

Presented pursuant to section 33(1) and section 33(2) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998)

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# National Lottery Distribution Fund

## Account 2003-2004

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 08 MARCH 2005

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# Contents

	Page
Foreword	2
Statement of responsibilities of Secretary of State, Accounting Officer and the National Lottery Commission	6
Statement on Internal Control	7
The Certificate and Report of the Comptroller and Auditor General	10
Income and Expenditure Account	12
Balance Sheet	13
Cash Flow Statement	14
Notes to the Financial Statements	15

## Foreword

### Introduction

These accounts have been prepared in accordance with section 33 of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998) and the Accounts Direction given by HM Treasury. The Act requires that the accounts are examined and certified by the Comptroller and Auditor General and laid, together with his report thereon, before each House of Parliament.

The National Lottery Distribution Fund (NLDF) was established in accordance with section 21 of the National Lottery etc. Act 1993. The Fund is maintained under the control and management of the Secretary of State for Culture, Media and Sport. Monies not immediately required for distribution are invested by the National Debt Commissioners (NDC), in accordance with Investment Directions issued by HM Treasury (under section 32 of the National Lottery etc. Act 1993).

The purpose of the Fund is to receive monies generated by the National Lottery for good causes, to allocate these to Distributing Bodies and to invest the funds, until such time as they are drawn down by the bodies for payment to approved grant applicants and to meet expenses.

Shares of sums received into the Fund (net of operating expenses) were allocated to five good causes: the Arts; Sports; the National Heritage; the National Lottery Charities Board (known as the Community Fund) and the Millennium Commission. The New Opportunities Fund was subsequently established on 14 October 1997. On 1 July 1999, 1 October 1999 and on 7 April 2000 the UK Sports Council, the UK Film Council and Scottish Screen respectively became new distributing bodies. The percentages received by each Distributing Body were set out in sections 22 and 23 of the National Lottery etc. Act 1993 as amended by section 6 of the National Lottery Act 1998 and subsequent secondary legislation, as follows (figures are % share)

	To 13 October 1997	14 October 1997 to 14 February 1999	15 February 1999 to 16 May 1999	17 May 1999 to 20 August 2001	21 August 2001 to 31 March 2004
Arts	20	16.6666667	5	16.6666667	16.6666667
Sports	20	16.6666667	5	16.6666667	16.6666667
The National Heritage	20	16.6666667	5	16.6666667	16.6666667
Community Fund	20	16.6666667	5	16.6666667	16.6666667
Millennium Commission	20	20	20	20	0
New Opportunities Fund	0	13.3333333	60	13.3333333	33.3333333

On 21 August 2001, the Millennium Commission ceased receiving a share of National Lottery Ticket sales income. The 20% share that it had been receiving, and any income it had received above a gross figure of £2,286.5m was, from 21 August 2001, allocated to the New Opportunities Fund (NOF), thereby increasing NOF's share of income to 33.3333333%.

The shares for the arts and sport are further divided between the four Arts Councils, the UK Film Council, Scottish Screen and the five Sports Councils to give the following percentage shares receivable

	<b>To 13 October 1997</b>	<b>14 October 1997 to 14 February 1999</b>	<b>15 February 1999 to 16 May 1999</b>	<b>17 May 1999 to 30 September 1999</b>	<b>1 October 1999 to 6 April 2000</b>	<b>7 April 2000 to 31 March 2004</b>
Arts Council of England	16.66	13.8833333	4.165	13.8833333	11.8500000	11.850000
Scottish Arts Council	1.78	1.4833333	0.445	1.4833333	1.4833333	1.2900000
Arts Council for Wales	1.0	0.8333333	0.25	0.8333333	0.8333333	0.8333333
Arts Council of Northern Ireland	0.56	0.4666667	0.14	0.4666667	0.4666667	0.4666667
UK Film Council	0	0	0	0	2.0333333	2.0333333
Scottish Screen	0	0	0	0	0	0.1933333

	<b>To 13 October 1997</b>	<b>14 October 1997 to 14 February 1999</b>	<b>15 February 1999 to 16 May 1999</b>	<b>17 May 1999 to 30 June 1999</b>	<b>1 July 1999 to 31 March 2004</b>
English Sports Council		16.66	13.8833333	4.165	13.8833333
Scottish Sports Council		1.78	1.4833333	0.445	1.4833333
Sports Council for Wales		1.0	0.8333333	0.25	0.8333333
Sports Council of Northern Ireland		0.56	0.4666667	0.14	0.4666667
UK Sports Council		0	0	0	1.5333333

Interest received on the investments is attributed to the fifteen Distributing Bodies in proportion to the share of the balance on the Fund held by each body.

The accounts show a statement of income and expenditure of the NLDF for the year ending 31 March 2004.

## Review of activities

The National Lottery was launched on 14 November 1994, with the first prize draw on 19 November and the first payment into the NLDF on 22 November. Including interest earned on the NLDF balances, more than £15.6 billion had been raised for the Good Causes by 31 March 2004.

