

National Lottery Distribution Fund

Annual report and accounts for the year ended 31 March 2020

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Annual report and accounts for the year ended 31 March 2020

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

Ordered by the House of Commons to be printed 21 July 2020



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ISBN 978-1-5286-1860-1

CCS0320274728 07/20

Printed on paper containing 75% recycled fibre content minimum

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

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Performance report

Overview

This overview explains what the 2019-20 financial statements show, how the National Lottery Distribution Fund (NLDF) operates, and the key risks that the NLDF faces.

The 2019-20 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-sixth set of accounts to be prepared for the NLDF. These financial statements account to Parliament for the receipt of National Lottery income and its allocation and distribution to the lottery distributing bodies. The Statement of Comprehensive Net Expenditure shows income from the National 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. The maximum length of a National Lottery section 5 licence is 15 years.

During 2019-20, the Gambling Commission continued the initiation phase of the competition for the Fourth National Lottery Licence. Having considered market feedback on the challenges posed by the Covid-19 global pandemic, the first phase of the competition has been delayed by at least three months to ensure potential applicants can make adequate preparations for a fair, open and robust competition. To facilitate these changes, and ensure a smooth transition, the third National Lottery licence will be extended by a further six months to 31 July 2023.

The principal categories of income into the NLDF for the year to 31 March 2020 comprise:

- a proportion of National 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 National 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 2019-20 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 National 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 National Lottery. It does not handle any applications for National Lottery funds or distribute any National 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 £42 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 565,000 projects, large and small. In November 2019, the National Lottery celebrated its 25th birthday, the first draw having taken place on Saturday 19 November 1994. The 25th birthday was 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 0.72% (2018-19: 0.67%). 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 2019-20 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 2019-20 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.

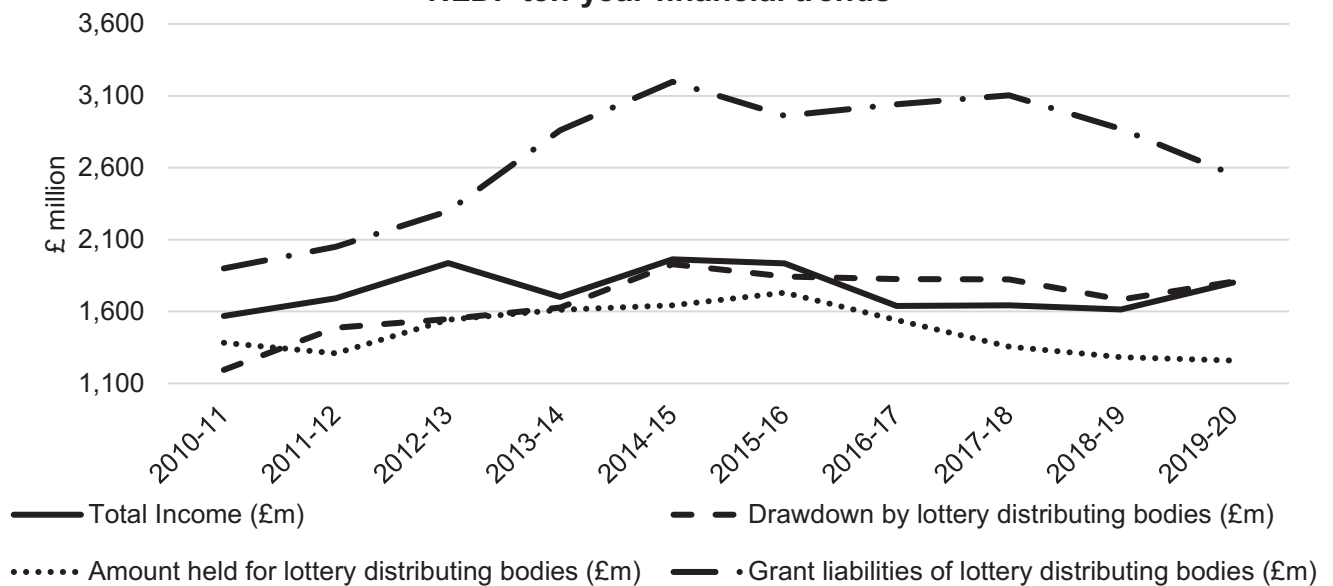
Performance analysis

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

NLDF ten-year financial trends

Year	Total Income (£m)	Drawdown by lottery distributing bodies (£m)	Amount held for lottery distributing bodies (£m) ¹	Grant liabilities of lottery distributing bodies (£m) ²
2010-11	1,569	1,194	1,382	1,900
2011-12	1,693	1,488	1,309	2,050
2012-13 ³	1,936	1,547	1,543	2,298
2013-14	1,700	1,628	1,612	2,861
2014-15 ⁴	1,963	1,929	1,643	3,198
2015-16 ⁵	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	1,615	1,682	1,282	2,869
2019-20 ⁶	1,801	1,808	1,259	2,552

NLDF ten-year financial trends



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

² The grant liabilities and commitments of the lottery distributing bodies, are derived from the bodies, in line with their own accounting policies. These liabilities are not included in the NLDF's own Financial Statement (below).

