of State, Accounting Officer and auditor for the financial statements

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 Digital, 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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the National Lottery etc. Act 1993.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Lottery Distribution Fund's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that 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.

Other Information

The Secretary of State and the Accounting Officer are responsible for the other information. The other information comprises information included in the annual report but does not include the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- in the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and Accountability Report; and
- 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 and have been prepared in accordance with the applicable legal requirements

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 returns adequate for my audit have not been received from branches not visited by my staff; or

- the financial statements are not in agreement with the accounting records and 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.

Gareth Davies

Date: 4 July 2019

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Financial statements

Primary statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2019

	Note	2018-19 £000	2017-18 £000
Income			
Income from the National Lottery	2	1,606,983	1,639,068
Investment income	3	8,199	4,726
Total income		<u>1,615,182</u>	<u>1,643,794</u>
Less: operational costs			
Department for Digital, Culture, Media and Sport	4	(276)	(259)
Gambling Commission	5	(6,609)	(3,673)
Other expenses	6	(86)	(52)
Total operational costs		<u>(6,971)</u>	<u>(3,984)</u>
Net realised income for distribution		1,608,211	1,639,810
Amounts authorised for payment to lottery distributing bodies	10	<u>(1,682,118)</u>	<u>(1,824,105)</u>
(Decrease)/increase in realised amount held for lottery distributing bodies		(73,907)	(184,295)
Total comprehensive income/(expenditure)		<u>(73,907)</u>	<u>(184,295)</u>

All transactions are in respect of continuing operations.

The notes on pages 36 to 48 form an integral part of these accounts.

Statement of Financial Position as at 31 March 2019

	Note	2018-19 £000	2017-18 £000
Current assets			
Receivables	7	22,090	34,994
Investments held by CRND	8	1,260,066	1,321,052
Total current assets		<u>1,282,156</u>	<u>1,356,046</u>
Current liabilities			
Payables: amounts falling due within one year	8	(276)	(259)
Total assets less liabilities		<u>1,281,880</u>	<u>1,355,787</u>
Represented by:			
Realised amount held for distributing bodies		<u>1,281,880</u>	<u>1,355,787</u>
Amounts held for lottery distributing bodies	10	<u>1,281,880</u>	<u>1,355,787</u>

The notes on pages 36 to 48 form an integral part of these accounts.

Signed:

Sarah Healey

Permanent Secretary and Accounting Officer

Department for Digital, Culture, Media and Sport

2 July 2019

Statement of Cash Flows for the year ended 31 March 2019

	Note	2018-19 £000	2017-18 £000
Cash flows from operating activities			
Cash received from lottery operator		1,619,887	1,641,639
Cash paid for operating expenses		(6,954)	(3,960)
Cash paid to lottery distributing bodies	10	(1,682,118)	(1,824,105)
Net cash outflow from operating activities	9	(69,185)	(186,426)
Cash flows from investing activities			
Cash paid to CRND for investment		(1,612,933)	(1,637,679)
Cash received from CRND for distribution		1,682,118	1,824,105
Net cash inflow from management of liquid resources		69,185	186,426
Change in cash		-	-

All investment income is reinvested by CRND.

The notes on pages 36 to 48 form an integral part of these accounts.

Statement of Changes in amount held for lottery distributing bodies for the year ended 31 March 2019

	Note	£000
Amount held for lottery distributing bodies at 1 April 2017		1,540,082
Total comprehensive expenditure 2017-18		<u>(184,295)</u>
Amount held for lottery distributing bodies at 31 March 2018		1,355,787
Total comprehensive expenditure 2018-19		<u>(73,907)</u>
Amount held for lottery distributing bodies at 31 March 2019	10	<u><u>1,281,880</u></u>

The notes on pages 36 to 48 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 Digital, 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 Digital, 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 2018 to 31 March 2019.

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 2019 but not yet paid to the NLDF.

Licensee penalty payments are penalty payments made by Camelot to the NLDF 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.

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.

As required by the FReM, NLDF has adopted IFRS 15: Revenue from Contracts with Customers with a date of initial application of 1 April 2018.

It has been assessed that IFRS 15 applies to lottery income on the basis there is a legally binding contract in place. In accordance with IFRS 15, revenue should only be recognised as the subsequent sale or usage occurs. As lottery income is based on tickets sales, the treatment under IAS 18 and IFRS 15 is the same.

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 amortised cost as at 31 March 2019. 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; IFRS 9: Financial Instruments and IFRS 7: Financial Instruments: Disclosures.

As required by the FReM, NLDF has adopted IFRS 9: Financial Instruments with a date of initial application of 1 April 2018.