Camelot Group plc was awarded the first licence to operate the National Lottery between 29 July 1994 and 30 September 2001. As the award of the next licence was delayed, an interim licence was granted to Camelot plc between 1 October 2001 and 26 January 2002. Camelot was awarded the second licence by the regulator of the National Lottery, the National Lottery Commission, which runs between 27 January 2002 and 31 January 2009. Principal categories of income into the NLDF for the period to 31 March 2004 comprise

a proportion of Lottery ticket sales, as determined by the licence granted to the Operator, Camelot Group plc, by the Director General of the National Lottery (now the National Lottery Commission), under section 5 of the National Lottery etc. Act 1993;

any prizes which are not claimed within 180 days of the draw date for the National Lottery Game or 180 days of the close of any Scratchcards game. These unclaimed prizes fall due to the NLDF after the 180 days.

income from National Lottery ancillary activities: this is income from commercial transactions, which utilise the existence of the National Lottery for profit. In this way the NLDF shares in the benefits of any commercial activities which are derived from their connection with the National Lottery; and

interest on the Players Trust Fund - The Inland Revenue agreed during 1997-98 that the NLDF should be allowed to reclaim tax deducted on interest received from the Players Trust Fund.

## Operating and Financial Review

### **Operating review**

Under the new operating licence, which began on 27 January 2002, the main portion of the money passing to the NLDF is no longer linked directly to sales. Instead it is calculated as the major share of the pool that is left after deducting from sales the value of prizes, Lottery Duty, and a retention by Camelot. The Camelot retention includes an index-linked flat rate on the excess of annual sales over £4 billion. This aligns Camelot's interests with those of the NLDF.

The Statement of Financial Requirements, issued by the Secretary of State for Culture, Media and Sport to all lottery distributors establishes a financial framework within which their lottery distribution activities are to be conducted. Before I, as the Accounting Officer of the NLDF, permit distributors to draw down funds for the payment of grant commitments, I must seek and obtain assurances on an initial and on-going basis from the Accounting Officer of each lottery distributor that they have in place suitable systems and controls for each grant programme they will operate, which will facilitate the efficiency, effectiveness and equitable distribution of lottery monies.

I obtain independent confirmation of the reliability of the assurances provided by each Accounting Officer on the adequacy of their systems from: the work of my Department's sponsor branches; the Department's Internal Audit Unit; detailed reports prepared for lottery distributors' Accounting Officers by their own Internal Audit providers and from National Audit Office reviews of the effectiveness of grant management systems.

### **The Euro**

The DCMS is reviewing the possible impact of the introduction of the Euro, but it is expected that there would not be any significant effects or costs on maintaining the NLDF systems.

### **Staffing and organisation**

Members of DCMS Finance and Planning Division and National Lottery Distribution and Communities Division were engaged part time on NLDF matters. Their staff costs are charged to the NLDF in proportion to the amount of time they spend on NLDF duties.

During the financial year, the NLDF invested its funds with the UK Debt Management Office (DMO) whose operations are carried out by the Commissioners for the Reduction of the National Debt (CRND).

Both the DCMS and the CRND are equal opportunities employers, who do 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.

### **Future plans**

Work on assuring elements of the Distributing Bodies' systems continues. The Department has asked the distributing bodies for information on the proportion of their funds, which is uncommitted, and their proposals for the level of future commitments.

The New Opportunities Fund and the Community Fund have undergone an administrative merger and are now operating as the Big Lottery Fund, which was publicly launched on 1 June 2004. We intend to bring forward legislation to formalise the merger as soon as Parliamentary time allows. The Big Lottery Fund is responsible for distributing 50% of operator-related proceeds to the NLDF.

## Financial review

The Income and Expenditure Account for the NLDF is set out on page 11. Expenses incurred in operating the Fund (by the DCMS, the CRND and the National Lottery Commission) are, under section 31 of the Act, to be met from the Fund. These expenses totalled £4.2m for the year. The balance on the Fund at 31 March 2004 is held in investments by the CRND as set out in Note 2 of the 2003-2004 CRND accounts. The allocation of these funds across the fifteen Distributing Bodies can be seen in Note 10 to these accounts.

The trend over the last five years for Income, and Fund balance, is as follows (£m)

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Lottery income	1,766	1,773	1,842	1,592	1,394
Fund balance	3,518	3,431	3,560	3,256	2,736

During 2003-2004 the Department has continued to work with the Lottery distributing bodies to manage down their NLDF balances so that projects and communities receive the benefits of Lottery funding sooner. During the four and a half years (approximately) from the inception of the Lottery to the end of 1998-1999, around £7.3bn (including investment earnings) was raised for good causes, and around £3.7bn drawn down by the distributors, leaving a balance of around £3.6bn. During the five years from 1999-2000 to 2003-2004, drawdown of around £9.3bn exceeded income of about £8.3bn, but for the first three years of that period the balance remained broadly constant at around £3.5bn.

This trend in balances prompted the Department to seek suggestions from distributors as how to reduce balances, thus realising the public benefits of Lottery funding more quickly, without endangering future commitments. The good practice ideas generated were incorporated into formal guidance, which was issued to distributors in August 2003. The guidance also discussed the flexibility in the rules about the timing of Lottery grant payments to successful applicants, and called on distributors to draw up individual policies for balance management with targets for future reductions. In addition, the Department agreed to issue more frequent projections of future NLDF income.