³ 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.

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

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

⁶ Grant liabilities for 2019-20 are unaudited, and subject to change.

Income

By 31 March 2020, over £42 billion had been raised for good causes since the launch of the National Lottery (including money raised by Olympic Lottery products), £1.8 billion of which was received by the NLDF during 2019-20 (2018-19: £1.6 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.

Because of the complex operation of the National 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, annual income was circa £1.6 billion for three years, but has increased in 2019-20 to £1.8 billion. Contributing factors to this year's success are due to the unusual EuroMillions rolls series in Autumn 2019 where the maximum jackpot amount was reached and continued to rollover for several weeks without a winner, the new 'Set for Life' game performing significantly above expectations, the increased publicity around the National Lottery's 25th Birthday in November 2019 and additional marketing and advertising spend. 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 National 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 through periods of fluctuating income.

Lottery distributing bodies' grant liabilities and commitments

Lottery distributing bodies' grant liabilities and commitments for 2019-20 and 2018-19 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 2019: £1.3 billion).

Total grant liabilities at 31 March 2020 were £2.6 billion, a decrease from £2.9 billion (restated) at the prior year end. In addition to these grant liabilities, contingent liabilities at 31 March 2020 totalled £427 million, a decrease from the figure of £531 million (restated) as at 31 March 2019. The majority of lottery distributing bodies made modest reductions to their grant liabilities and commitments as a consequence of decisions

made following the drop in good causes income in earlier years. 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 National 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 2020 will relate to distributors' grant decisions made in previous years. 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 National Lottery funds. In particular, the department will continue to discuss with distributors the impact of income trends on their budgets.

Lottery Distributors are provided with a monthly report containing National Lottery income data and appropriate commentary. Additionally, with the outbreak of the Covid-19 pandemic, a weekly report is provided which includes a weekly breakdown of sales per game, with supporting 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 2019-20 accounts. 2018-19 figures are restated, as unaudited figures were disclosed in the 2018-19 NLDF accounts; now updated for audited figures

	2019-20						2018-19 (Restated)						
	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 made against future income flows	Total liabilities	NLDF balance available	Grant liabilities made against future income flows	Contingent liabilities	Total commitments made against future income flows
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Arts Council England	207,335	137,421	0	344,756	256,636	(88,120)	0	(88,120)	422,361	282,630	(139,731)	0	(139,731)
Arts Council of Wales	8,104	2,466	0	10,570	18,035	7,465	109	7,356	11,189	14,894	3,705	0	3,705
Creative Scotland	17,353	1,998	0	19,351	21,347	1,996	1,280	716	18,545	16,974	(1,571)	1,280	(2,851)
Arts Council of Northern Ireland	1,265	483	0	1,748	4,544	2,796	4,357	(1,561)	2,137	3,030	893	4,339	(3,446)
British Film Institute	38,392	500	0	38,892	53,803	14,911	5,117	9,794	37,196	52,757	15,561	8,156	7,405
Sport England	137,430	91,434	0	228,864	194,668	(34,196)	24,039	(58,235)	288,870	167,368	(121,502)	29,864	(151,366)
Sport Northern Ireland	2,971	0	0	2,971	14,501	11,530	44,276	(32,746)	3,731	14,137	10,406	9,434	972
Sport Scotland	6,302	0	0	6,302	48,482	42,180	31,076	11,104	20,233	52,803	32,570	6,790	25,780
Sport Wales	373	66	0	439	15,026	14,587	471	14,116	10,578	14,665	4,087	1,365	2,722
UK Sport	2,226	1,345	0	3,571	20,233	16,662	82,366	(65,704)	8,871	47,331	38,460	144,121	(105,661)
National Lottery Heritage Fund	316,047	475,759	50,800	842,606	308,965	(533,641)	218,861	(752,502)	936,437	338,154	(598,283)	286,418	(884,701)
National Lottery Community Fund	496,419	550,914	4,500	1,051,833	302,735	(749,098)	14,807	(763,905)	1,108,473	277,137	(831,336)	39,521	(870,857)
Total⁷	1,234,217	1,262,386	55,300	2,551,903	1,258,975	(1,292,928)	426,759	(1,719,687)	2,868,621	1,281,880	(1,586,741)	531,288	(2,118,029)

⁷ The Total provides an overview of the overall position. Those lottery distributing bodies with excess commitments are not able to offset against bodies with a net surplus of funds.

