

National Lottery Distribution Fund

Annual report and accounts for the year ended 31 March 2021

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

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Performance report

Overview

This overview explains what the 2020-21 financial statements show, how the National Lottery Distribution Fund (NLDF) operates, and the key risks that the NLDF faces.

The 2020-21 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-seventh 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

The National Lottery is currently operated by Camelot UK Lotteries Limited (Camelot) under licence from the Gambling Commission. The current licence expires in January 2024, and the Gambling Commission are currently running the competition for the next (fourth) licence. The maximum length of a National Lottery section 5 licence is 15 years.

The principal categories of income into the NLDF for the year to 31 March 2021 comprise:

- a proportion of National Lottery ticket sales, as determined by the licence granted to the operator (the Primary contribution to the fund)
- a share of the profits of operator when those profits are greater than the profits forecast in the original bid to operate the third National Lottery Licence (the Secondary contribution to the fund)
- 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
- interest earned on unclaimed prizes while they remain in the Players' Trust Fund (a trust account which receives all prizes due and only reimburses the operator when prizes have been paid to National Lottery players), together with the reclaim of tax deducted on interest when received by the fund's corporate trustee, and
- 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

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 the current operator.

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 2020-21 is shown in notes 9 and 12.

Governance of the fund

Sound management of the NLDF plays a pivotal role in managing the flow of funds between the operator 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 is responsible for awarding the National Lottery operating licence, and regulation of the National Lottery. It 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 and to enforce the terms of its Section 5 licence. This includes ensuring that the operator complies with licence terms relating to the banking, record keeping and security of monies received, as well as their remittance to the NLDF. It does not handle any applications for National Lottery funds or distribute any National Lottery good cause income.

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.

Up to and including the 2020/21 financial year, the National Lottery has generated over £42 billion (including money raised by Olympic Lottery products) for good causes since its launch in 1994, and has benefited over 625,000 projects, large and small. A further £2 billion has been raised in income from investment.

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

Whilst the COVID-19 pandemic has affected the country in many ways, National Lottery sales have proven to be very resilient during this period, recovering well after an initial dip. Around 90% of National Lottery retailers were able to remain open during the lockdown and for those people who couldn't play in stores, the online platform was enhanced to enable players to transition to play online. Over £1.2 billion of National Lottery funding has been directed towards organisations to help respond to and recover from the impact of COVID-19.

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 0.10% (2019-20: 0.72%). 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.

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 2020-21 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 2020-21 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 13 to the accounts.

