

Presented to Parliament pursuant to section 33(1) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998) and as applied in relation to the Olympic Lottery Distribution Fund by section 34(11) of the Horserace Betting and Olympic Lottery Act 2004

Olympic Lottery Distribution Fund Account 2008-09

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2009

Ordered by The House of Commons to be printed 28 January 2010

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ISBN: 9780102964325

Printed in the UK by The Stationery Office Limited on behalf of the
Controller of Her Majesty's Stationery Office

ID 2347863 02/10 1659 19585

Printed on paper containing 75% recycled fibre content minimum.

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Management Commentary

Why the Olympic Lottery Distribution Fund (OLDF) was needed

London was chosen as the host city for the 2012 Olympic and Paralympic Games on 6 July 2005. Funding for the London 2012 Olympics will come from a variety of sources, including the National Lottery. Under new funding arrangements announced on 15 March 2007, up to £2.175 billion will be contributed by the National Lottery. £750 million of this is expected to be raised by designated Olympic Lottery games.

The OLDF was established to receive and hold the monies generated from the Lottery specifically for the 2012 Olympics until distributed by the Olympic Lottery Distributor to fund any facilities, services or functions which the distributor considers are necessary or expedient to provide or undertake for the delivery of the 2012 Games. The balance held in the OLDF is invested by the Commissioners for the Reduction of the National Debt (CRND) and any investment proceeds added to the amount available to the Olympic Lottery Distributor.

The Fund came into legal existence on 8 April 2005 under the terms of the Horserace Betting and Olympic Lottery Act 2004 (Commencement No.2) Order 2005 (SI 2005/1134). The Fund was dormant until the announcement of the success of London as the host city for the 2012 games. The first receipt of monies into the OLDF was on 2 August 2005. The fund will close once its primary purpose has been met and the Secretary of State makes the Order required under section 28 of the 2004 Act to wind up the Fund.

Where the money comes from

The Horserace Betting and Olympic Lottery Act 2004 enabled National Lottery games to be established dedicated to raising funds for the 2012 London Olympic and Paralympic Games. Camelot Group plc has held licences to operate the National Lottery since 1994; the operating licence issued by the National Lottery Commission (NLC), which began on 27 January 2002, ran until 31 January 2009. In 2007 Camelot successfully bid for the 3rd Lottery Licence that runs for ten years from 1 February 2009, with the possibility of an extension for a further five.

The principal categories of income into the OLDF for the period to 31 March 2009 comprised:

- a proportion of Olympic Lottery ticket sales, as determined by the licence granted to Camelot Group plc;
- any prizes which are not claimed within 180 days of the draw date for the Olympic Lottery Game, or 180 days of the close of the Olympic Scratchcard or Interactive Instant Win games. These unclaimed prizes fall due to the OLDF after the 180 days;
- interest on the Players Trust Fund, including the reclaim of tax deducted on interest received by the Players Trust Fund; and
- a transfer of £73 million from the National Lottery Distribution Fund.

Where the money goes

Monies drawn down from the Fund by the Olympic Lottery Distributor (OLD) are used to make grants or loans under section 30 of the 2004 Act. The distributor's main grant recipient is the Olympic Delivery Authority (ODA), the body responsible for delivering the venues and supporting infrastructure for the 2012 Games.

Following discussions with CRND it was agreed that the OLDF funds should be invested from the outset in the Debt Management Account Deposit Facility Call Notice Deposit Account, in order to preserve capital and retain full liquidity, given uncertainties over size and timing of drawdowns.

Financial Commentary

This is the fourth set of accounts of the OLDF. These accounts are for the year ending 31 March 2009. The primary financial statements and associated notes for the OLDF are set out in these accounts. £137m was raised by the Olympic Lottery during the year. The Olympic Lottery Distributor drew down £126m. Expenses incurred in operating the Fund are, under regulations made by the Secretary of State using powers created by section 26 of the Act, to be met from the Fund. These expenses cover the costs of the Department for Culture, Media and Sport (DCMS) and CRND, as well as the costs of the NLC for regulating the National Lottery. Expenses met from the Fund totalled £1.8m for the year, of which £1.7m related to the National Lottery Commission. The balance on the Fund at 31 March 2009 is held in investments by the CRND.

On 15 March 2007, the Secretary of State announced to the House of Commons that the Government had agreed a new Olympic funding package of £9.325 billion (including a £2.747 billion total contingency).