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 £16.5 million (2018-19: £7.0 million) for the year of which £16.1 million (2018-19: £6.6 million) related to the Gambling Commission.

The increase in funding paid to the Gambling Commission 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 when the current licence expires. That is expected to be on 1 August 2023, or 1 February 2024 if there is any further extension. The relatively large increase compared to the prior year is in line with expectations if we factor in price increases since the last competition, which occurred over a decade ago.

The table below shows a summary of costs since 2015-16. The Gambling Commission 2019-20 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
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
2019-20	0.3	16.1	0.1	16.5

Amount held for lottery distributing bodies

The NLDF balance available in the fund at 31 March 2020 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 2019-20 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

17 July 2020

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 National Lottery income, the external auditors (the National Audit Office) undertook an investigation into National 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-february-2020>

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 2019-20 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

17 July 2020

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 National 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 2020 which has led him to be satisfied that the payments to the National Lottery Distribution Fund during the year ended 31 March 2020 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

17 July 2020

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 2019-20, and accords with HM Treasury guidance.

Throughout 2019-20 significant changes were made to the department's board and committee structure to increase the robustness and efficacy of governance. These sections below reflect current arrangements and outline the improvements made. It also integrates information about the department's public bodies included in the department's consolidated accounts for 2019-20.

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.

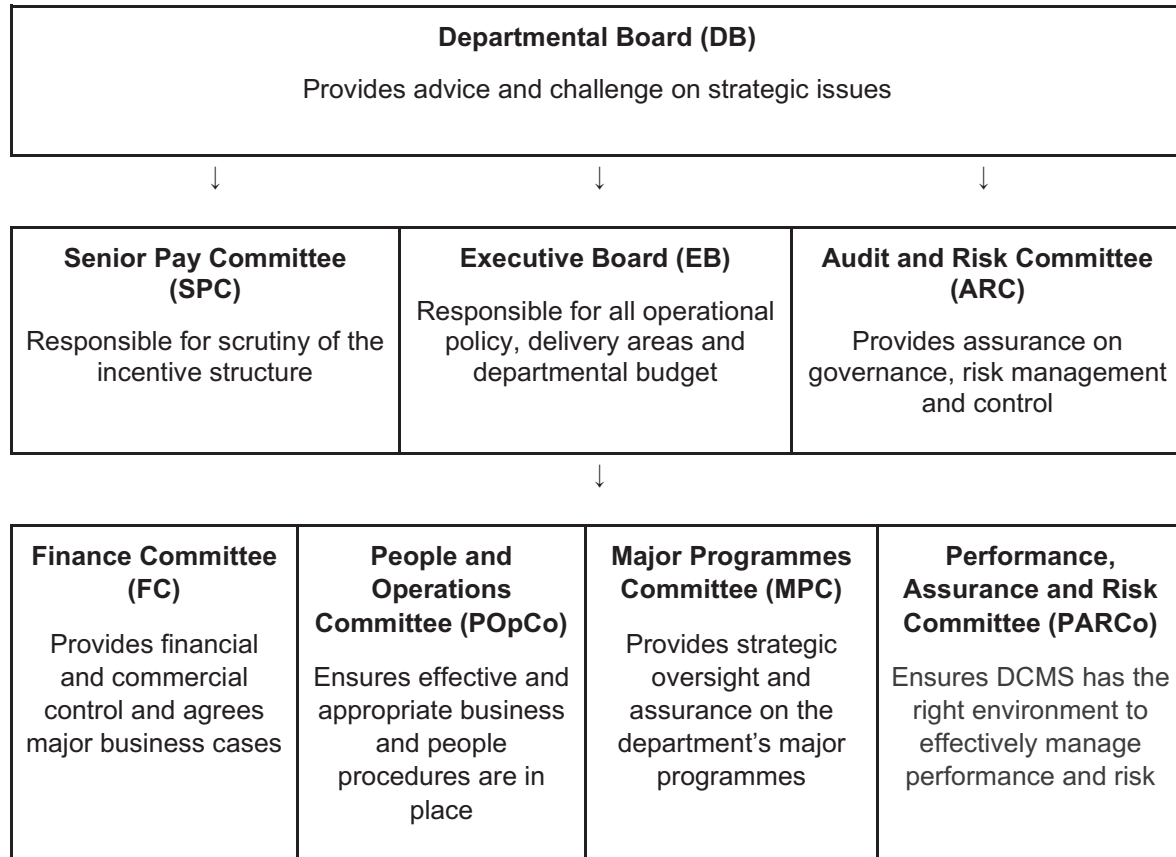
The current (third) licence to run the National Lottery is coming to an end in 2023. The GC is running the competition for the next licence and is responsible for awarding the winning bid. The department is responsible for providing oversight to the GC including with regard to the design of the competition and licence.