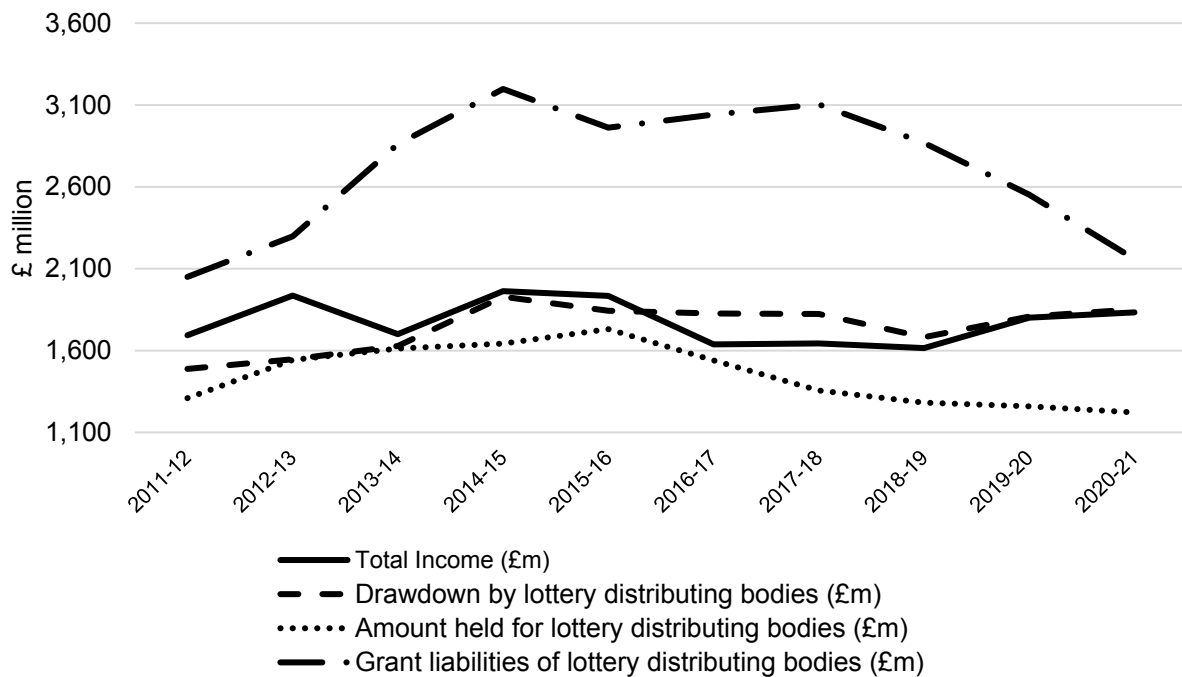
Performance analysis

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
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	1,801	1,808	1,259	2,552
2020-21 ⁶	1,833	1,852	1,222	2,159

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 2020-21 are unaudited, and subject to change. Lottery sales have been very resilient over the period of the COVID-19 pandemic.

Income

By 31 March 2021, over £42 billion had been raised for good causes since the launch of the National Lottery, £1.8 billion of which was received by the NLDF during 2020-21 (2019-20: £1.8 billion). A further £2 billion of investment returns on the balance held in the NLDF has been earned since launch. £1.9 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 current (third) 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.

Overall, National Lottery sales remained resilient over lockdown as many points of sale are in essential retailers such as supermarkets and petrol stations. Good cause income has also benefited from a strong digital performance as the amount that would normally be paid to retailers is diverted to good causes instead. A further contributory factor for the strong performance this year has been two long EuroMillions rollover events between November 2020 and February 2021. In both cases, the jackpot reached its cap of £180 million. Good cause income has also benefited from a strong digital performance. Digital sales return a higher proportion of sales to good causes, as they do not contribute any retailer commission. Sales have also benefited from the efforts of the Distributing Bodies to highlight the contribution the National Lottery made to support the response and recovery from the Covid-19 pandemic. 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.

Lottery distributing bodies' grant liabilities and commitments

Lottery distributing bodies' grant liabilities and commitments for 2020-21 and 2019-20 are shown in the table on page 10.

At the year end the amount held for lottery distributing bodies was £1.2 billion (31 March 2020: £1.3 billion).

Total grant liabilities at 31 March 2021 were £2.2 billion, a decrease from £2.6 billion (restated) at the prior year end. In addition to these grant liabilities, contingent liabilities at 31 March 2021 totalled £443 million, an increase from the figure of £394 million (restated) as at 31 March 2020. 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 2021 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, weekly updates on fluctuations during the pandemic have been provided. 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 2020-21 accounts. 2019-20 figures are restated, as unaudited figures were disclosed in the 2019-20 NLDF accounts; now updated for audited figures.

	2020-21								2019-20 (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	190,183	26,302	0	216,485	210,562	(5,923)	0	(5,923)	344,756	256,636	(88,120)	0	(88,120)
Arts Council of Wales	9,004	1,883	0	10,887	22,120	11,233	0	11,233	10,570	18,035	7,465	109	7,356
Creative Scotland	17,320	2,000	0	19,320	37,619	18,299	0	18,299	19,353	21,347	1,994	0	1,994
Arts Council of Northern Ireland	1,220	31	0	1,251	6,381	5,130	4,405	725	1,748	4,544	2,796	4,357	(1,561)
British Film Institute	40,970	0	0	40,970	53,120	12,150	4,536	7,614	38,892	53,803	14,911	5,117	9,794
Sport England	134,443	136,655	0	271,098	176,608	(94,490)	16,410	(110,900)	228,864	194,668	(34,196)	24,039	(58,235)
Sport Northern Ireland	3,627	0	0	3,627	16,143	12,516	40,649	(28,133)	2,971	14,501	11,530	44,276	(32,746)
Sport Scotland	5,297	0	0	5,297	51,957	46,660	0	46,660	6,302	48,482	42,180	0	42,180
Sport Wales	276	29	0	305	12,810	12,505	356	12,149	439	15,026	14,587	471	14,116
UK Sport	4,464	5,393	0	9,857	42,238	32,381	246,255	(213,874)	3,571	20,233	16,662	82,366	(65,704)
National Lottery Heritage Fund	263,946	383,166	49,345	696,457	328,747	(367,710)	115,811	(483,521)	842,606	308,965	(533,641)	218,861	(752,502)
National Lottery Community Fund	448,755	423,133	3,589	875,477	263,583	(611,894)	14,937	(626,831)	1,051,833	302,735	(749,098)	14,807	(763,905)
Total	1,119,505	978,592	52,934	2,151,031	1,221,888	(929,143)	443,359	(1,372,502)	2,551,905	1,258,975	(1,292,930)	394,403	(1,687,333)