The overall NLDF balance fell to approximately £3.3bn at the end of 2002-2003 and around £2.7bn at the end of 2003-2004. In July 2003, the National Audit Office undertook to conduct an examination of NLDF balance management to inform policy and practice in this area. The NAO published its report in July 2004, concluding that there was scope for distributors to reduce balances further, mainly by making more commitments, though this would take time to come through. The report also pointed out that distributors faced uncertainties about future income levels, and about what would happen at the end of the current National Lottery operator's licence in 2009, and suggested that DCMS take action to address these uncertainties. The Department accepted the NAO recommendations, and is setting a timetable to look into these issues.

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

27 January 2005

## Statement of responsibilities of Secretary of State, Accounting Officer and the National Lottery Commission

Under section 33(1) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998), the Secretary of State for Culture, Media and Sport is required to prepare a statement of accounts for each financial year in the form and on the basis directed by the Treasury. A copy of the Accounts Direction may be obtained from the Finance & Planning Division, within the Department for Culture, Media & Sport. The accounts are prepared on an accruals basis and must give a true and fair view of the Distribution Fund's state of affairs at the year-end and of its income and expenditure and cash flows for the period.

In preparing the accounts the Secretary of State is required to

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable Accounting Standards have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Fund will continue in operation.

The Treasury has appointed the Permanent Secretary of the Department for Culture, Media and Sport, as the Accounting Officer for the Distribution Fund. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in 'Government Accounting'.

The Permanent Secretary's responsibilities over the Fund extend to the receipt of Lottery revenues from Camelot Group plc, their placement with the CRND and disbursements to the fifteen distributing bodies. The National Lottery Commission, which took over the functions of the Office of the National Lottery and its Director General from 1 April 1999, is responsible, using the powers set out in the 1993 Act, as amended by the National Lottery Act 1998, and in the licence granted to Camelot Group plc under section 5 of the National Lottery etc. Act 1993, for ensuring that Camelot Group plc meet their obligations under the licence, including their financial obligations to the National Lottery Distribution Fund. The Permanent Secretary has no locus in operational matters related to the licence.

The Department is notified of amounts due to be paid to the NLDF by Camelot; this is overseen by the National Lottery Commission. The 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 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 2004 which has led him to be satisfied that the payments to the NLDF during the year to 31 March 2004 are complete and accurate in all material respects.

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

27 January 2005

# Statement on Internal Control

## Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the operation of the National Lottery Distribution Fund (NLDF), whilst safeguarding NLDF funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

Financial Directions have been given by the Secretary of State (or by Ministers in Scotland and Northern Ireland with the Secretary of State's consent) under the National Lottery etc. Act 1993 (as amended) to Lottery Distribution Bodies covering: i) a Statement of Financial Requirements, which includes requirements for the Bodies to provide independent verification that their systems for the award of grants and for the control of administration expenditure are adequate before funds are released from the NLDF, and to carry out independent reviews of live running, reporting systems changes to me; and ii) the need to establish and report on the ongoing effectiveness of procedures for handling potential conflicts of interest.

The National Lottery Commission is responsible, using the powers set out in the 1993 Act, as amended by the National Lottery Act 1998, and in the license granted to Camelot Group plc under section 5 of the National Lottery etc. Act 1993, for ensuring that Camelot Group plc meet their obligations under the licence, including their financial obligations to the NLDF. The Department is notified of amounts due to be paid to the NLDF by Camelot; this is overseen by the National Lottery Commission. The Commissioners are also required to report after the year-end of each financial year to the Secretary of State on the exercise of their functions during the year.

Distributing body Accounting Officers have separate responsibility for ensuring that Lottery funds are distributed with due regularity and propriety, and for identifying and reporting any systems failure significant enough to call into question the fitness of the body to continue to draw down funds from the NLDF.

## Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve the Fund's purposes; it can therefore provide only a reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the Fund, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

## Capacity to handle risk

The NLDF follows the DCMS risk management policy and process, which define what is meant by risk and risk management, and outlines the key principles underpinning the approach to risk management. The Department's risk management policy was revised during the year to ensure it was appropriate and current. The policy was approved by both the Audit Committee, and the Management Board. Risk Management guidance is available for all staff. This was refreshed and reissued in February 2004. Support and guidance, including facilitated risk identification workshops, is provided by the Risk Improvement Manager and her staff.

## The risk and control framework

During 2003-2004, the risks to the achievement of the Fund's aims were identified and incorporated within the NLDF risk register. The risk register is subject to regular review by the DCMS Head of National Lottery Distribution and Communities Division (NLDCD) and the Head of the Financial Management & Accounting Team, with areas of concern reported to the DCMS Audit Committee.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of executive managers within the NLDF who have responsibility for the development and maintenance of the internal control framework, audits by the DCMS Internal Audit Unit and recommendations from the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee, and a plan to address any weaknesses and ensure continuous improvement of the system is in place. The processes which have been applied in reviewing the effectiveness of the system of internal control are described below.