The Government proposed, subject to Parliamentary approval of additional lottery transfers, that National Lottery proceeds would provide up to £2.175 billion towards the public funding package for staging the 2012 Games:

- £750m is expected to be raised by the Olympic Lottery games set up specifically for this purpose, which are accounted for in the OLDF.
- *The Payments into the Olympic Lottery Distribution Fund etc. Order 2008* permits the Secretary of State to transfer up to £1,085m from the National Lottery Distribution Fund (NLDF) to the OLDF in quarterly instalments between 2009 and 2012. This comprises £410m as originally envisaged in the Olympic bid and announced in 2003, and a proposed further £675m arising from the budget review. The Order was approved by the House of Commons on 15 January 2008 and by the House of Lords on 30 January 2008. It was made by the Parliamentary Under Secretary of State, Gerry Sutcliffe MP, on 2 February 2008 and came into force on 3 February. The first transfer of funds took place on 2 February 2009.
- The balance of £340m lottery contribution will come directly from the existing sport distributors funded by the NLDF and will not pass through the OLDF. £289.5m represents funding used by the sports distributors in securing benefit to elite and community sport of holding the Olympics and Paralympics in the UK, and the remaining £50.5m is a contribution to the construction of the aquatics centre and the velodrome, both new facilities intended to provide lasting benefit after the Games.

International financial reporting standards

The Chancellor announced in his 2007 Budget that, from 2008-09, the accounts of central government departments and entities in the wider public sector will be produced using International Financial Reporting Standards (IFRS), as interpreted for the public sector. A letter from the Treasury later postponed this until 2009-10.

The Department established a working group to consider the implications of a change to IFRS, including an evaluation of the likely areas of impact on financial statements. Key stakeholders were consulted, including representatives from Internal Audit, who sat on the working group. The Audit Committee's opinion has been sought on the approach taken and the National Audit Office has been separately consulted. The Department expects to be able to achieve the changeover within the time allowed.

Governance of the Fund

The Statement of Financial Requirements, issued by the Secretary of State for Culture, Media and Sport to the Olympic Lottery Distributor established a financial framework within which their Lottery distribution activities are to be conducted. As the Accounting Officer of the OLDF, I seek annual assurances from the Olympic Lottery Distributor's Accounting Officer that adequate financial management systems and controls for the efficient, effective and equitable distribution of Lottery monies are in place. In particular, I expect the Accounting Officer to be satisfied that the body has: complied with its current Lottery financial directions; put adequate internal and external audit arrangements in place; established adequate arrangements for detecting and responding to inefficiency, conflict of interest and fraud and for minimising losses of Lottery grant, and maintains risk assessment and control procedures and risk registers.

I obtain independent confirmation of the reliability of the assurances provided by the Accounting Officer on the adequacy of the distributor's systems from the work of the DCMS Government Olympic Executive and the Department's Internal Auditors.

The Fund is maintained under the control and management of the Minister for the Olympics. Monies not immediately required for distribution are invested by the Commissioners for the Reduction of the National Debt (CRND), in accordance with Investment Directions issued by HM Treasury (under section 32 of the National Lottery etc. Act 1993).

Sound management of the OLDF plays a pivotal role in managing the flow of funds between Camelot and the Olympic Lottery Distributor. In managing the Fund, the Department works closely with the National Lottery Commission (NLC) which regulates the Lottery and ensures, among other things, that the operator makes the correct payments to the OLDF. In addition, the Department works with the Commissioners for the Reduction of the National Debt whose role is to invest the funds held in the OLDF, in accordance with directions issued by HM Treasury, until such time as they are required by the Olympic Lottery Distributor (OLD) to make grants or loans for the Olympic purposes set out in section 30 of the 2004 Act.

The OLDF produces an annual account separately to that for the NLDF. These accounts provide the primary accounting statements and notes required by the Horserace Betting and Olympic Lottery Act 2004 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 investment strategy for the OLDF seeks to balance liquidity risks and interest rate risks over the life of the Olympics project. The investment strategy for the fund is informed by the Department's review of the Olympic Lottery Distributor's forward commitment profile.

During the period of these accounts, the funds invested by CRND have been wholly in cash instruments, primarily to avoid liquidity risks as the OLD was expected to need to make payments to the Olympic Delivery Authority shortly after the year end.

Liquidity Risks

The OLDF receives its income from the National Lottery and from returns accruing on funds, which have not been drawn down by the Olympic Lottery Distributor. The income into the OLDF is available to the Distributing Body for drawdown to pay grant commitments, less any operating expenses. The Distributing Body can only draw down funds available in the OLDF. As a result of the decision to hold all funds as cash instruments, there are considered to be no significant liquidity risks.

Interest Rate Risks

The Financial assets of the OLDF are invested with the CRND which manages 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 OLDF. The average return on the investments in the financial year was 3.674%. Due to the investments being in cash, the OLDF does not consider itself to be exposed to any significant interest rate risks.

Foreign Currency Risks

The OLDF is not exposed to any foreign exchange risks, as all the OLDF holdings are in sterling.

Staffing and Organisation

The Government Olympic Executive (GOE) was established in May 2006 from the former Olympic Games Unit. GOE remains part of the Department for Culture, Media and Sport (DCMS).

At DCMS, members of Government Olympic Executive (GOE), Finance Division and Lottery, Communities and International Division were engaged part time on OLDF matters. Their staff costs are charged to the OLDF in proportion to the amount of time staff spend on OLDF duties.