Operating costs

Expenses incurred in operating the fund by the department (which includes the external audit fee), CRND and by the Gambling Commission for regulating the National Lottery are met from the fund and totalled £18.2 million for 2020-21 (2019-20: £16.5 million), of which £17.8 million (2019-20: £16.1 million) related to the Gambling Commission.

A significant proportion of costs incurred by the Gambling Commission relate to competition to award the fourth National Lottery Licence (£15.1m), which was launched on 28th August 2020. The increase compared to the prior year is in line with expectations due to greater resources required. The fourth licence is scheduled to begin on 1st February 2024, when the current licence expires⁷

The table below shows a summary of costs since 2016-17. The Gambling Commission 2020-21 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	Total
	£m	£m	£m	£m
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
2020-21	0.3 ⁸	17.8	0.1	18.2

⁷ The third National Lottery licence was due to run for 10 years from February 2009. In March 2012, it was extended by four years. In May 2020, it was extended by a further six months to mitigate the impact of Covid-19 on applicants to the fourth National Lottery licence competition and ensure a smooth transition to the fourth licence

⁸ Rounded down to agree total expenses figure of £18.2m (£18,236k)

Amount held for lottery distributing bodies

The NLDF balance available in the fund at 31 March 2021 is held in investments by CRND as set out in note 7 to these accounts. The allocation of these funds across the twelve lottery distributing bodies in 2020-21 can be seen in note 9 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

01 December 2021

Accountability report

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

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.

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 2020-21 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>

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 the operator, 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 the current operator under section 5 of the 1993 Act, for ensuring that the current operator 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 the current operator; 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 during the year ended 31 March 2021 which has led him to be satisfied that the payments to the National Lottery Distribution Fund during the year ended 31 March 2021 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.

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 2020-21, and accords with HM Treasury guidance.

Throughout 2020-21 significant changes were made to the department's board and committee structure to increase the robustness and efficacy of governance.

Oversight of the National Lottery

The department is responsible for the policy and legal framework of the National Lottery regime and works closely with the Gambling Commission (GC), the independent regulator of the National Lottery. Amongst other things, the GC monitors and reports on the performance of the current operator 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 2024. The GC is running the competition for the next licence and is responsible for awarding the winning bid.

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. National

Lottery monies are independent of government and are distributed by independent Lottery Distributing Bodies at arm's length from Government. The department implements appropriate controls over the National Lottery distributors, including financial directions, to ensure propriety, regularity and accountability in their handling of National Lottery monies drawn down. DCMS seeks annual confirmation from all Lottery Distributors of key systems of internal control in relation to their handling of National Lottery good cause income.

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 (SPC), comprising 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

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 Departmental Board, Audit and Risk Committee and Executive Board (EB), and features in all sub-committees where appropriate.

Throughout 2020-21 strategic and top level risks were monitored through the department's executive risk register.

Further details on risk management activities can be found in the governance statement of the DCMS annual report and accounts 2020-21. This will also include information about the board committee structure, its attendance records and coverage of its work.

Board performance and effectiveness

The HMT Treasury and Cabinet Office Corporate Governance in Central Government Departments: Code of Good Practice requires all departments to undertake an annual board effectiveness evaluation. As reported in last year's governance statement EB and its committees undertook a fundamental review of its set up and operation in 2019-20 and the structure reflected in this statement has been in operation for the full 2020-21 year. A review of the implementation and effectiveness of EB and its committees was completed in March 2021. The review found that EB and its committees were operating effectively and meeting their respective terms of reference. In particular the set up of governance enabled the department to remain resilient and responsive to the challenges posed by COVID-19. This was a view shared by GIAA in

their internal audit of the department's Governance reprioritisation in response to COVID-19.

Information management

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

During 2020-21 the department introduced a new Delivery Unit to provide consistent data, insight and assessment of departmental priorities. This has enabled the department to obtain a greater view on delivery, anticipate success, identify emerging problems and allow for data driven decision making.

In regards to the information EB reviews, work has continued to build on improvements to the financial, people and workplace and risk data that is regularly presented.