A system of internal control for the Fund, which is based on a system of risk management and Assurance reporting, has been in place during the year and up to the date of approval of the annual report and accounts. The features of the Assurance system are that it

- 1 reports on the work undertaken to keep risk and controls under review, up to date and appropriate;
- 2 requires the managers involved in the Fund's management to sign up to their responsibilities at the beginning of the year (or on appointment), and to review progress as part of the business planning process at the mid-year and end-year, allowing the need for corrective action to be taken in a timely manner; and
- 3 includes input from Directors, to complete the chain of responsibility and accountability.

All Directors and Heads of Divisions (including those who are key control owners) signed an opening year statement to acknowledge their individual responsibility for the Assurance process. Mid-year statements, and the review of them, were reported to the Audit Committee, and a letter from the Accounting Officer was circulated to all Directors and Heads of Division covering key learning points gained from the Assurance exercise to date. End of period statements as at 31 March 2004 have been completed and a report on the outturn for the whole year was presented to the Audit Committee at its June meeting. The Department has appointed a Risk Improvement Manager in response to the DCMS Strategy Unit "Risk: improving government's capability to handle risk and uncertainty".

The NLDF is subject to internal audit by the DCMS Internal Audit Unit (IAU), which operates to HM Treasury's Government Internal Audit Standards. The work of the IAU is informed by an analysis of the risks to which the NLDF is exposed, and annual internal audit plans based on this analysis are endorsed by the DCMS Audit Committee and approved by me. At least annually, the Head of Internal Audit (HIA) provides me with a report on internal audit activity for the NLDF. This report, which is also endorsed by the Audit Committee, includes the HIA's independent opinion on the adequacy and effectiveness of the NLDF systems of internal control, together with any recommendations for improvement.

The NLDCD co-ordinates the Department's annual Lottery Assurance Review. In the past this has involved the review of a wide range of documents and other information provided by Lottery Bodies - most of which are produced after the year-end - and has proved to be a lengthy process, in part reflecting the volume of material required from the 15 distributors. In parallel with the development of the risk reporting process, and following a review of the Lottery Assurance process, the Audit Committee agreed in April 2003 to adopt new arrangements for the annual assurance exercise. Starting with the 2002-2003 National Lottery Annual Assurance exercise, instead of relying on the painstaking review of many documents supplied by distributors, the Department derives assurance primarily from the Statements on Internal Control (SICs) submitted annually by each distributing body. The NLDCD reviews the SICs with Finance and Planning Division, and the distributing bodies' sponsoring divisions, contributing additional information and comments as appropriate. The Internal Audit Unit monitors and audits this process. The new arrangements reduce bureaucratic burdens on the distributing bodies and bring the Lottery assurance timetable into line with the SIC process for the NLDF accounts. A letter went to distributing body Accounting Officers in June 2003 explaining the new arrangements and offering guidance on the matters they should consider when submitting their SICs. A further letter to Accounting Officers in March 2004 highlighted various issues raised by the 2002-2003 Assurance exercise (the first to use the new procedure) and suggested they take account of these in preparing their SICs for 2003-2004.

## The role of the audit committee

I am supported by the DCMS Audit Committee which has responsibility for reviewing controls within the NLDF. It is chaired by a Non-Executive member of the DCMS Management Board, and there is also an independent external member. It meets four times a year and advises me on the adequacy of risk management and internal control relating to the Fund, including a thorough review of the mechanisms for the assessment and management of risk. It oversees the

- 1 planned external and internal audit activity and the results of that activity;
- 2 adequacy of management response to issues identified by audit activity;
- 3 adequacy of internal audit arrangements within distributing bodies; and
- 4 review of the arrangements for internal audit.

The system of Risk Management and Internal Control for the NLDF is judged to be satisfactory.

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

27 January 2005

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

I certify that I have audited the financial statements on pages 12 to 22 under the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998). These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets, and the accounting policies set out on pages 15.

## Respective responsibilities for the Secretary of State, Accounting Officer and Auditors

As described on page 6 the Secretary of State for Culture, Media and Sport is responsible for the preparation of the financial statements and ensuring the regularity of financial transactions. The Secretary of State for Culture, Media and Sport is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Fund has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 7 to 9 reflects the Fund's compliance with Treasury's guidance 'Corporate Governance: Statement on Internal Control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the National Lottery Distribution Fund's corporate governance procedures or its risk and control procedures.

## Basis of opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Secretary of State in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the income and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. With regard to the completeness of income to the Fund, my audit included a review of the Statement of Assurance provided by the Accounting Officer of the National Lottery Commission to the Accounting Officer of the National Lottery Distribution Fund, mentioned on page 6, and the work of the Commission in this respect. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the National Lottery Distribution Fund activities as at 31 March 2004 and of the decrease in funds available and the cash flows for the year ended and have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and with the directions made thereunder by the Treasury; and
- in all material respects the income and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

28 February 2005

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## Income and Expenditure Account for the year ended 31 March 2004