A financial instrument is any contract that gives rise to a financial asset in one entity, and a financial liability in another. All financial instruments are initially measured at fair value plus or minus transaction costs. Subsequent measurement requires all financial instruments to be classified as measured at amortised cost or measured at fair value, with the classification made at the time it is initially recognised.

NLDF has classified all investments, receivables and payables as measured at amortised cost.

1.12 Impact of new IFRS and Financial Reporting Manual amendments

In 2018-19, NLDF has adopted IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers with a date of initial application of 1 April 2018, in accordance with the requirements of the FReM.

The adoption of IFRS 9 has resulted in a classification of all financial instruments as measured at amortised cost. There have been no other significant effects on the NLDF accounts as a result of the adoption of IFRS 9.

In accordance with IFRS 15, revenue should be recognised only as the subsequent sale or usage occurs. As lottery income is based on tickets sales, the treatment under IAS 18 and IFRS 15 is the same. Therefore, IFRS 15 has no material effect on the NLDF accounts.

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

Amendments to IFRS for 2017-18 and 2018-19 can be found on:

<https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attach>

[ment_data/file/669353/Amendments to IFRS - FReM 2017-18 and FReM 2018-19.pdf](#)

2 Income from the National Lottery

	2018-19	2017-18
	£000	£000
Primary contribution	1,474,781	1,508,686
Secondary contribution	5,053	7,110
Unclaimed prizes	125,121	122,645
Licensee penalty	1,150	-
Income from ancillary activities and other items	878	627
	1,606,983	1,639,068

The licensee penalty relates to a regulatory settlement in respect of a Gambling Commission enforcement case for breach of licence conditions.

3 Investment income

	2018-19	2017-18
	£000	£000
Interest received on investments	8,199	4,726

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 2018-19 were held as call notice deposits. The increase in investment income is due to an increase in average interest rate on deposits in 2018-19 to 0.67% (2017-18: 0.35%).

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

	2018-19	2017-18
	£000	£000
Administrative costs	253	236
External auditor's remuneration	20	20
Bank charges	3	3
	276	259

In 2018-19, 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.

The external auditors did not provide any non-audit services in 2018-19 (2017-18: nil).

5 Operational costs: Gambling Commission

	2018-19	2017-18
	£000	£000
Funding recovered by the department	6,721	3,714
Lottery operator licence fee income	(112)	(41)
Amount payable to the department	6,609	3,673

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 increase in funding recovered by the department is due to expenditure on the initiation phase of the fourth National Lottery Licence competition.

The operator 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 2018-19, licence fee income of £111,800 relating to new National Lottery games was received by the department. The increase in the lottery operator licence fee income is due to licences being extended in 2018-19 and licence fee being front loaded.

6 Other expenses

	2018-19	2017-18
	£000	£000
CRND management fee	86	52

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

7 Receivables

	2018-19	2017-18
	£000	£000
Net income due as a result of draws prior to year end	22,090	34,994
	22,090	34,994

The carrying value of receivables is measured at amortised cost.

8 Reconciliation of investments held by CRND at cost to amounts held for lottery distributing bodies

	At 31 March 2019	At 31 March 2018
	Cost	Cost
	£000	£000
Investments held by CRND	1,260,066	1,321,052
Receivables (note 7)	22,090	34,994
Payables	(276)	(259)
Balance held	<u>1,281,880</u>	<u>1,355,787</u>

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 primarily with the Debt Management Account and a small proportion held with the National Loans Fund (NLF), and are measured at amortised cost.

The funds are held in a revolving investment fund. This means that investment returns are 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 is measured at amortised cost. 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

	2018-19	2017-18
	£000	£000
Decrease in realised amounts held for distributing bodies	(73,907)	(184,295)
Investment income	(8,199)	(4,726)
	<u>(82,106)</u>	<u>(189,021)</u>
Decrease in lottery operator receivables	12,904	2,571
Increase in payables for operating expenses	17	24
Net cash outflow from operating activities	<u>(69,185)</u>	<u>(186,426)</u>

10 Amounts held for lottery distributing bodies at 31 March 2019*Beneficiary sectors*

	Arts	Sport	National Lottery Heritage Fund	The National Lottery Community Fund	Total
	£000	£000	£000	£000	£000
Share of income from lottery	321,397	321,397	321,397	642,792	1,606,983
Less share of operational costs	(1,394)	(1,394)	(1,394)	(2,789)	(6,971)
Share of net operational proceeds	320,003	320,003	320,003	640,003	1,600,012
Amount authorised for payment to lottery distributing bodies	(338,509)	(276,257)	(390,298)	(677,054)	(1,682,118)
Investment income	1,640	1,640	1,640	3,279	8,199
(Decrease)/increase in balance available	(16,866)	45,386	(68,655)	(33,772)	(73,907)
Amounts held for lottery distributing bodies at market value at 1 April 2018	387,151	250,918	406,809	310,909	1,355,787
Amounts held for lottery distributing bodies at market value at 31 March 2019	370,285	296,304	338,154	277,137	1,281,880