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 distributing bodies. 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.

DCMS has been closely monitoring National Lottery sales and good cause returns since government measures were put in place to slow down the COVID-19 pandemic.

Governance structure

The diagram below sets out the new streamlined governance structure under the Departmental Board. This applies to the core department, also referred to as 'the department' in this statement.



Departmental Board (DB)

DB forms the collective strategic and operational leadership of the department. Chaired by the Secretary of State, its members include the ministerial team, Non-Executive Board Members (NEBMs), the Permanent Secretary, Directors General, and Finance and Commercial Director. Due to changes within the ministerial team, the DB met twice formally in 2019-20. Where planned meetings did not take place the executive team met with the NEBMs. Its discussions were focussed on strategic risks and opportunities for the department, performance against the SDP and EU exit preparedness.

Audit and Risk Committee (ARC)

ARC supports DB and the Accounting Officer by providing independent scrutiny, support and challenge of DCMS's arrangements for governance, risk management and control. Chaired by a NEBM (Hemant Patel), it includes the DCMS Lead NEBM (Charles Alexander) and 2 independent members (Phill Wells and Brian Porritt). The Permanent Secretary, Directors General, Finance and Commercial Director, Government Internal Audit Agency (GIAA) and National Audit Office (NAO) all attend

meetings. ARC reports to and advises DB on governance, risk management and internal control. Fields Wicker-Miurin chaired ARC until she left the department in January 2020. It met 5 times in 2019-20 and continued to provide advice and challenge on the preparation of the DCMS consolidated annual report and accounts, the NLDF, strategic risk, the risk management framework, arm's length body assurance processes, EU exit preparedness, Commonwealth Games preparations and both the external and internal audit plans.

Executive Board (EB)

EB provides the day to day leadership of the department, overseeing delivery in support of ministers' objectives and reviewing budgets across the department. Throughout 2019-20 it met monthly but from the start of 2020-21 it has met fortnightly. It is chaired by the Permanent Secretary and membership comprises the Directors General, Director of Corporate Strategy, Director of Finance and Commercial, and Director of People and Workplace. The DCMS Legal Director is also invited to attend.

EB is supported in its decision making by a Shadow Board with representation of all grades below SCS2. EB also increases transparency through a staff observer programme and regular staff updates via the intranet.

Throughout 2019-20 EB reviewed and changed its membership, increased its frequency of meetings and fundamentally reviewed the number and composition of its committees. At the beginning of 2019-20 DCMS had 9 committees (People Board; Knowledge, Information Management and IT Committee; Major Programmes Committee; Finance Committee; Research and Evidence Board; ALB Risk and Governance Board; Spending Review Steering Committee; EU Exit and Trade Board; and EU Exit No Deal Board).

EB Sub-Committees

The previous diagram details the rationalised and improved committee structure under EB. The Finance Committee and Major Programmes Committee met throughout 2019-20 and continue to review their own effectiveness. The People and Operations Committee met for the first time in January 2020 and has taken a lead on DCMS's people, diversity and inclusion and estates strategies, as well as playing a vital role in the department's internal response to COVID-19. Preparatory work was undertaken at the end of 2019-20 to establish the Performance, Assurance and Risk Committee, which is establishing a portfolio of significant programmes of work thereby strengthening senior oversight of performance and risk. Ahead of this group's introduction, ARC and EB led on governance in these important areas.

Details of each committee are summarised below:

Finance Committee (FC)

FC 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 a public body's delegated limit, where relevant. It is supported by the Investment Sub-Committee. It is chaired by the Finance and Commercial Director.

People and Operations Committee (POpCo)

POpCo is responsible for creating the right environment for staff development and talent attraction and creating and sustaining the right culture and values for DCMS. It ensures the department has strong policies, processes and systems for HR, IT and knowledge management, and that the department has a modern, dynamic and secure working environment. It is chaired by the Director General for Performance and Strategy.

Performance, Assurance and Risk Committee (PARCo)

PARCo is responsible for creating an environment that allows DCMS to effectively manage performance and risk across its portfolio of policy work and projects. It provides assurance that the department's policies, procedures and systems in this area are fit for purpose. It is chaired by the Director General for Digital and Media.

Major Programmes Committee (MPC)

MPC provides strategic oversight and assurance on the department's portfolio of major programmes/projects. This portfolio primarily consists of projects included in the Government Major Projects Portfolio (GMPP). The committee reviews a pipeline of projects above £15 million at each meeting and decides if any of these need to be added to the portfolio. It is chaired by the Director General for Digital and Media.

Board performance and effectiveness

The HM Treasury and Cabinet Office Corporate Governance in Central Government Departments: Code of Good Practice requires all departments to undertake an annual board effectiveness evaluation.

