

National Lottery Distribution Fund

Annual report and accounts for the year ended 31 March 2018

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Annual report and accounts for the year ended 31 March 2018

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

Ordered by the House of Commons to be printed 11 July 2018



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ISBN 978-1-5286-0487-1

CCS0618777068 07/18

Printed on paper containing 75% recycled fibre content minimum

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

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Performance report

Overview

This overview explains what the 2017-18 financial statements show, how the National Lottery Distribution Fund (NLDF) operates, and the key risks that the NLDF faces.

The 2017-18 financial statements

The NLDF was established in 1994 at the time the National Lottery was launched, to receive and hold monies generated by the National Lottery for good causes. Section 21 of the National Lottery etc. Act 1993 places the NLDF under the control and management of the Secretary of State for Digital, Culture, Media and Sport.

This is the twenty-fourth set of accounts to be prepared for the NLDF. These financial statements account to Parliament for the receipt of lottery income and its allocation and distribution to the lottery distributing bodies. The Statement of Comprehensive Net Expenditure shows income from the lottery and investments in addition to the amounts drawn down and operating expenses for the year; the Statement of Financial Position shows the financial position at the year end, and the Statement of Cash Flows shows the movement in cash over the year.

Where the money comes from

Camelot Group plc (Camelot) has held licences to operate the National Lottery since 1994. In 2007 Camelot successfully bid for the third Lottery Licence that runs for ten years from 1 February 2009, with an extension for a further four years awarded in March 2012, taking the current Lottery Licence to 31 January 2023. The Gambling Commission has begun work on the development of the competition for the Fourth National Lottery Licence and the Department for Digital, Culture, Media and Sport (the department) has begun work to consider related policy issues.

The principal categories of income into the NLDF for the year to 31 March 2018 comprise:

- a proportion of lottery ticket sales, as determined by the licence granted to Camelot
- any prizes which are not claimed within 180 days of the draw date for National Lottery games, or 180 days of the close of any scratchcard or interactive instant win game
- income from National Lottery ancillary activities e.g. income from commercial transactions which utilise the existence of the National Lottery for profit. In this way the NLDF shares in the benefits of any commercial activities which are derived from their connection with the National Lottery
- interest earned on unclaimed prizes while they remain in the Players Trust Fund (a trust account which receives all prizes due and only reimburses

Camelot when Camelot has paid out prizes to lottery participants), together with the reclaim of tax deducted on interest when received by the fund's corporate trustee, and

- a share of the profits of Camelot when those profits are greater than the profits forecast in Camelot's bid to run the National Lottery.

Under the current licence, the main portion of the money passing to the NLDF is calculated as the major share of the pool that is left after deducting from sales the value of prizes, lottery duty, retailer commission, and retention by Camelot.

Since 1 April 2007 interest received on investments is divided between distributors in the same fixed proportions as operator-related income to the NLDF.

Where the money goes

The share of funds to be received by each of the lottery distributing bodies is set by statute. The share of the funds received by each lottery distributing body in 2017-18 is shown in note 10.

Governance of the fund

Sound management of the NLDF plays a pivotal role in managing the flow of funds between Camelot – the operator of the National Lottery – and the lottery distributing bodies, which issue the funds to the good causes.

In managing the NLDF, the the department works closely with the Gambling Commission which regulates the lottery and ensures, among other things, that the operator makes the correct payments to the NLDF. Within the framework of regulation set by the government, the role of the Gambling Commission is to monitor and report on the performance of Camelot (the current operator) and to enforce the terms of its Section 5 licence. This includes ensuring that Camelot complies with licence terms relating to the banking, record keeping and security of monies received, as well as their remittance to the NLDF. The Gambling Commission also selects the operator of the lottery. It does not handle any applications for lottery funds or distribute any lottery money.

In addition, the department works with the Commissioners for the Reduction of the National Debt (CRND) whose role is to invest the funds held in the NLDF, in accordance with directions issued by HM Treasury, until such time as they are required by the lottery distributing bodies to make payments to successful grant applicants (or to meet administrative expenses). The department distributes funds to the lottery distributing bodies on request and accounts to Parliament for the flow of funds.

The Financial Directions, supported by a Statement of Financial Requirements, for each distributor establishes a financial framework within which their lottery distribution activities are to be conducted. Individual distributors are sponsored either by the department or by one of the devolved administrations in Scotland, Wales or Northern Ireland.

The Secretary of State issues the Financial Directions for all lottery distributing bodies sponsored by the department and, with the consent of relevant ministers, for devolved distributors in Wales. The Secretary of State's consent is required for the issuing of Financial Directions to devolved distributors in Scotland and Northern Ireland by the relevant secretary of state.