	Note	2003-2004 £000	2002-2003 £000
<b>Income</b>			
National Lottery	2	<b>1,303,006</b>	1,379,478
Investment income	3a	<b>156,078</b>	191,757
Net (loss)/profit on sale of investments	3b	<b>(48,259)</b>	15,367
Revaluation (loss)/gain on investments	3c	<b>(16,424)</b>	5,179
<b>Total income</b>		<b>1,394,401</b>	1,591,781
<i>Less</i> Operational costs			
Department for Culture, Media and Sport	4	<b>243</b>	223
National Lottery Commission Grant in Aid	5	<b>3,765</b>	2,342
Other Expenses	6	<b>154</b>	149
		<b>(4,162)</b>	(2,714)
<b>Net realised income for distribution</b>		<b>1,390,239</b>	1,589,067
Amounts drawn down by distributing bodies	10	<b>(1,910,472)</b>	(1,892,798)
<b>Increase/(decrease) in amounts held for distributing bodies</b>		<b>(520,233)</b>	(303,731)
Balance brought forward		<b>3,256,417</b>	3,560,148
		<b>2,736,184</b>	3,256,417

All transactions are in respect of continuing operations.

NLDF has no recognised gains or losses in year other than those that appear in the Income and Expenditure Account.

*The notes on pages 15 to 22 form an integral part of these accounts.*

## Balance Sheet as at 31 March 2004

	Note	2003-2004 £000	2002-2003 £000
<b>Current assets</b>			
Debtors	7	<b>15,780</b>	25,182
Investments	8	<b>2,720,492</b>	3,231,331
Cash at Bank and in hand		<b>0</b>	0
		<b>2,736,272</b>	3,256,513
Creditors: amounts falling due within one year	8	<b>(88)</b>	(96)
Net current assets		<b>2,736,184</b>	3,256,417
<b>Represented by</b>			
Amounts held for distributing bodies	10	<b>2,736,184</b>	3,256,417

*The notes on pages 15 to 22 form an integral part of these accounts.*

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

27 January 2005

## Cash Flow Statement for year ended 31 March 2004

	Note	2003-2004 £000	2002-2003 £000
<b>Operating activities</b>			
Cash received from Lottery operator		<b>1,312,403</b>	1,384,410
Cash paid for operating expenses		<b>(4,165)</b>	(2,715)
Cash paid to distributing bodies	10	<b>(1,910,472)</b>	(1,893,234)
Net cash (outflow) from operating activities	9	<b>(602,234)</b>	(511,539)
<b>Management of liquid resources</b>			
Cash paid to CRND for investment		<b>(1,308,238)</b>	(1,381,695)
Cash received from CRND for distribution	10	<b>1,910,472</b>	1,893,234
Net cash inflow from management of liquid resources		<b>602,234</b>	511,539
Change in cash		<b>0</b>	0

All investment income is re-invested by the Commissioners for the Reduction of the National Debt and therefore there are no cashflows arising from investments.

*The notes on pages 15 to 22 form an integral part of these accounts.*

# Notes to the Financial Statements

## 1 Statement of accounting policies

### *Basis of accounting*

The financial statements have been prepared on a historic cost basis, modified by assets at their value to the business by reference to current costs, and in accordance with the Accounts Direction given by the Treasury on 8 July 2004. These Directions have been consistently applied throughout the period. Without limiting the information given, these financial statements meet the accounting and disclosure requirements of the Companies Act 1985 and Accounting Standards issued or adopted by the Accounting Standards Board in so far as these requirements are appropriate.

### *Nature of account balances*

Balances held in the NLDF remain under the stewardship of the Secretary of State for Culture, Media and Sport. The share of the Fund attributable to each Distributing Body at the balance sheet date and shown in these accounts has been certified by the Secretary of State for Culture, Media and Sport as being available for distribution by each body in respect of current and future commitments.

### *Recognition of Lottery income*

Proceeds from the Lottery due to the NLDF from the operator, Camelot Group plc, are calculated on an annual basis as set out in the Section 5 Licence, and payments on account of the annual liability are made each week. The amounts recognised in these accounts for the Lottery Primary Contribution include income receivable on ticket sales from 1 April 2003 in respect of all draws within the year up to and including that on 31 March 2004.

The Lottery Primary Contribution also includes income due to the NLDF from the sale of Scratchcards. Under the terms of the licence, income is collected by Camelot and paid to the NLDF on packs of 120 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.

Lottery prizes that remain unclaimed for 180 days after a draw, or closure of a scratchcard game, are paid to the NLDF. Accruals have been made for prizes expiring on or before 31 March but not paid to NLDF at this date.

Weekly income from Primary Contributions is calculated on an actual basis. Amounts recorded for the Prize Target Shortfall are on a cash basis, i.e. received in the year of account.

Interest on the Players Trust Fund is recognised in the accounts on an accruals basis.

### *Recognition of amounts drawn by Distributors*

The amounts recorded as drawn down by the Distributing Bodies represent the actual cash claims made by them.

### *Investments*

Investments held by the CRND are valued in these accounts at market value.

**2 Income from Lottery activities**

	<b>2003-2004</b>	2002-2003
	<b>£000</b>	£000
Primary contribution	<b>1,226,412</b>	1,257,947
Unclaimed prizes	<b>73,412</b>	84,923
Prize target shortfall	<b>0</b>	32,025
Camelot professional penalty	<b>0</b>	5
Interest on Players Trust Fund (see note a below)	<b>2,787</b>	4,038
Income from ancillary activities	<b>395</b>	540
	<b><u>1,303,006</u></b>	<u>1,379,478</u>

- a The Inland Revenue agreed that the NLDF should be allowed to reclaim tax deducted on interest received from the Players Trust Fund.