In 2019-20 this exercise was focussed on EB and its committees. As described above the new structure is more streamlined. Committees have been merged to ensure that they focus on the most strategic elements of their remits and some will no longer form part of the formal governance structure. The structure also provides greater clarity on responsibilities to ensure that robust decisions are taken at the right level.

As the department continues to evolve in size and scope this structure will be kept under review throughout 2020-21. Work will also be undertaken in 2020-21 on the effectiveness of the DB and ARC.

Compliance with the Corporate Governance code

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

- The Senior Pay Committee, which comprises the Permanent Secretary, Lead Non-Executive Board Member, a second Non-Executive Board Member and the Director of People and Workplace, fulfils the role of a Nominations and Governance Committee, primarily to scrutinise the incentive structure

- The Head of Internal Audit attends the ARC rather than the DB and the ARC chair reports risks, issues and an overview of the committee's work at each DB meeting

Attendance for financial period 1 April 2019 to 31 March 2020

	DB	ARC	SPC	EB
Number of meetings held	2	5	1	11
Ministers				
The Rt Hon Oliver Dowden CBE MP	0/0	-	-	-
Caroline Dinenage MP	0/0	-	-	-
The Rt Hon John Whittingdale OBE MP	0/0	-	-	-
Baroness Barran MBE	1/1	-	-	-
Nigel Huddleston MP	0/0	-	-	-
Matt Warman MP	1/1	-	-	-
The Rt Hon Baroness Nicky Morgan	1/1	-	-	-
Jeremy Wright MP	1/1	-	-	-
Nigel Adams MP	1/1	-	-	-
Margot James MP	1/1	-	-	-
Lord Ashton of Hyde	1/1	-	-	-
Mims Davies MP	1/1	-	-	-
Michael Ellis MP	1/1	-	-	-
Rebecca Pow MP	0/0	-	-	-
Helen Whately MP	1/1	-	-	-
Non-Executive Board Members and Independent Members				
Charles Alexander	2/2	4/5	1/1	-
Hemant Patel	0/0	0/0	0/0	-
Neil Mendoza	2/2	-	-	-
Matthew Campbell-Hill	2/2	-	-	-
Sherry Coutu CBE	2/2	-	-	-
Fields Wicker-Miurin OBE	1/2	4/4	1/1	-

National Lottery Distribution Fund accounts 2019-20

Phill Wells	-	4/5	-	-
Brian Porritt	-	5/5	-	-
Executive				
Sarah Healey	1/1	4/5	1/1	11/11
Sam Lister	1/1	3/3	-	7/7
Susannah Storey	1/1	3/3	-	7/7
Scott Mcpherson	0/0	0/0	-	1/1
Kate Caulkin	-	-	1/1	3/3
Nico Heslop	-	-	-	6/6
Jacinda Humphry	0/1	2/3	-	4/7
Helen Judge	1/1	1/2	-	3/4
Tim Sparrow	1/1	1/2	-	3/4
Anna Wechsberg	-	-	-	4/4
Dame Sue Owen	1/1	0/0	-	0/0
Matthew Gould	1/1	0/2	-	1/2
Yasmin Brooks	-	-	-	2/2
Debra Lang	-	-	-	8/8

'-' denotes individual is not a member of this group or invited to attend. Various individuals were not in position for the full year, this is demonstrated by only showing the total number of meetings they were eligible to attend.

Non-Executive Board Members

Fields Wicker-Miurin's second term came to an end in January 2020. The department appointed Hemant Patel as a Non-Executive Board Member and ARC Chair in March 2020. Hemant brings with him a strong strategic understanding of the department and its role. His technical financial expertise will help ensure that ARC develops and continues to provide constructive challenge, assurance on governance, risk management and control and assurance on the annual report and accounts.

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. This included supporting departmental work within the Commonwealth Games programme, the 4th National Lottery license and the inclusive economy unit. Through various forums in 2019-20, the Non-Executive Board Members also advised on the department's EU exit preparations and later in the year on its COVID-19 response strategy.

Declaration of interests

DB, ARC and EB Members have disclosed a range of interests. Further details will be found in the Director’s Report of the DCMS group annual report and accounts, when published later in 2020.

Information management

All boards and committees are provided with a range of management information in order to review the department's performance and capability.

Throughout 2019-20 work was undertaken to improve the financial, people and workplace and risk data that is regularly presented to EB. This work was coordinated by the Governance team, who also ensured that guidance on drafting board papers was clear and concise. Provision of the highest quality information is vital to inform discussion and decision making throughout the governance framework. A new Information governance strategy was agreed by EB in 2019.