As Accounting Officer of the NLDF, I seek annual assurances from the accounting officer of each lottery distributing body that it has in place adequate systems of internal control for the efficient, effective and equitable distribution of lottery monies. In particular, lottery distributing bodies' accounting officers are asked to confirm to me annually that they are satisfied that their body has complied with its current lottery Financial Directions; has adequate internal and external audit arrangements in place; has adequate arrangements for detecting and responding to inefficiency, conflict of interest and fraud and for minimising losses of lottery grants, and maintains risk assessment and control procedures and risk registers.

My officials seek supporting information about lottery distributing bodies' systems and their approach to financial and risk management; this can include advice from the distributors' sponsors in my own department and in the relevant devolved administrations. Significant issues arising in relation to distributing bodies' systems are reported up the hierarchy including to the department's Audit and Risk Committee as necessary.

Permanent Secretary statement

The National Lottery has generated over £38 billion for good causes since its launch in 1994, and has benefited thousands of projects, large and small.

In 2017-18, lottery income stabilised at £1,644 million (2016-17: £1,638 million). This is after a fall in income in 2016-17 (2015-16: £1,934 million). In addition, the NLDF balance available decreased from £1,540 million to £1,356 million.

The department has worked closely with its distributors over the last year and will continue to do so to ensure their strategies are sufficient and appropriate in order to maximise the benefits of the National Lottery.

Key risks

Liquidity risks

Liquidity risk is the risk that an entity will encounter difficulty raising liquid funds to meet liabilities as they fall due.

The NLDF receives its income from the National Lottery and from returns accruing on funds which have not been drawn down by lottery distributing bodies. The income into the NLDF is available to the lottery distributing bodies for drawdown to pay grant commitments and operating expenses. Lottery distributing bodies can only draw down funds which are in their apportioned share of the portfolio. Currently, the total of the balance of the NLDF is invested in overnight call notice deposits allowing for maximum liquidity. As a result of the policies and procedures outlined above, the department considers that all significant liquidity risks are appropriately managed.

Interest rate risks

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The financial assets of the NLDF are invested with CRND which manages its investments.

The investments made by CRND are made in accordance with directions made by HM Treasury. The average return on the investments in the financial year was 0.35% (2016-17: 0.34%). The department does not consider that the NLDF is exposed to any significant interest rate risks because of the nature of the assets held.

Foreign currency risks

The NLDF is not exposed to any foreign exchange risks, as all the NLDF holdings and transactions are in pound sterling.

Investment risk

HM Treasury has directed CRND that the NLDF may hold investments specified in the Trustee Investments Act 1961. This restricts investments to mainly government issues such as gilt edged stock and limits the amount that can be invested outside cash and cash equivalents.

The department's strategy is to avoid negative income returns over a three month period. The department regularly reviews its investments in partnership with CRND.

Staffing and organisation

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

During the financial year, the NLDF invested its funds with CRND whose operations are carried out by the UK Debt Management Office (DMO). CRND charges the NLDF for its investment management, shown in note 6 of these financial statements.

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

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

The department is an equal opportunities employer, which does not discriminate against staff or eligible applicants for posts on the grounds of gender, marital status, race, colour, nationality, ethnic origin, religion, disability, age or sexual orientation.

Sustainability report

The department is committed to supporting and promoting sustainable development. We endeavour to reduce our use of materials, energy and water, minimise waste production, procure sustainably and minimise our carbon footprint.

As the NLDF is managed and operated within the department, disclosure regarding sustainability reporting can be found in the 2017-18 DCMS annual report and accounts which will be available, when published, on the department's website at <https://www.gov.uk/government/organisations/department-for-digital-culture-media-sport>.

Non-financial information

Anti-bribery

DCMS ensures that every individual involved in the NLDF is aware of their obligations under the Bribery Act 2010, and ensure that any gifts received or hospitality offers is compliant with this legislation, as well as the Civil Service Code.

Anti-corruption

All DCMS employees (including those that work on the NLDF) are responsible for ensuring their behaviour meets the standards expected of them in accordance with the Civil Service Code and the Department's Standards of Conduct. See the DCMS annual report and accounts 2017-18 for more detail.

Respect for human rights

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

Social matters

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

Important events which have occurred since the year end

These are shown in note 14 to the accounts.