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

DCMS 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.

Operating costs

Expenses incurred in operating the Fund (by the DCMS, and CRND) and by the NLC for regulating the National Lottery are met from the Fund and totalled £1.8m for the year, £1.7m of which relates to the National Lottery Commission. The NLC's 2008-09 accounts provide further information on this as well as their ongoing role as regulator of the Lottery. These can be found on their website, www.natlotcomm.gov.uk.

The CRND's publish an annual report and account for the National Lottery Fund Investment Account, which it administers. Copies can be requested directly from the CRND. Further information on the investment management role of the CRND can be found on their website, dmo.gov.uk.

Disclosure of Relevant Audit Information

As far as I am aware there is no relevant audit information of which the Fund's auditors are unaware, and I have taken all the 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.

Reporting of personal data related incidents

In the Cabinet Office's Interim Progress Report on Data Handling Procedures, published on 17 December 2007, Official Report, column 98WS, the Government made a commitment that departments will cover information risk management in their annual reporting:

"Government should commit to enhanced transparency with Parliament and the public about action to safeguard information and the results of that action. Departments should cover information assurance issues in their annual reports."

Full disclosure can be found set out in Table 2 on page 94 of the DCMS Annual Report, which is available on the DCMS website at <http://www.culture.gov.uk>.

Protected personal data is defined as data that meets the definition of the minimum scope of protected personal data or data that departments consider should receive a similar level of protection because it would put those affected at significant risk of harm or distress.

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

Important events which have occurred since the year end

Since 31 March 2009, the following ministerial changes have occurred:

On 5 June 2009, Rt Hon Tessa Jowell MP, previously Minister of the Olympics and so responsible for the Olympic Lottery Distributor, assumed additional responsibilities and was appointed Minister for the Cabinet Office, the Olympics, London and Paymaster General. On 5 June 2009 the Rt Hon Ben Bradshaw MP took over from Rt Hon Andy Burnham as Secretary of State for Culture, Media and Sport, including overall responsibility for the National Lottery.

On 5 June 2009 Siôn Simon MP assumed the role of Parliamentary Under Secretary of State for Creative Industries in DCMS which includes junior ministerial responsibility for the national lottery.

On 1 September 2009 Dr Tracy Long was appointed as a Non-Executive Director (and as Chair of the Audit Committee). Dr Tracy Long also serves on the Boards of NESTA (since 2004) and Lowland PLC (since 2004).

On 22 September 2009 the Rt. Hon Margaret Hodge MBE was appointed Minister for Culture and Tourism, replacing Barbara Follett.

Signed:
Jonathan Stephens
Permanent Secretary and Accounting Officer,
Department for Culture, Media and Sport

7 January 2010

Remuneration Report

REMUNERATION POLICY

Administration of the Olympic Lottery Distribution Fund (OLDF) is undertaken on a part-time basis by a small number of officials in the Department for Culture, Media and Sport (DCMS), whose costs are reimbursed by the OLDF. DCMS does not recharge the OLDF for the remuneration costs of Departmental Ministers or the DCMS Board.

Management and control of the NLDF is vested in the Secretary of State for Culture, Media and Sport. Remuneration information for DCMS Ministers and Board may be found in the Remuneration Report of the DCMS Resource Accounts 2008-09 [HC450] which has been subject to audit, and is available on the DCMS website at www.culture.gov.uk.

The Ministers who had responsibility for the Department during the year were:-

Rt Hon Andy Burnham MP	Secretary of State (from 24 January 2008)
Barbara Follett MP	Parliamentary Under Secretary of State (from 6 October 2008)
Gerry Sutcliffe MP	Parliamentary Under Secretary of State (From 2 July 2007)
Stephen Carter CBE	Parliamentary Under Secretary (from 5 October 2008)
Rt Hon Margaret Hodge MBE	Minister of State (from 2 July 2007 to 6 October 2008)

During the year Rt Hon Tessa Jowell MP was Minister for the Olympics and Paymaster General, working out of the Cabinet Office and reporting directly to the Prime Minister. Her remuneration is disclosed in the Cabinet Office resource accounts.

During the year Stephen Carter CBE was Minister for Communications, Technology and Broadcasting (jointly with the Department for Business, Enterprise and Regulatory Reform).