**3 Investment income**

	<b>2003-2004</b>	2002-2003
	<b>£000</b>	£000
<i>3a Investment Income</i>		
Interest received on investments	<b>156,078</b>	191,757
	<b><u>156,078</u></b>	<u>191,757</u>
<i>3b Net Profit on sale of investments</i>		
Profits on sales of investments	<b>2,485</b>	35,083
(Losses) on sales of investments	<b>(50,744)</b>	(19,716)
	<b><u>(48,259)</u></b>	<u>15,367</u>

The NLDF's objective is to provide for Distributing Bodies' liquidity needs, and to maximise returns over the medium term. It is restricted in the types of funds it can hold by a HM Treasury direction, and an Investment Framework agreed between the NLDF and CRND.

Investments made by CRND include purchases of gilt-edged securities (gilts), which are normally held until their redemption date although small quantities of stocks can be sold prior to this. The profits and losses realised on the disposal of these gilts reflect the differences between the original market prices paid and the redemption value.

In 2003-2004, a substantial holding of gilts was disposed of at their redemption date, at a value less than cost.

*3c Revaluation gain/(loss) on investments*

	<b>2003-2004</b>	2002-2003
	<b>£000</b>	£000
Unrealised (loss)	<b>(33,273)</b>	(16,849)
Amount brought forward and recognised in year	<b>16,849</b>	22,028
	<b><u>(16,424)</u></b>	<u>5,179</u>

Revaluation gains/(losses) reflect the difference between the price at which gilts were acquired and the market price at the balance sheet date.

**4 Operational costs: Department for culture, media and sport**

	<b>2003-2004</b> <b>£000</b>	2002-2003 £000
Staff costs	<b>129</b>	122
Charge for the use of DCMS assets	<b>11</b>	6
Audit fee: Comptroller and Auditor General	<b>20</b>	20
Accommodation and Central Services	<b>46</b>	44
Bank of England charges	<b>4</b>	4
IT, consultancy, and training	<b>33</b>	27
	<b>243</b>	223

The Auditor's remuneration for the year was £20,000, as it was in the prior year.

In 2003-2004 six members of DCMS Finance Division and National Lottery Division were engaged, part time, in NLDF matters. Their staff costs are charged to the NLDF in proportion to the amount of time they spend on NLDF duties.

Staff costs comprise

	<b>2003-2004</b> <b>£000</b>	2002-2003 £000
Salaries	<b>103</b>	101
National Insurance	<b>10</b>	7
Superannuation	<b>16</b>	14
	<b>129</b>	122

All staff are members of the Principal Civil Service Pension Scheme hence superannuation is included in staff costs. Further details on the PCSPS scheme can be found in the DCMS Resource Accounts for 2003-2004. The Head of the National Lottery Distribution Fund is Robert Wright who is an employee of the Department for Culture, Media and Sport. Ten percent of his salary costs are recharged to the NLDF. The Head of the National Lottery Distribution and Communities Division is Simon Broadley who is an employee of the Department for Culture, Media and Sport. Twelve and a half percent of his salary costs are recharged to the NLDF. The Accounting Officer of DCMS is also the Accounting Officer of the NLDF. None of the Accounting Officer's salary is recharged from DCMS to NLDF.

A share of the accommodation costs of the building occupied by DCMS has been charged to the NLDF, on the basis of the floor area occupied by DCMS staff engaged on NLDF matters as a proportion of the building as a whole. Similarly a share of the Central Service Costs incurred by DCMS has been charged on the basis of the number of DCMS staff engaged on NLDF matters as a proportion of the total number of DCMS staff.

## 5 Reconciliation of national lottery commission operational costs

The National Lottery Distribution Fund is responsible for paying the operational costs of the National Lottery Commission. In 2003-2004, the Grant in Aid payable to the National Lottery Commission was £4.226 million. Any income received from Licence fees is taken from this gross amount with the balance paid by NLDF.

	<b>2003-2004</b>	2002-2003
	<b>£000</b>	£000
National Lottery Commission Grant in Aid	<b>4,226</b>	3,182
Licence Fee Income	<b>(461)</b>	(840)
Grant in Aid payable by NLDF	<b><u>3,765</u></b>	<u>2,342</u>

## 6 Other expenses

	<b>2003-2004</b>	2002-2003
	<b>£000</b>	£000
Commissioners for the Reduction of the National Debt	<b><u>154</u></b>	<u>149</u>

Amounts paid to the CRND for Management of the NLDF Investment Fund Account.