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.

Emergency measures required to tackle effects of the global pandemic necessitated DCMS and their ALBs to tolerate a higher than normal level of risk in providing sufficient funding at pace. There is an expectation that there will therefore be an increase in the number of suspected frauds impacting lottery funding which will be fully determined after post-event testing and fraud measurement analyses are completed. Public bodies will also 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 and when 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 2019-20 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 2019-20 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 2020-21 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 whose staff can approach anonymously to report any concerns they may have about perceived wrongdoings or something that goes against the Civil Service Code (i.e. integrity, honesty, objectivity, impartiality). In the 2020 People Survey DCMS obtained a score of 86% for inclusion and fair treatment (a 4% increase compared to 2019). In addition, 94% of staff reported that they were aware of the Civil Service Code, 58% knew how to raise a concern under the code, and 77% 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, including highlights of board committee reports, may be found in the governance statement of the DCMS annual report and accounts 2020-21 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.

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 2020-21 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>

Parliamentary Accountability Disclosures

Regularity of expenditure (this section is subject to audit)

Losses and Special Payments

There were no losses or special payments made in 2020-21 or 2019-20 relating to NLDF.

Gifts

There were no gifts made by NLDF in 2020-21 and 2019-20.

Remote Contingent Liabilities

There were no remote contingent liabilities in 2020-21 and 2019-20 relating to NLDF.

Fees and Charges

NLDF does not provide services to external and public sector customers.

Signed:

Sarah Healey

Permanent Secretary and Accounting Officer

Department for Digital, Culture, Media and Sport

01 December 2021

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 2021 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

I have also audited the information in the Accountability Report that is described in that report as having been audited.

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 2021 and of its decrease in realised amount held for lottery distributing bodies for the year then ended;
- 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the National Lottery Distribution Fund in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that National Lottery Distribution Funds use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, 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 when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Secretary of State and the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the National Lottery Distribution Fund is adopted in consideration of the requirements set out in International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the annual report, but does not include the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the National Lottery etc. Act 1993; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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 material misstatements in the performance and Accountability report. 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 and the parts of the Accountability Report to be audited 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.

Responsibilities of the Secretary of State, Accounting Officer and the Gambling Commission 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 and the Accounting Officer, is responsible for:

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the National Lottery Distribution Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Secretary of State and the Accounting Officer anticipates that the services provided by National Lottery Distribution Fund will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management and those charged with governance, including obtaining and reviewing supporting documentation relating to the National Lottery Distribution Fund's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the National Lottery Distribution Fund's controls relating to the National Lottery etc. Act 1993, Statutory Instrument 2010 No. 2863 'The Apportionment of Money in the National Lottery Distribution Fund Order 2010' and Managing Public Money.
- discussing among the engagement team, including significant component audit teams, how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition and posting of unusual journals; and
- obtaining an understanding of National Lottery Distribution Fund's framework of authority as well as other legal and regulatory frameworks that the National Lottery Distribution Fund operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the National Lottery Distribution Fund. The key laws and regulations I considered in this context included the National Lottery etc. Act 1993, Statutory Instrument 2010 No. 2863 'The Apportionment of Money in the National Lottery Distribution Fund Order 2010' and Managing Public Money.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Department for Digital, Culture, Media and Sport Audit and Risk Committee concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

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.

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.

Report

I have no observations to make on these financial statements.

Gareth Davies

Date: 07 December 2021

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 2021

		2020-21	2019-20
	Note	£000	£000
Income			
Income from the National Lottery	2	1,832,010	1,792,602
Investment income	3	1,061	8,591
Total income		<u>1,833,071</u>	<u>1,801,193</u>
Less: operational costs			
Department for Digital, Culture, Media and Sport	4	(365)	(294)
Gambling Commission	5	(17,802)	(16,153)
Other expenses		(69)	(69)
Total operational costs		<u>(18,236)</u>	<u>(16,516)</u>
Net realised income for distribution		1,814,835	1,784,677
Amounts authorised for payment to lottery distributing bodies	9	(1,851,922)	(1,807,582)
(Decrease)/increase in realised amount held for lottery distributing bodies		<u>(37,087)</u>	<u>(22,905)</u>
Total comprehensive income/(expenditure)		<u>(37,087)</u>	<u>(22,905)</u>

All transactions are in respect of continuing operations.

The notes on pages 31 to 43 form an integral part of these accounts.