External reporting

The department provides information, including the Online System for Central Accounting and Reporting 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 features in most sub-committees where appropriate. The department retains 3 lines of defence, as shown in the graphic below:

1st line (Controls and ownership)	2nd line (Management and specialists)	3rd line (Independent and systemic assurance)
Individual risk assessments	Performance and Risk Committee	Audit and Risk Committee
Internal controls	Other sub committees	Departmental Board
Programme level risk management	Directorate level risk management	Major Projects Authority
Local Risk Champions	Executive Board	GIAA
	Departmental specialists (eg Financial Controller, Security)	
	Central Performance and Risk team	

- 1) The first line of defence is made up of operational controls and contingencies taken to reduce the risk at first sight
- 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. EB here acts in an operational capacity on the advice of its committees
- 3) The third and final line of defence includes external organisations who provide systematic assurance (e.g. the GIAA), challenge (e.g. the Major Projects Authority), and regular third-party oversight (such as through the Non-Executive Board Members on the Audit and Risk Committee). The Departmental Board also sits here as the department's ultimate strategic oversight board

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 its objectives. These often represent key uncertainties around its objectives.

Throughout 2019-20 strategic and top level risks were monitored through the department's executive risk register, while risks to the SDP objectives were monitored through an internal risk management system, tracked centrally at the work programme level. DB, ARC and EB all used the same executive risk register, while sub-committees of EB used their own registers. The top risks against each of the SDP objectives can be found.

Assurance exercises

The assurance exercise was improved in 2019-20. Recommendations from the 2018-19 End of Year assurance exercise included the formation of an assurance working group to make further recommendations and refine existing assurance processes, which the group did throughout 2019-20. While the 2018-19 End of Year exercise surveyed all senior civil servants within DCMS, the mid-year exercise for 2019-20 surveyed only those at Director and Director General level, interviewing 8 Directors and 2 Director Generals. Recommendations from the 2018-19 End of Year assurance exercise included the formation of an assurance working group to make further recommendations and refine existing assurance processes, which the group did throughout 2019-20.

Changes to risk management

This was the first year under the new Risk Framework and system, adopted from April 2019. While an audit from the GIAA towards the end of 2019-20 stated that more changes are needed to refine the framework and system in 2020-21, several improvements over the course of the year (such as a straightforward risk escalation system and a simplified executive risk register) have helped make staff more engaged with risk management, particularly with regards to their SDP objectives.

Further improvements around user experience and a greater focus on departmental priorities are to be implemented throughout 2020-21.

Fraud and Error

The department's policy towards fraud, malpractice and corruption is one of zero tolerance, whether in the core department or the public bodies 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.

DCMS has 2 Co-Counter Fraud Responsible Officers at EB 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 People and Workplace 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 public bodies 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 public bodies, the department will continue to strengthen its processes and controls to reduce the risk of fraud. Over the coming year, the department 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.

There were a small number of suspected fraud activities in 2019-20 that impacted lottery funding. Public bodies will 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.

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 2018-19 NLDF annual report and accounts that the 2016-17 and 2017-18 SCNI annual report and accounts, including the National Lottery accounts remained outstanding. These have now been certified and the Northern Ireland Audit Office continues to work on the 2018-19 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 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 2019-20 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

The DCMS Whistleblowing Policy, Procedures and Frequently Asked Questions (FAQs) are published on the department's intranet. DCMS has 2 independent nominated officers who staff can approach anonymously to report any concerns they may have about perceived wrongdoings or something that goes against the Civil Service Code (that is to say integrity, honesty, objectivity and impartiality). In the 2019 People Survey DCMS obtained a score of 82% for inclusion and fair treatment. In addition 95% of staff reported that they were aware of the Civil Service Code, 57% knew how to raise a concern under the code, and 75% confirmed they were confident that a raised concern 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 2019-20 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 public bodies 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

17 July 2020

Remuneration and staff report

Remuneration policy

Operationally, the NLDF is part of DCMS and staff who administer the NLDF and prepare these annual report and accounts are employees of DCMS. The NLDF has no employees of its own and, therefore, there are no disclosures to make under a remuneration and staff report for NLDF itself.

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 2019-20 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

17 July 2020

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 2020 under the National Lottery etc. Act 1993. The financial statements comprise: the Statement 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 2020 and of its decrease in realised amount held 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 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the National Lottery Distribution Fund's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the National Lottery Distribution Fund have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the National Lottery Distribution Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.
- Conclude on the appropriateness of the National Lottery Distribution Fund'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. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause the National Lottery Distribution Fund to cease to continue as a going concern.

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.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure 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.

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 National Lottery Distribution Fund 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.