The Permanent Secretary and members of the DCMS Board during 2008-09 were:

Jonathan Stephens	Permanent Secretary
Nicholas Holgate	Chief Operating Officer (to 31 October 2008)
Andrew Ramsay	Director General
Jeremy Beeton	Director General, Government Olympic Executive (From August 2007)
Anita Charlesworth	Director (from 1 October 2008)
David Roe	Director (to 4 June 2007 and from 1 November 2008)
Graham Turnock	Director (from 1 December 2008 to 9 March 2009)
Jane Cooper	Director (from 1 February 2009)
Simon Judge	Director (from 9 March 2009)
Parminder Vir	Non-Executive Member
Liz Forgan	Non-Executive Member (to 31 January 2009)
Darra Singh	Non-Executive Member

Signed:

Jonathan Stephens

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

7 January 2010

Statement of Responsibilities of the Minister, Accounting Officer and the National Lottery Commission

Under section 33(1) of the National Lottery etc. Act 1993, as amended by section 34(11) of the Horserace Betting and Olympic Lottery Act 2004 and the Transfer of Functions (Olympics and Paralympics) Order 2007, the Minister for the Olympics 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 Team, within the Department for Culture, Media and Sport. The accounts are prepared on an accruals basis and must give a true and fair view of the OLDF'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 Minister 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 a 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 Olympic Lottery Distribution Fund. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of public finances and for the keeping of proper records, are set out in *"Managing Public Money"* – during the year of account the standards in force were set out in the Accounting Officers' Memorandum issued by the Treasury and published in the *"Government Financial Reporting Manual"*.

The Permanent Secretary's responsibilities over the OLDF extend to the receipt of Lottery revenues from Camelot Group plc, their placement with the CRND and disbursements to the Olympic Lottery Distributor. 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 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 Olympic 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 OLDF 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 2009 which has led him to be satisfied that the payments to the OLDF during the year to 31 March 2009 are complete and accurate in all material respects.

Signed:
Jonathan Stephens
Permanent Secretary and Accounting Officer,
Department for Culture, Media and Sport

7 January 2010

Statement on Internal Control

Scope of responsibility

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the operation of the Olympic Lottery Distribution Fund (OLDF), while safeguarding OLDF funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *"Managing Public Money"*.
2. Financial Directions have been given by the Secretary of State to the Olympic Lottery Distributor (OLD) under the Horserace Betting and Olympic Lottery Act 2004 covering a Statement of Financial Requirements (SFR). The SFR includes requirements that:
 - i) the Accounting Officer of the OLD satisfies him/herself on an ongoing basis of the adequacy of the OLD's systems of internal control, as reflected in the annual Statement on Internal Control;
 - ii) those systems of internal control are designed to identify risks and manage them to a reasonable level;
 - iii) the Accounting Officer of the OLD seeks assurance at appropriate intervals that OLD's administrative and financial systems as a whole remain adequate for the purpose of discharging its Lottery distribution functions, and that he/she informs the Department if he/she has any reason to doubt that this is the case;
 - iv) the OLD has regard to value for money in its administration of Lottery funds.
3. The National Lottery Commission is responsible, using the powers set out in the National Lottery etc. Act 1993, as amended by the National Lottery Act 1998, and in the licence granted to Camelot Group plc under section 5 of that Act, for ensuring that Camelot meets its obligations under the licence, including financial obligations to the OLDF. The Lottery operator, Camelot, notifies the Department of the amounts due to be paid to the OLDF. The Commission reviews the notifications and checks that the payments made are in accordance with the licence conditions. The Accounting Officer of the Commission provides me with a statement of assurance in which the compliance work undertaken at Camelot Group plc during the year is outlined and which provides confirmation that the payments to the OLDF during the year are complete and accurate in all material respects. The Commission publishes an Annual Report at the end of each financial year, which fulfils its requirement to report to the Secretary of State on the exercise of its functions during that year.

Purpose of the System of Internal Control

4. 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 2009 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

Capacity to Handle Risk

5. As Accounting Officer I acknowledge my overall responsibility for ensuring the Department is committed to high standards of corporate governance, including the effective management of risk throughout the Department.
6. The OLDF follows the DCMS risk management policy and process. The Department's risk management policy has been agreed by the DCMS Board and is subject to regular review and revision to ensure it reflects best risk management practice. It defines what is meant by risk and risk management, outlines the key principles underpinning the Department's approach to risk management, and identifies the DCMS Board's agreed risk appetite, the risk management process and the roles and responsibilities of staff. Risk Management Guidance is available to all staff. Both the policy and the guidance are available on the Department's intranet.
7. The Department has a Risk Improvement Manager and seeks to learn from good practice via the Risk Improvement Manager Network and Internal Audit contacts in other bodies, results of internal audit reports and discussions with our many NDPBs.

8. Risk Management features in departmental training courses as appropriate and facilitated risk workshops are also available.

The Risk and Control Framework

9. The OLDF maintains a risk register that is reviewed by the Head of Financial Operations, with areas of concern reported to the DCMS Audit Committee. The risk register was updated following a report from the Internal Audit Unit, which also highlighted that one of the risks had reached a trigger point. Steps were quickly taken to mitigate this, and a review demonstrated that all checks had operated correctly. A self-assessment approach to risk identification is used with risks evaluated in respect of both impact and likelihood. As part of the business planning process risks are evaluated and necessary controls identified. Guidance is available on the types of risk that the Fund could face. Each significant risk is required to have a contingency plan which identifies the risk "trigger points" which give early warning of the risk materialising. All risks are assigned Risk Owners i.e. someone with sufficient authority to ensure the risk is addressed and that clear responsibility to manage the risk is allocated to specific offices.