Statement of Financial Position as at 31 March 2021

		2020-21	2019-20
	Note	£000	£000
Current assets			
Receivables	6	31,236	29,862
Investments held by CRND	7	1,191,017	1,229,406
Total current assets		<u>1,222,253</u>	<u>1,259,268</u>
Current liabilities			
Payables: amounts falling due within one year		(365)	(293)
Total assets less liabilities		<u>1,221,888</u>	<u>1,258,975</u>
Represented by:			
Realised amount held for distributing bodies		1,221,888	1,258,975
Amounts held for lottery distributing bodies	9	1,221,888	1,258,975

The notes on pages 31 to 43 form an integral part of these accounts.

Signed:

Sarah Healey

Permanent Secretary and Accounting Officer

Department for Digital, Culture, Media and Sport

01 December 2021

Statement of Cash Flows for the year ended 31 March 2021

		2020-21	2019-20
	Note	£000	£000
Cash flows from operating activities			
Cash received from National Lottery operator		1,830,636	1,784,830
Cash paid for operating expenses		(18,164)	(16,499)
Cash paid to lottery distributing bodies	9	(1,851,922)	(1,807,582)
Net cash inflow/(outflow) from operating activities	8	(39,450)	(39,251)
Cash flows from investing activities			
Cash paid to CRND for investment		(1,812,472)	(1,768,331)
Cash received from CRND for distribution		1,851,922	1,807,582
Net cash inflow/(outflow) from management of liquid resources		39,450	39,251
Change in cash		-	-

All investment income is reinvested by CRND.

The notes on pages 31 to 43 form an integral part of these accounts.

Statement of Changes in amount held for lottery distributing bodies for the year ended 31 March 2021

	Note	£000
Amount held for lottery distributing bodies at 1 April 2019		1,281,880
Total comprehensive (expenditure)/income 2019-20		<u>(22,905)</u>
Amount held for lottery distributing bodies at 31 March 2020		1,258,975
Total comprehensive (expenditure)/income 2020-21		<u>(37,087)</u>
Amount held for lottery distributing bodies at 31 March 2021	9	<u>1,221,888</u>

The notes on pages 31 to 43 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 pound 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, 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 2020 to 31 March 2021.

Actual prizes, together with National Lottery duty and an element of the operator's fixed costs relating to sales, are deducted from weekly sales. The balance is pooled, to be shared between the operator and the good causes income.

The operator 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 the operator 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 the operator. When the operator 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 contribution 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 2021 but not yet paid to the NLDF.

Licensee penalty payments are penalty payments made by the operator 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.

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

The Investments are financial assets.

Investments held by CRND are valued in these accounts at amortised cost as at 31 March 2021. 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

The International Accounting Standards Board (IASB) has issued IFRS 17 (Insurance Contracts). This is expected to be effective for accounting periods beginning on or after 1 January 2023. This standard is not anticipated to have a material effect on NLDF in future reporting periods. There are no other standards and interpretations in issue yet to be adopted that the NLDF anticipates will have a material effect on future reporting periods.

2 Income from the National Lottery

	2020-21	2019-20
	£000	£000
Primary contribution	1,724,322	1,660,844
Secondary contribution	8,142	6,398
Unclaimed prizes	100,144	123,204
Interest on Players Trust Fund	(1,200)	1,200
Income from ancillary activities and other items	602	956
	1,832,010	1,792,602

The net interest on the Players' Trust Fund for 2019-20 (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, at that time, by the Trustees (the Law Debenture Trust Corporation plc). However, no interest was received in 2020-21, nor is any interest now expected to be receivable as at 31 March 2021.

These categories are defined in the 'Where the money comes from' section of the Performance report overview.

3 Investment income

	2020-21	2019-20
	£000	£000
Interest received on investments	1,061	8,591

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 2020-21 were held as call notice deposits. The decrease in investment income is due to a decrease in the average interest rate on deposits in 2020-21 to 0.10% (2019-20: 0.72%).

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

	2020-21	2019-20
	£000	£000
Administrative costs	339	271
External auditor's remuneration	23	20
Bank charges	3	3
	365	294

The external auditors did not provide any non-audit services in 2020-21 (2019-20: nil).

5 Operational costs: Gambling Commission

	2020-21	2019-20
	£000	£000
Funding recovered by the department	17,853	16,156
National Lottery operator licence fee income	(51)	(3)
Amount payable to the department	17,802	16,153

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, for each new Section 6 licence granted for new National Lottery games. In 2020-21, licence fee income of £50,900 relating to new National Lottery games was received by the department shortly after year end.