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: 20 July 2020

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 2020

	Note	2019-20 £000	2018-19 £000
Income			
Income from the National Lottery	2	1,792,602	1,606,983
Investment income	3	8,591	8,199
Total income		<u>1,801,193</u>	<u>1,615,182</u>
Less: operational costs			
Department for Digital, Culture, Media and Sport	4	(294)	(276)
Gambling Commission	5	(16,153)	(6,609)
Other expenses	6	(69)	(86)
Total operational costs		<u>(16,516)</u>	<u>(6,971)</u>
Net realised income for distribution		1,784,677	1,608,211
Amounts authorised for payment to lottery distributing bodies	10	(1,807,582)	(1,682,118)
(Decrease)/increase in realised amount held for lottery distributing bodies		(22,905)	(73,907)
Total comprehensive income/(expenditure)		<u>(22,905)</u>	<u>(73,907)</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 2020

		2019-20	2018-19
	Note	£000	£000
Current assets			
Receivables	7	29,862	22,090
Investments held by CRND	8	1,229,406	1,260,066
Total current assets		1,259,268	1,282,156
Current liabilities			
Payables: amounts falling due within one year	8	(293)	(276)
Total assets less liabilities		1,258,975	1,281,880
Represented by:			
Realised amount held for distributing bodies		1,258,975	1,281,880
Amounts held for lottery distributing bodies	10	1,258,975	1,281,880

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
 17 July 2020

Statement of Cash Flows for the year ended 31 March 2020

Cash flows from operating activities

Cash received from National Lottery operator		1,784,830	1,619,887
Cash paid for operating expenses		(16,499)	(6,954)
Cash paid to lottery distributing bodies	10	(1,807,582)	(1,682,118)
Net cash inflow/(outflow) from operating activities	9	(39,251)	(69,185)

Cash flows from investing activities

Cash paid to CRND for investment		(1,768,331)	(1,612,933)
Cash received from CRND for distribution		1,807,582	1,682,118
Net cash inflow/(outflow) from management of liquid resources		39,251	69,185
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 2020

	Note	£000
Amount held for lottery distributing bodies at 1 April 2018		1,355,787
Total comprehensive (expenditure)/income 2018-19		<u>(73,907)</u>
Amount held for lottery distributing bodies at 31 March 2019		1,281,880
Total comprehensive (expenditure)/income 2019-20		<u>(22,905)</u>
Amount held for lottery distributing bodies at 31 March 2020	10	<u><u>1,258,975</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 National Lottery income

Proceeds from the National 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 National Lottery primary contribution include income receivable on ticket sales from 1 April 2019 to 31 March 2020.

Actual prizes, together with National 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 National 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.

National 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 2020 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.

It has been assessed that IFRS 15: Revenue from Contracts with Customers applies to National 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.

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 2020. 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.

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

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.

The impact of IFRS 16 has been considered in light of DCMS being early adopters of this standard. However, as the NLDF do not hold any leases, and do not intend to, it is not anticipated to have any material effects on the accounts in the current period, or on future reporting periods.

Amendments to IFRS for 2018-19 and 2019-20 can be found on:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/798089/FRAB_134_03-FReM_2018-19_and_2019-20_updates.pdf

2 Income from the National Lottery

	2019-20	2018-19
	£000	£000
Primary contribution	1,660,844	1,474,781
Secondary contribution	6,398	5,053
Unclaimed prizes	123,204	125,121
Net interest on the Players' Trust Fund	1,200	-
Licensee penalty	-	1,150
Income from ancillary activities and other items	956	878
	<u>1,792,602</u>	<u>1,606,983</u>

The Licensee penalty in 2018-19 relates to a regulatory settlement in respect of a Gambling Commission enforcement case for breach of licence conditions.

The net interest on the Players' Trust Fund (a separate Trust established by the Licensee for the protection of players, under Condition 19 of the Section 5 Licence) was deemed receivable by the NLDF by the Trustees (the Law Debenture Trust Corporation plc).

3 Investment income

	2019-20	2018-19
	£000	£000
Interest received on investments	<u>8,591</u>	<u>8,199</u>

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

All investments in 2019-20 were held as call notice deposits. The increase in investment income is due to an increase in average interest rate on deposits in 2019-20 to 0.72% (2018-19: 0.67%).

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

	2019-20	2018-19
	£000	£000
Administrative costs	271	253
External auditor's remuneration	20	20
Bank charges	3	3
	294	276

In 2019-20, the department's finance and lotteries teams were engaged on NLDF matters for a proportion of their time, and staff costs are charged to the NLDF in that proportion.

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 2019-20 (2018-19: nil).

5 Operational costs: Gambling Commission

	2019-20	2018-19
	£000	£000
Funding recovered by the department	16,156	6,721
National Lottery operator licence fee income	(3)	(112)
Amount payable to the department	16,153	6,609

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 additional expenditure on the fourth National Lottery Licence competition.

The operator licence fee income is the sum of payments made by the National Lottery operator, Camelot, for each new Section 6 licence granted for new National Lottery games. In 2019-20, licence fee income of £2,500 relating to new National Lottery games was received by the department.