## 7 Debtors

	<b>2003-2004</b>	2002-2003
	<b>£000</b>	£000
Ticket sales income due as a result of draws prior to year end	<b>15,780</b>	25,177
Licensee Professional Penalty	<b>0</b>	5
	<b><u>15,780</u></b>	<u>25,182</u>

## 8 Balance on National Lottery Distribution Fund

	<b>At 31 March 2004</b>		At 31 March 2003	
	<b>Cost</b>	<b>MV</b>	Cost	MV
	<b>£000</b>	<b>£000</b>	£000	£000
Investments held by the CRND	<b>2,753,765</b>	<b>2,720,492</b>	3,248,179	3,231,331
Debtors (note 7)	<b>15,780</b>	<b>15,780</b>	25,182	25,182
Creditors	<b>(88)</b>	<b>(88)</b>	(96)	(96)
Balance held	<b><u>2,769,457</u></b>	<b><u>2,736,184</u></b>	<u>3,273,265</u>	<u>3,256,417</u>

An analysis of the types of investments held on behalf of the NLDF is shown in the accounts of the CRND.

## 9 Reconciliation of decrease in amounts held for Distributing Bodies as disclosed in Income and Expenditure Account with net cash inflow/(outflow) from operating activities

	2003-2004 £000	2002-2003 £000
(Decrease) in amounts held for Distributing Bodies	<b>(520,233)</b>	(303,731)
Less Investment income	<b>(156,078)</b>	(191,757)
Add loss/less (profit) on sale of investments	<b>48,259</b>	(15,367)
Add impairment loss/(gain) on revaluation of investments	<b>16,424</b>	(5,179)
	<b>(611,628)</b>	(516,034)
Decrease in Lottery operator debtor	<b>9,397</b>	3,107
Decrease in Players Trust tax debtor	<b>0</b>	1,389
Decrease in professional penalty debtor	<b>5</b>	0
(Decrease) in creditors for operating expenses	<b>(8)</b>	(1)
Net cash (outflow) from operating activities	<b>(602,234)</b>	(511,539)

It is the policy of the NLDF to hold a nil cash balance whenever possible and to transfer all funds to the CRND for investment, on day of receipt.

## 10 Reconciliation of amounts available to Distributing Bodies at 31 March 2004

Beneficiary sectors	Arts	Sports	National Heritage Memorial Fund	Community Fund	The Millennium Commission	The New Opportunities Fund	Total
	£000	£000	£000	£000	£000	£000	£000
<b>National Lottery proceeds</b>							
Share of income from							
Lottery	217,168	217,168	217,168	217,167	0	434,335	<b>1,303,006</b>
Less Share of							
Operational costs	(694)	(694)	(694)	(693)	(75)	(1,312)	<b>(4,162)</b>
	216,474	216,474	216,474	216,474	(75)	433,023	<b>1,298,844</b>
<b>Amount authorised</b>							
<b>for payment to DB's</b>	(295,208)	(315,470)	(323,792)	(310,182)	(67,820)	(598,000)	<b>(1,910,472)</b>
<b>Investment income</b>	12,546	10,820	29,844	7,407	6,361	24,417	<b>91,395</b>
<b>(Decrease) in balance</b>							
<b>available</b>	(66,188)	(88,176)	(77,474)	(86,301)	(61,534)	(140,560)	<b>(520,233)</b>
Market value at							
1 April 2003	438,319	403,511	1,020,044	299,551	217,156	877,836	<b>3,256,417</b>
<b>Market value at</b>							
<b>31 March 2004</b>	372,131	315,335	942,570	213,250	155,622	737,276	<b>2,736,184</b>

<b>Arts bodies</b>	Arts Council of England £000	Scottish Arts Council £000	Arts Council of Wales £000	Arts Council of N Ireland £000	UK Film Council £000	Scottish Screen £000	<b>Subtotal Arts £000</b>
<b>National Lottery proceeds</b>							
Share of income from Lottery	154,406	16,809	10,858	6,081	26,495	2,519	<b>217,168</b>
Less Share of operational costs	(493)	(54)	(35)	(19)	(85)	(8)	<b>(694)</b>
	153,913	16,755	10,823	6,062	26,410	2,511	<b>216,474</b>
<b>Amount authorised for payment to DB's</b>	(182,631)	(25,761)	(18,086)	(6,417)	(59,671)	(2,642)	<b>(295,208)</b>
<b>Investment income</b>	7,211	1,411	831	1,072	1,968	53	<b>12,546</b>
<b>(Decrease)/increase in balance available</b>	(21,507)	(7,595)	(6,432)	717	(31,293)	(78)	<b>(66,188)</b>
Market value at 1 April 2003	245,584	49,559	30,403	34,927	75,573	2,273	<b>438,319</b>
<b>Market value at 31 March 2004</b>	<b>224,077</b>	<b>41,964</b>	<b>23,971</b>	<b>35,644</b>	<b>44,280</b>	<b>2,195</b>	<b>372,131</b>

<b>Sports Bodies</b>	English Sports Council £000	Scottish Sports Council £000	Sports Council for Wales £000	Sports Council for N. Ireland £000	UK Sports Council £000	<b>Subtotal £000</b>
<b>National Lottery proceeds</b>						
Share of income from Lottery	164,178	17,591	9,773	5,646	19,979	<b>217,167</b>
Less Share of operational costs	(524)	(56)	(31)	(18)	(64)	<b>(694)</b>
	163,654	17,535	9,742	5,628	19,915	<b>216,474</b>
<b>Amount authorised for payment to DB's</b>	237,400)	(33,566)	(20,770)	(3,904)	(19,830)	<b>(315,470)</b>
<b>Investment income</b>	7,048	2,213	783	697	79	<b>10,820</b>
<b>(Decrease)/increase in balance available</b>	(66,698)	(13,818)	(10,245)	2,421	164	<b>(88,176)</b>
Market value at 1 April 2003	268,257	78,850	31,716	21,067	3,621	<b>403,511</b>
<b>Market value at 31 March 2004</b>	<b>201,559</b>	<b>65,032</b>	<b>21,471</b>	<b>23,488</b>	<b>3,785</b>	<b>315,335</b>

Some figures in this note may not cast arithmetically to the totals shown elsewhere in the account due to the use of percentages in allocating National Lottery proceeds to the distributing bodies.