10. The Lottery, Communities and International Division (LCID) within DCMS co-ordinates the Department's annual Lottery Assurance Review. The Department derives assurance primarily from the Statements on Internal Control (SICs) submitted annually by each distributing body. The SICs are required to incorporate specific references to measures being taken by each distributing body to prevent and detect conflicts of interest and fraud. In addition as from 2008-09 the LCID has requested separate Letters of Representation from each lottery distributor stating their compliance with these measures. Internal Audit monitors and audits this process.

11. Information risk now features more explicitly in all the Department's risk management and assurance processes. DCMS holds only small quantities of personal information and I consider the overall level of risk to be low. Consequently, we have adopted a proportionate approach to the recommendations of the Data Handling Report. Work is continuing to identify Information Asset Owners for high risk personal information and to increase staff awareness through training.

Review of Effectiveness

12. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control in relation to the fund. My review is informed by the work of executive managers within the OLDF 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.

13. The key elements of the system of internal control in relation to the fund are set out above and contribute to my review of the system's effectiveness. Following the Capability Review published in March 2007 a transformation programme was initiated, including the introduction of a new governance structure. As a result, the following bodies now also inform my view regarding the system for the Department as a whole, which also includes the management of the fund:

- The DCMS Board, which meets regularly to set the Department's long term strategy, direction and priorities. At present the Board comprises me, the Directors General, four Directors and four non-executive members (there were three non-executive members during 2008-09).
- The Audit Committee meets four times a year and supports me in my responsibilities for risk management, control and governance. The chairman sits on the Board, which takes decisions based on the advice received. At present, the Audit Committee comprises a non-executive chairman and five other non-executive members (there were three non-executive members during 2008-09). Others in attendance include the Finance Director, National Audit Office Directors and the Head of Internal Audit.
- The Internal Audit Unit operates to Government Internal Audit Standards, and is provided by the Department for Communities and Local Government. The Unit submits regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the arrangements for risk management, control and governance, together with recommendations for improvement.

14. Notwithstanding that opinion, I am conscious that last year saw considerable organisational change within the department. That made it particularly important to ensure that the design and operation of internal controls in relation to the fund still met the needs of the Department. I am satisfied that has been the case. However, I continue to attach importance to embedding our new risk management framework in relation to the fund, to ensuring that the assurance process is improved, and so to increasing the overall reliability of our internal controls.

Signed:

Jonathan Stephens

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

7 January 2010

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of the Olympic Lottery Distribution Fund for the year ended 31 March 2009 under the Horserace Betting and Olympic Lottery Act 2004. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Secretary of State, Accounting Officer and auditor

The Secretary of State for Culture, Media and Sport is responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Horserace Betting and Olympic Lottery Act 2004 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Secretary of State has delegated to the Accounting Officer responsibility for the preparation of the Annual Report, the Remuneration Report and the financial statements and for ensuring the regularity of the financial statements. These responsibilities are set out in the Statement of Responsibilities of Secretary of State, Accounting Officer and the National Lottery Commission.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Horserace Betting and Olympic Lottery Act 2004 and Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises the Management Commentary, the audited part of the Remuneration Report and the Statement of Responsibilities of the Secretary of State, Accounting Officer and National Lottery Commission, included in the Annual Report is consistent with the financial statements. I also report 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.

In addition, I report to you if the Olympic Lottery Distribution Fund has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Olympic Lottery Distribution Fund's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Olympic Lottery Distribution Fund's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Management Commentary, the unaudited part of the Remuneration Report and the Statement of Responsibilities of the Secretary of State, Accounting Officer and National Lottery Commission. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Secretary of State and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Olympic Lottery Distribution 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Horserace Betting and Olympic Lottery Act 2004 and directions made thereunder by Treasury, of the state of the Olympic Lottery Distribution Fund's affairs as at 31 March 2009 and of the increase in funds available for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Horserace Betting and Olympic Lottery Act 2004 and Treasury directions made thereunder; and
- information, which comprises the management commentary, the unaudited part of the Remuneration Report, and the Statement of Responsibilities of the Secretary of State, Accounting Officer and the National Lottery Commission, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

In my opinion, 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.

Report

I have no observations to make on these financial statements.

Amyas C. E. Morse
Comptroller and Auditor General

28 January 2010

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1P 98P

Income and Expenditure Account for the year ended 31 March 2009

	Note	2008-09 £000	2007-08 £000
Income			
National Lottery	2	137,408	147,320
Transfer from NLDF	2	73,000	–
Investment Income	3	2,433	3,909
Total Income		212,841	151,229
<i>Less: Operational Costs</i>			
Department for Culture, Media and Sport	4	68	80
National Lottery Commission Grant in Aid	5	1,667	433
Other Expenses	6	43	45
		1,778	558
Net Realised Income for Distribution		211,063	150,671
Amounts authorised for payment to the Distributing Body		(125,671)	(198,846)
Increase/(decrease) in Amounts Held for Distributing Body		85,392	(48,175)
Balance brought forward		27,517	75,692
		112,909	27,517

All transactions are in respect of continuing operations.