6 Other expenses

	2019-20	2018-19
	£000	£000
CRND management fee	69	86

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

7 Receivables

	2019-20	2018-19
	£000	£000
Net income due as a result of draws prior to year end	29,862	22,090
	29,862	22,090

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 2020 Cost £000	At 31 March 2019 Cost £000
Investments held by CRND	1,229,406	1,260,066
Receivables (note 7)	29,862	22,090
Payables	(293)	(276)
Balance held	1,258,975	1,281,880

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

	2019-20 £000	2018-19 £000
Decrease in realised amounts held for distributing bodies	(22,905)	(73,907)
Investment income	(8,591)	(8,199)
	(31,496)	(82,106)
Decrease/(increase) in National Lottery operator receivables	(7,772)	12,904
(Decrease)/increase in payables for operating expenses	17	17
Net cash inflow/(outflow) from operating activities	(39,251)	(69,185)

10 Amounts held for lottery distributing bodies at 31 March 2020*Beneficiary sectors*

	Arts £000	Sport £000	National Lottery Heritage Fund £000	National Lottery Community Fund £000	Total £000
Share of income from National Lottery	358,520	358,520	358,520	717,042	1,792,602
Less share of operational costs	(3,303)	(3,303)	(3,303)	(6,607)	(16,516)
Share of net operational proceeds	355,217	355,217	355,217	710,435	1,776,086
Amount authorised for payment to lottery distributing bodies	(372,855)	(360,329)	(386,124)	(688,274)	(1,807,582)
Investment income	1,718	1,718	1,718	3,437	8,591
(Decrease)/increase in balance available	(15,920)	(3,394)	(29,189)	25,598	(22,905)
Amounts held for lottery distributing bodies at market value at 1 April 2019	370,285	296,304	338,154	277,137	1,281,880
Amounts held for lottery distributing bodies at market value at 31 March 2020	354,365	292,910	308,965	302,735	1,258,975

Amounts held for lottery distributing bodies at 31 March 2020 (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	Subtotal - arts £000
Share of income from National Lottery	250,175	31,908	17,926	10,039	48,472	358,520
Less share of operational costs	(2,305)	(294)	(165)	(92)	(447)	(3,303)
Share of net operational proceeds	247,870	31,614	17,761	9,947	48,025	355,217
Amount authorised for payment to lottery distributing bodies	(275,063)	(27,394)	(14,706)	(8,481)	(47,211)	(372,855)
Investment income	1,199	153	86	48	232	1,718
(Decrease)/increase in balance available	(25,994)	4,373	3,141	1,514	1,046	(15,920)
Amounts held for lottery distributing bodies at market value at 1 April 2019	282,630	16,974	14,894	3,030	52,757	370,285
Amounts held for lottery distributing bodies at market value at 31 March 2020	256,636	21,347	18,035	4,544	53,803	354,365

Amounts held for lottery distributing bodies at 31 March 2020 (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 National Lottery	222,282	29,040	16,133	9,322	81,743	358,520
Less share of operational costs	(2,047)	(268)	(149)	(86)	(753)	(3,303)
Share of net operational proceeds	220,235	28,772	15,984	9,236	80,990	355,217
Amount authorised for payment to lottery distributing bodies	(194,000)	(33,232)	(15,700)	(8,917)	(108,480)	(360,329)
Investment income	1,065	139	77	45	392	1,718
(Decrease)/increase in balance available	27,300	(4,321)	361	364	(27,098)	(3,394)
Amounts held for lottery distributing bodies at market value at 1 April 2019	167,368	52,803	14,665	14,137	47,331	296,304
Amounts held for lottery distributing bodies at market value at 31 March 2020	194,668	48,482	15,026	14,501	20,233	292,910

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 £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 department group accounts and is a related party. Net

payments made to the Gambling Commission totalling £16.1 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 2019-20 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 2018 to 31 March 2019 (%)	1 April 2019 to 31 March 2020 (%)
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 2018 to 31 March 2019 (%)	1 April 2019 to 31 March 2020 (%)
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 2018 to 31 March 2019 (%)	1 April 2019 to 31 March 2020 (%)
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

Other Events

DCMS is working closely with Camelot and the distributors to monitor the impact of Covid-19 on returns to good causes and early indications suggest the National Lottery has remained relatively resilient.

With the increase in online National Lottery sales during the Covid-19 pandemic lockdown, Camelot, the Operator of the National Lottery has implemented further player protection measures by reducing the minimum wallet load from £10 to £5, the weekly spend limit from £750 per week to £500 per week for all digital players (excluding syndicates) and integrated with GamStop, which allows players to self-exclude from all forms of licensed online gambling.

Date accounts authorised for issue

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.

CCS0320274728

978-1-5286-1860-1