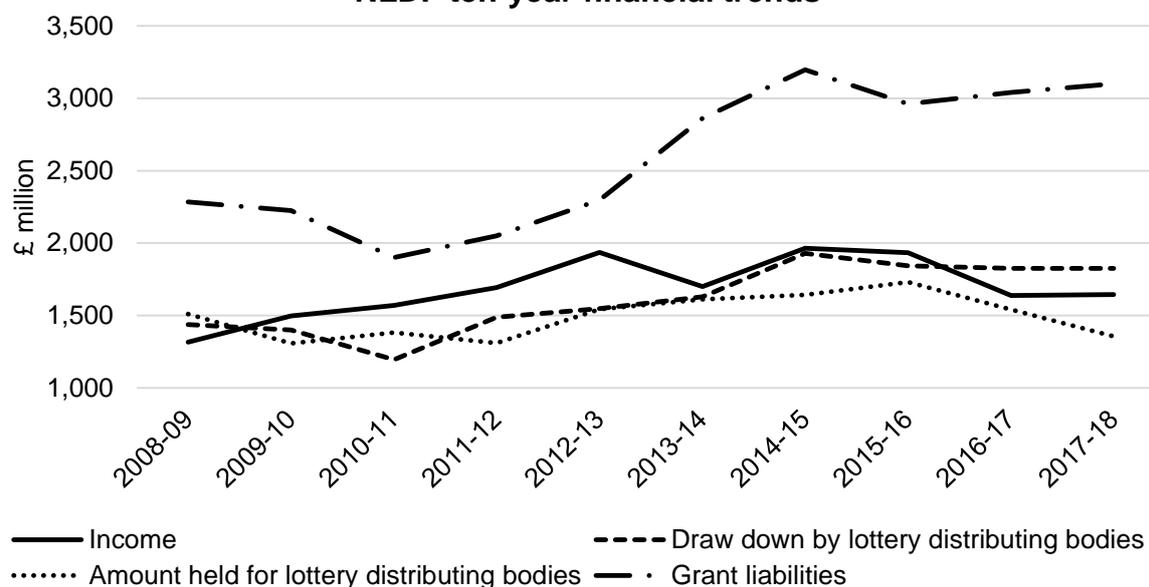
Performance analysis

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

NLDF ten-year financial trends

Year	Income (£m)	Drawdown by lottery distributing bodies (£m)	Amount held for lottery distributing bodies (£m) ¹	Grant liabilities of lottery distributing bodies (£m)
2008-09	1,316	1,436	1,510	2,283
2009-10	1,496	1,399	1,307	2,224
2010-11	1,569	1,194	1,382	1,900
2011-12	1,693	1,488	1,309	2,050
2012-13 ²	1,936	1,547	1,543	2,298
2013-14	1,700	1,628	1,612	2,861
2014-15 ³	1,963	1,929	1,643	3,198
2015-16 ⁴	1,934	1,843	1,731	2,962
2016-17	1,638	1,826	1,540	3,042
2017-18 ⁵	1,644	1,824	1,356	3,102

NLDF ten-year financial trends



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

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

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

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

⁵ Grant liabilities for 2017-18 are unaudited, and subject to change.

Income

By 31 March 2018, over £38 billion had been raised for good causes since the launch of the National Lottery (including money raised by Olympic Lottery products), £1.6 billion of which was received by the NLDF during 2017-18 (2016-17: £1.6 billion). These figures include investment returns on the balance held in the NLDF. £1.8 billion was drawn down during the year by lottery distributing bodies to meet grant payments for good causes and expenses.

Because of the complex operation of the lottery licence, which allows for varying proportions of each type of lottery product to be retained for good causes, there is not a linear relationship between ticket sales and income generated for the NLDF. Also the investment climate affects the levels of investment income achieved on the amounts waiting to be drawn down from the fund.

Having experienced a drop in income in 2016-17, income appears to have stabilised at last year's level. The department, along with the other partners to the National Lottery, is fully engaged in a range of actions to deliver the strongest possible National Lottery over the remainder of its current licence period, so continuing to maximise good cause income. This includes measures to reinvigorate the National Lottery brand, and to integrate messages about good cause outcomes from point of sales to point of delivery.

The nature of the National Lottery means that good cause income cannot be guaranteed. However, the department has specifically sought information from the distributing bodies on the impact of falling income on distributor spending plans and about the mechanisms they have in place for responding to further reductions. The department also has a framework in place through which we seek to be assured that distributors have sound processes and skills to manage financial risk.

Lottery distributing bodies' grant liabilities and commitments

Lottery distributing bodies' grant liabilities and commitments for 2017-18 and 2016-17 are shown in the table on page 10.

At the year end the amount held for lottery distributing bodies was £1.4 billion (31 March 2017: £1.5 billion).

Total grant liabilities have increased from £3.0 billion in 2016-17 to £3.1 billion in 2017-18. This increase is principally a result of the Arts Council England's (ACE) grant liabilities increasing to £516 million (31 March 2017: £280 million). ACE entered into a new three year (2018-20) investment round, making decisions on grants worth £464 million to National Portfolio Organisations which are recognised in 2017-18 but will be paid out over a three year period.