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

The notes on pages 16 to 21 form an integral part of these accounts.

Balance Sheet as at 31 March 2009

	Note	2008-09 £000	2007-08 £000
Current Assets			
Debtors	7	496	2,420
Investments held by CRND	8	112,839	25,137
Cash at Bank and in Hand		-	-
		<u>113,335</u>	<u>27,557</u>
Creditors: Amounts falling due within one year	8	(426)	(40)
Net Current Assets	8	<u>112,909</u>	<u>27,517</u>
Represented by:			
Amounts held for the Distributing Body	8	<u>112,909</u>	<u>27,517</u>

The notes on pages 16 to 21 form an integral part of these accounts.

Signed:

Jonathan Stephens

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

7 January 2010

Cash Flow Statement for the Year Ended 31 March 2009

Operating Activities	Note	2008-09 £000	2007-08 £000
Cash received from Lottery operator		139,292	147,905
Transfer from NLDF		73,000	–
Cash paid for operating expenses		(1,352)	(1,148)
Cash paid to Distributing Body		(125,671)	(198,846)
Net cash inflow/(outflow) from operating activities	9	85,269	(52,089)
Management of liquid resources			
Cash Paid to CRND for Investment		(210,940)	(146,757)
Cash received from CRND for distribution		125,671	198,846
Net cash outflow from management of liquid resources		(85,269)	52,089
Change in cash		–	–

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

The notes on pages 16 to 21 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 historical 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. These Directions have been consistently applied throughout the year. 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 OLDF remain under the stewardship of the Minister for the Olympics. The amount attributable to the Distributing Body at the balance sheet date and shown in these accounts has been certified by the Minister for the Olympics as being available for distribution by the body in respect of current and future commitments.

From 1 April 2002 HM Treasury removed the requirement for a notional cost of capital charge to be calculated on assets funded by the Lottery.

Recognition of Lottery Income

Proceeds from the Lottery due to the OLDF from the operator, Camelot Group plc, are calculated on an annual basis as set out in the Section 5 Licence. Payments are made to the OLDF each week on the basis of actual sales and prizes. The amounts recognised in these accounts for the Lottery Primary Contribution include income receivable draws up to and including 31 March 2009.

The Lottery Primary Contribution also includes income due to the OLDF from the sale of Scratchcards. Under the terms of the licence, income is collected by Camelot and paid to the OLDF on packs of cards once a pack becomes settled. The retail value of each pack is £120. 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 or Interactive Instant Win game, are paid to the OLDF. Accruals have been made for prizes expiring on or before 31 March but not paid to OLDF at this date.

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

Camelot must seek the National Lottery Commission's approval for any promotional events, such as 'Superdraws' with guaranteed jackpot prize levels, that may reduce the net weekly proceeds into the OLDF. The NLC will only permit these promotions if they are satisfied that they are likely to increase proceeds for lottery good causes over a longer period.

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

In February 2008 a statutory Instrument (SI 2008 No.255 *The payments into the Olympic Lottery Distribution Fund etc.*) was passed which allowed for the transfer of up to £1,085m of future lottery income from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund in order to meet some of the costs of hosting the 2012 games. The transfer is in addition to £750m to be raised through dedicated Olympic lottery games and comprises £410m as originally envisaged when the Government decided to support London's Olympic bid in 2003, and a further £675m arising from the establishment of the final public sector funding budget of £9.325 billion, announced by the Government in March 2007. *The Payments into the Olympic Lottery Distribution Fund etc.* Order 2008 made on 2 February 2009, enables £1,085m to be transferred as thirteen instalments of £73m each, followed by two instalments of £68m each. The first transfer was made on 2 February 2009, and the last will be on or after 1 August 2012. Transfers from NLDF are accounted for when each instalment becomes due and disclosed in the income and expenditure account. No prior year adjustment is required.

Of the additional £675m, £250m will be transferred from the arts, sport and national heritage good causes and £425m from the funds currently allocated to the Big Lottery Fund.

The support the Big Lottery Fund gives to the voluntary sector will be protected, and the Big Lottery Fund announced in June 2009 that 80% of its funding will in future go to the voluntary and community sector. DCMS had previously agreed with the Big Lottery Fund that it would honour its commitment to give 60-70% of its funding to the voluntary and community sector.

Recognition of Amounts Drawn by Distributor

The amounts recorded as drawn down by the Distributing Body represent the actual cash claims made by the Olympic Lottery Distributor.

Investments

Investments held by the CRND are valued in these accounts at market value at 31 March 2009.