6 Receivables

	2020-21	2019-20
	£000	£000
Net income due as a result of draws prior to year end	31,236	29,862
	31,236	29,862

The carrying value of receivables is measured at amortised cost.

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

	At 31	At 31
	March	March
	2021	2020
	Cost	Cost
	£000	£000
Investments held by CRND	1,191,017	1,229,406
Receivables (note 6)	31,236	29,862
Payables	(365)	(293)
Balance held	1,221,888	1,258,975

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.

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

	2020-21	2019-20
	£000	£000
Decrease in realised amounts held for distributing bodies	(37,087)	(22,905)
Investment income	(1,061)	(8,591)
	(38,148)	(31,496)
Increase in National Lottery operator receivables	(1,374)	(7,772)
Increase in payables for operating expenses	72	17
Net cash inflow/(outflow) from operating activities	(39,450)	(39,251)

9 Amounts held for lottery distributing bodies at 31 March 2021*Beneficiary sectors*

	Arts	Sport	National Lottery Heritage Fund	National Lottery Community Fund	Total
	£000	£000	£000	£000	£000
Share of income from National Lottery	366,402	366,402	366,402	732,804	1,832,010
Less share of operational costs	(3,647)	(3,647)	(3,647)	(7,295)	(18,236)
Share of net operational proceeds	362,755	362,755	362,755	725,509	1,813,774
Amount authorised for payment to lottery distributing bodies	(387,530)	(356,122)	(343,185)	(765,085)	(1,851,922)
Investment income	212	213	212	424	1,061
(Decrease)/increase in balance available	(24,563)	6,846	19,782	(39,152)	(37,087)
Amounts held for lottery distributing bodies at market value at 1 April 2020	354,365	292,910	308,965	302,735	1,258,975
Amounts held for lottery distributing bodies at market value at 31 March 2021	329,802	299,756	328,747	263,583	1,221,888

Amounts held for lottery distributing bodies at 31 March 2021 (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	255,675	32,610	18,320	10,259	49,538	366,402
Less share of operational costs	(2,545)	(325)	(182)	(102)	(493)	(3,647)
Share of net operational proceeds	253,130	32,285	18,138	10,157	49,045	362,755
Amount authorised for payment to lottery distributing bodies	(299,352)	(16,031)	(14,064)	(8,326)	(49,757)	(387,530)
Investment income	148	18	11	6	29	212
(Decrease)/increase in balance available	(46,074)	16,272	4,085	1,837	(683)	(24,563)
Amounts held for lottery distributing bodies at market value at 1 April 2020	256,636	21,347	18,035	4,544	53,803	354,365
Amounts held for lottery distributing bodies at market value at 31 March 2021	210,562	37,619	22,120	6,381	53,120	329,802

Amounts held for lottery distributing bodies at 31 March 2021 (continued)*Sport bodies*

	Sport England	Sport Scotland	Sport Wales	Sport Northern Ireland	UK Sport	Subtotal - sport
	£000	£000	£000	£000	£000	£000
Share of income from National Lottery	227,169	29,679	16,488	9,526	83,540	366,402
Less share of operational costs	(2,261)	(296)	(164)	(95)	(831)	(3,647)
Share of net operational proceeds	224,908	29,383	16,324	9,431	82,709	362,755
Amount authorised for payment to lottery distributing bodies	(243,100)	(25,925)	(18,550)	(7,795)	(60,752)	(356,122)
Investment income	132	17	10	6	48	213
(Decrease)/increase in balance available	(18,060)	3,475	(2,216)	1,642	22,005	6,846
Amounts held for lottery distributing bodies at market value at 1 April 2020	194,668	48,482	15,026	14,501	20,233	292,910
Amounts held for lottery distributing bodies at market value at 31 March 2021	176,608	51,957	12,810	16,143	42,238	299,756

10 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 the operator 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.

11 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.

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 £17.8 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 2020-21 department annual report and accounts.

12 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 2019 to 31 March 2020 (%)	1 April 2020 to 31 March 2021 (%)
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 2019 to 31 March 2020 (%)	1 April 2020 to 31 March 2021 (%)
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 2019 to 31 March 2020 (%)	1 April 2020 to 31 March 2021 (%)
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

13 Events after the reporting period

Date accounts authorised for issue

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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