## 11 Distributing Bodies grant commitments

The Lottery distributors are deemed to have 'committed' Lottery funds once they have a signed contract in place between themselves and a grant recipient. Once an award contract is signed, the Lottery distributor becomes legally obliged to pay over the funds on condition that the terms of the grant contract are met.

As at 31 March 2004 the distributors had committed £2.843bn of the balance held within the National Lottery Distribution Fund and expect that the respective grant awardees would draw down £1.429bn of those funds within one year of the 31 March 2004 and the balance in the period after that date.

The figures shown are based on amounts recorded in the National Lottery Distributors' accounts.

	Commitments Falling Due Within One Year £000	<b>2003-2004 Commitments Falling Due in Over One Year £000</b>	Total £000	2002-2003 Total £000
Arts Council of England	100,127	<b>85,062</b>	185,189	186,412
Arts Council of Wales	13,705	<b>5,152</b>	18,857	30,864
Scottish Arts Council	25,768	<b>2,330</b>	28,098	30,128
Arts Council of Northern Ireland	10,028	<b>8,188</b>	18,216	16,641
Sport England	122,219	<b>108,096</b>	230,315	326,488
Sports Council for Northern Ireland	5,982	<b>2,763</b>	8,745	10,957
Sport Scotland	28,772	<b>17,859</b>	46,631	61,973
Sports Council for Wales	13,761	<b>4,692</b>	18,453	14,564
The National Heritage	297,557	<b>362,801</b>	660,358	674,356
Community Fund	235,524	<b>164,336</b>	399,860	433,191
Millennium Commission	68,300	<b>23,333</b>	91,633	114,998
UK Film Council	5,931	<b>0</b>	5,931	15,289
Scottish Screen	2,935	<b>0</b>	2,935	3,639
New Opportunities Fund	485,121	<b>628,109</b>	1,113,230	1,132,427
UK Sport	13,065	<b>1,567</b>	14,632	37,151
	<u>1,428,795</u>	<u><b>1,414,288</b></u>	<u>2,843,083</u>	<u>3,089,078</u>
NLDF Balance Available (Over committed)/ Under committed Balance*			2,736,184	3,256,417
			(106,899)	167,339

\* At 31 March 2004, the total level of 'soft'<sup>1</sup> and 'other'<sup>2</sup> commitments by all Distributors was around £845m (£879m at March 2003).

1 A soft commitment is where a distributing body has decided in principle to fund a project.

2 The term 'other commitments' includes:

Stage one approvals which are likely (but not certain) to go on to receive approval for funding at stage 2. Stage 1 approvals more likely to fail at stage 2 are excluded.

Money set aside by a distributing body to fund a specific future project in advance of a formal decision being taken.

## **12 Financial instruments**

Accounting Standard FRS 13 - Derivatives and Other Financial Instruments, requires that the NLDF disclose the effect that financial instruments have had during the period in creating or changing the risks it faces in undertaking its role.

### *Liquidity risks*

The NLDF receives its income from the National Lottery and from returns accruing on funds, which have not been drawn down by Distributors. The income into the NLDF is available to the Distributors for drawdown to pay grant commitments, less any operating expenses. Distributors can only draw down funds, which are in their share of the portfolio. The Fund is therefore not exposed to Liquidity Risks.

### *Interest rate risks*

The Financial assets of the NLDF are invested with the CRND who manage its investments. The investments made by the CRND are made in accordance with directions made by HM Treasury, and are therefore not controlled by the NLDF. The average return on the Investments in the financial year was 3.125%, for the main part of the Fund and 3.463% for the Millennium part of the Fund. The difference in return is due to different investment strategies being in place for the two funds. The Millennium part of the Fund is more heavily weighted in favour of cash instruments to reduce interest rate risk. This strategy performed better in 2003-2004, because there were less revaluation losses to take into account. The NLDF does not consider itself to be exposed to any significant interest rate risks.

### *Foreign currency risks*

The NLDF is not exposed to any foreign exchange risks.

## **13 Related party transactions**

The NLDF is maintained under the control and management of the Secretary of State of the Department for Culture, Media and Sport (DCMS). The DCMS is considered to be a related party. During the year, a number of staff employed by the DCMS worked on NLDF related activities, and the Fund used a number of the assets owned by DCMS. These costs were recharged to the Fund by DCMS and are reflected in Note 4 of the accounts. DCMS is also the sponsoring Department of the UK-wide and English based lottery distributors. CRND, which is ultimately part of HM Treasury, is also considered a related party.

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