Financial Instruments

The OLDF accounts for financial instruments in accordance with FRS 25 "Financial Instruments: Presentation", and FRS 26 "Financial Instruments: Recognition and Measurement". The OLDF has also adopted FRS 29 "Financial Instruments: Disclosures", which replaces the disclosure requirements of FRS 25.

A financial instrument is any contract that gives rise to a financial asset in one entity, and a financial liability in another. Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. FRS 26 requires financial instruments to be measured in a way that reflects the fair value of the asset or liability.

Balances held at the OLDF are adjusted to market value with any revaluation posted to a revaluation reserve. Any premium or discount on cost is amortised in the income and expenditure account as an adjustment to the interest account.

In accordance with advice from HM Treasury, the OLDF has chosen not to apply the exemptions available under FRS 25, 26 and 29 regarding the restatement of comparators. No prior year adjustment, however, is required as a result of the implementation of these FRSs.

2 Income from Lottery Activities

	2008-09	2007-08
	£000	£000
Basic Contribution from Lottery Operator under licence	127,312	137,211
National Lottery Promotion Unit	(139)	(97)
New Media Sales	(544)	(386)
Primary Contribution (see note below)	126,629	136,728
Unclaimed Prizes	10,471	9,965
Interest on Players Trust Fund	308	556
Penalties on lost and stolen tickets	-	71
Income from Ancillary Activities	-	-
	137,408	147,320
Transfer from National Lottery	73,000	-
	210,408	147,320

Under the Section 5 Licence to run the National Lottery, Camelot is allowed to recover certain amounts from the Primary Contribution figures. These adjustments, which are divided between the NLDF and OLDF in proportion to ticket sales, are made after the year end. Due to the effect they would have on the proceeds held for the Distributing Body and consequently its accounts, the adjustments are reflected in the following year's accounts. The equivalent total adjustment relating to the OLDF for activity in 2008-09 (which will be taken from 2009-10 income) is estimated to be £365 thousand. Of this, £209 thousand is in respect of New Media (Interactive) Sales, and £156 thousand is to recover the OLDF's share of the combined NLDF/OLDF 50% contribution to the actual spend of the National Lottery Promotions Unit (NLPU).

Following the year end adjustments to the Primary Contribution resulting from a change to the Second Licence Condition relating to prize payments were calculated. These recalculations were for the periods starting 2001-02 and running until the end of the Second Licence. The net effect of the recalculation (after excluding adjustments already disclosed, and an estimated underspend at NLPU) is a further reduction of £255 thousand in income. This reduction will be made in 2009-10.

3 Investment income

	2008-09	2007-08
	£000	£000
Interest Received on investments	2,433	3,909

The OLDF's investment objective is to protect the Fund's capital and to provide for the Olympic Lottery Distributor's liquidity needs.

During the period of these accounts, the entire balance has been held as short term deposits rather than invested in gilts. There are therefore no profits/losses on sales of investments and no revaluation gains/losses.

4 Operational Costs: Department for Culture, Media and Sport

	2008-09	2007-08
	£000	£000
Staff Costs	21	36
Accommodation and Central Services	6	9
IT, Consultancy, and Training	5	5
Charge for the use of DCMS assets	5	5
External Auditor's remuneration	29	23
Bank of England charges	2	2
	68	80

The External Auditor's remuneration for the year was £23,900 (£23,500 in 2007-08) including £1,100 for WGA audit, plus £5,000 for additional work associated with the transition to Financial Instruments standards and IFRS.

In 2008-09 five members of DCMS Finance Team and LCID were engaged on OLDF matters. Their staff costs are charged in proportion to the amount of time they spend on OLDF duties.

A share of the accommodation costs of the building occupied by DCMS has been charged to the OLDF, on the basis of the floor area occupied by DCMS staff engaged on OLDF 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 OLDF matters as a proportion of the total number of DCMS staff.

5 Reconciliation of National Lottery Commission Operational Costs

DCMS recover the net costs of running the National Lottery Commission (NLC) from the NLDF and the Olympic Lottery Distribution Fund (OLDF). The net cost consists of the Grant in Aid paid to NLC less the licence fee income received by NLC and surrendered to DCMS in appropriations-in-aid.

The licence fee income is the sum of payments made by the lottery operator, Camelot, for each new Section 6 license granted for new lottery games.