Amounts held for lottery distributing bodies at 31 March 2019 (continued)*Arts bodies*

	Arts Council England	Creative Scotland	Arts Council of Wales	Arts Council of Northern Ireland	British Film Institute	Subtotal - arts
	£000	£000	£000	£000	£000	£000
Share of income from lottery	224,271	28,604	16,070	8,999	43,453	321,397
Less share of operational costs	(974)	(123)	(70)	(39)	(188)	(1,394)
Share of net operational proceeds	223,297	28,481	16,000	8,960	43,265	320,003
Amount authorised for payment to lottery distributing bodies	(239,917)	(28,715)	(16,808)	(8,841)	(44,228)	(338,509)
Investment income	1,144	146	82	46	222	1,640
(Decrease)/increase in balance available	(15,476)	(88)	(726)	165	(741)	(16,866)
Amounts held for lottery distributing bodies at market value at 1 April 2018	298,106	17,062	15,620	2,865	53,498	387,151
Amounts held for lottery distributing bodies at market value at 31 March 2019	282,630	16,974	14,894	3,030	52,757	370,285

Amounts held for lottery distributing bodies at 31 March 2019 (continued)*Sport bodies*

	Sport England £000	Sport Scotland £000	Sport Wales £000	Sport Northern Ireland £000	UK Sport £000	Subtotal - sport £000
Share of income from lottery	199,266	26,033	14,463	8,356	73,279	321,397
Less share of operational costs	(864)	(113)	(63)	(36)	(318)	(1,394)
Share of net operational proceeds	198,402	25,920	14,400	8,320	72,961	320,003
Amount authorised for payment to lottery distributing bodies	(158,000)	(24,573)	(15,352)	(8,919)	(69,413)	(276,257)
Investment income	1,017	133	74	43	373	1,640
(Decrease)/increase in balance available	41,419	1,480	(878)	(556)	3,921	45,386
Amounts held for lottery distributing bodies at market value at 1 April 2018	125,949	51,323	15,543	14,693	43,410	250,918
Amounts held for lottery distributing bodies at market value at 31 March 2019	167,368	52,803	14,665	14,137	47,331	296,304

11 Financial instruments

IAS 32 Financial Instruments: Presentation, IFRS 9: Financial Instruments 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 amortised cost 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 deposits are primarily held with the Debt Management Account with only a small proportion held with 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.

12 Related party transactions

The NLDF is maintained under the control and management of the Secretary of State for Digital, 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 £86k 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 department group accounts and is a related party. Net

payments made to the Gambling Commission totalling £6.6 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 2018-19 department 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.

The current percentages, as amended by Statutory Instrument 2010 No. 2863 'The Apportionment of Money in the National Lottery Distribution Fund Order 2010' are as follows:

	1 April 2017 to 31 March 2018 (%)	1 April 2018 to 31 March 2019 (%)
Arts	20.000	20.000
Sport	20.000	20.000
National heritage	20.000	20.000
Charitable, health, education and the environment	40.000	40.000

Arts	1 April 2017 to 31 March 2018 (%)	1 April 2018 to 31 March 2019 (%)
Arts Council England	13.956	13.956
Creative Scotland	1.780	1.780
Arts Council of Wales	1.000	1.000
Arts Council of Northern Ireland	0.560	0.560
British Film Institute	2.704	2.704
Total arts	20.000	20.000

Sport	1 April 2017 to 31 March 2018 (%)	1 April 2018 to 31 March 2019 (%)
Sport England	12.400	12.400
Sport Scotland	1.620	1.620
Sport Wales	0.900	0.900
Sport Northern Ireland	0.520	0.520
UK Sport	4.560	4.560
Total sport	20.000	20.000

14 Events after the reporting period

Ministerial Changes

On 23 May 2019, Rebecca Pow MP was appointed as the Minister for Arts, Heritage and Tourism replacing Michael Ellis MP.

Accounting Officer Changes

On 23 April 2019, Sarah Healey was appointed as Permanent Secretary and Accounting Officer for the department replacing Dame Sue Owen.

Aside from the above, no events occurred 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.

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