	2008-09	2007-08
	£000	£000
Gross share of costs	1,667	453
Lottery Operator licence fee Income	-	(20)
Amount payable to DCMS	1,667	433

The total Grant in Aid paid to the National Lottery Commission was £6.342m; with a total of £0.04m received by DCMS in operator licence fee income. The split between the NLDF and the OLDF is as follows:

	NLDF	OLDF	Total
	£000	£000	£000
Grant in Aid paid to NLC by DCMS	4,715	1,667	6,382
Lottery Operator licence fee income	(40)	–	(40)
Amount recoverable by DCMS	<u>4,675</u>	<u>1,667</u>	<u>6,342</u>

The National Lottery Commission is required by legislation to collect fees from the licensee for the grant of licences. When the National Lottery etc Act 2006 revised the earlier 1993 Act, the equivalent provision in the 2006 Act to that in the 1993 Act was not immediately brought into commencement. This resulted in a period when there was no legislative basis for collection of licence fees. Fees amounting to £100 thousand were collected during this period. Camelot has agreed that they will not be reclaiming the fees collected without legislative authority. DCMS will be working with the NLC to commence the relevant annual fee provisions of the 2006 Act by the end of 2009.

6 Other expenses

	2008-09	2007-08
	£000	£000
Commissioners for the Reduction of the National Debt*	<u>43</u>	<u>45</u>

*The above represents the amounts paid to the CRND for management of the OLDF Investment Fund Account.

7 Debtors

	2008-09	2007-08
	£000	£000
Ticket sales income due as a result of draws prior to year end	482	2,420
Investment income	14	–
	<u>496</u>	<u>2,420</u>
Intra-government balances		
Balances with bodies external to government	482	2,420
Balances with other central government bodies	14	–
	<u>496</u>	<u>2,420</u>

8 Balance on Olympic Lottery Distribution Fund

	at 31 March 2009		at 31 March 2008	
	Cost	Market Value	Cost	Market Value
	£000	£000	£000	£000
Investments held by the CRND	112,839	112,839	25,137	25,137
Debtors (note 7)	496	496	2,420	2,420
Creditors	(426)	(426)	(40)	(40)
Balance held	<u>112,909</u>	<u>112,909</u>	<u>27,517</u>	<u>27,517</u>
Creditors: Intra-government balances				
Balances with other central government bodies	<u>(426)</u>	<u>(426)</u>	<u>(40)</u>	<u>(40)</u>

Creditors are in respect of £366 thousand for reimbursement of NLC costs, £30 thousand for DCMS operating costs and £30 thousand for the NAO audit fees.

Under s32 of the National Lottery etc Act 1993, all monies held by the National Debt Commissioners are regarded as investments by the Secretary of State.

During the period, all investments held by CRND on behalf of the OLDF - other than a small Ways and Means cash balance - were held as Call Notice Deposits. Funds held by CRND in these asset classes would meet the definition of cash under FRS1 if they were held directly under the control of the Minister for the Olympics as they are repayable on demand within one working day. The funds are actually held at arm's length by CRND in a revolving investment fund i.e. investment returns re-invested directly into the fund. Thus, while the instruments held are highly liquid cash equivalents, the balance held is treated as an investment rather than as cash in accordance with FRS1.

9 Reconciliation of Increase in Amounts Held for Distributing Body as disclosed in Income and Expenditure Account with Net Cash Inflow from Operating Activities

	2008-09	2007-08
	£000	£000
Increase/(decrease) in amounts held for distributing body	85,392	(48,175)
Less Investment Income	(2,433)	(3,909)
	82,959	(52,084)
(Increase)/decrease in lottery operator debtor	1,924	585
Increase/(decrease) in creditor for reimbursement of NLC costs	366	(573)
Increase/(decrease) in creditors for operating expenses	20	(17)
Net cash inflow/(outflow) from operating activities	85,269	(52,089)

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

10 Grant Commitments of the Olympic Lottery Distributor

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.

At 31 March 2009, the Olympic Lottery Distributor had hard grant commitments of £1,210m compared to the balance held in the OLDF of £113m. As a result the OLD was over committed by £1,097m. These commitments are expected to be funded by future lottery proceeds up to the date of the Olympics and by the transfer of funds from the NLDF.

The OLD had no soft commitments.

11 Financial Instruments

FRS 25 Financial Instruments: Presentation, FRS 26 Financial Instruments: Recognition and Measurement and FRS 29: Financial Instruments have been applied for the first time in 2008-09. FRS 29 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.

The financial instruments standards have had zero impact on the OLDF accounts.

Short term Debtors

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months of the balance sheet date have been omitted from this note.

12 Related Party Transactions

The OLDF is maintained under the control and management of the Minister for the Olympics. The DCMS is considered to be a related party. During the year, a number of staff employed by the DCMS worked on OLDF 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 Olympic Lottery Distributor and the Olympic Delivery Authority which is the principal recipient of funding from the Olympic Lottery Distributor.

DCMS is also the sponsoring Department of the Olympic Lottery Distributor and the Olympic Delivery Authority.

During the year the OLDF received £73m from the NLDF. The NLDF is under the management and control of the Secretary of State for DCMS, as such it is regarded as a related party.

CRND, which is ultimately part of HM Treasury, is also considered a related party.

13 Post Balance Sheet Events

These accounts were authorised for issue by the Accounting Officer of the Olympic Lottery Distribution Fund on the date the audit opinion was signed.



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