In addition to these grant liabilities, contingent liabilities total £0.8 billion (31 March 2017: £1.1 billion (restated)) existed. Contingent liabilities arise when a lottery distributing body has decided in principle to fund a project but the liability recognition criteria are not yet met. These contingent liabilities are disclosed as a note in the lottery distributing bodies' financial statements.

Managing the fund balances

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

Liabilities are made for several years hence and it is the case that a proportion of liabilities at 31 March 2018 will relate to distributors' grant decisions made in years of rising income. Distributors have a range of mechanisms at their disposal to respond to reduced income, both in managing their existing liabilities and creating new ones.

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

From its ongoing interactions and oversights as described earlier, the department is assured that the distributors have well developed strategies to ensure affordability of existing liabilities and proposed spending programmes within a falling income scenario. The Permanent Secretary of the department and the Accounting Officer of the Big Lottery Fund addressed this issue at the Public Accounts Committee hearing in January 2018.

The reduced level of contingent liabilities in 2017-18 compared to 2016-17 is one indicator of the distributors' management of current and anticipated income levels. The department will continue to maintain its close interest in lottery distributors' management of lottery funds. In particular, the department will continue to discuss with distributors the impact of income trends on their budgets. We provide a range of information to support their budgeting activity and we will be working further with distributors to determine what more data can most usefully be provided to assist them further.

Lottery distributing bodies' grant liabilities and commitments

The figures shown in the table below are based on amounts recorded in the lottery distributing bodies' unaudited 2017-18 accounts. 2016-17 figures are restated, as unaudited figures were disclosed in the 2016-17 NLDF accounts; now updated for audited figures.

	2017-18								2016-17				
	Grant liabilities due within one year	Grant liabilities due later than one year and not later than five years	Grant liabilities due later than five years	Total	NLDF balance available	Grant liabilities made against future income flows	Contingent liabilities	Total commitments made against future income flows	Total liabilities (restated)	NLDF balance available	Grant liabilities made against future income flows (restated)	Contingent liabilities (restated)	Total commitments made against future income flows (restated)
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Arts Council England	232,869	283,557	-	516,426	298,106	(218,320)	0	(218,320)	279,964	314,515	34,551	0	34,551
Arts Council of Wales	12,824	2,126	-	14,950	15,620	670	0	670	18,072	21,292	3,220	0	3,220
Creative Scotland	16,336	2,637	-	18,973	17,062	(1,911)	3,780	(5,691)	26,284	22,318	(3,966)	8,018	(11,984)
Arts Council of Northern Ireland	2,263	264	-	2,527	2,865	338	4,536	(4,198)	2,531	3,252	721	4,694	(3,973)
British Film Institute	31,188	-	-	31,188	53,498	22,310	8,391	13,919	32,314	57,553	25,239	4,489	20,750
Sport England	146,171	106,231	-	252,402	125,949	(126,453)	19,613	(146,066)	260,789	97,340	(163,449)	20,313	(183,762)
Sports Council of Northern Ireland	4,404	-	-	4,404	14,693	10,289	14,925	(4,636)	4,371	15,152	10,781	4,953	5,828
Sport Scotland	15,746	245	-	15,991	51,323	35,332	2,000	33,332	18,165	53,479	35,314	2,782	32,532
Sports Council of Wales	580	6	-	586	15,543	14,957	820	14,137	1,869	18,084	16,215	1,780	14,435
UK Sport	7,199	1,209	-	8,408	43,410	35,002	178,715	(143,713)	8,072	41,585	33,513	236,352	(202,839)
Heritage Lottery Fund	339,007	562,762	97,532	999,301	406,809	(592,492)	495,369	(1,087,861)	1,022,940	496,756	(526,184)	661,109	(1,187,293)
Big Lottery Fund	579,742	598,339	58,983	1,237,064	310,909	(926,155)	36,876	(963,031)	1,366,445	398,756	(967,689)	108,700	(1,076,389)
Total	1,388,329	1,557,376	156,515	3,102,220	1,355,787	(1,746,433)	765,025	(2,511,458)	3,041,816	1,540,082	(1,501,734)	1,053,190	(2,554,924)

Operating costs

Expenses incurred in operating the fund by the department (which include the external audit fee), CRND and by the Gambling Commission for regulating the National Lottery are met from the fund and totalled £4.0 million (2016-17: £2.8 million) for the year of which £3.7 million (2016-17: £2.5 million) related to the Gambling Commission.

The increase in funding paid to the Gambling Commission is due to additional approved amounts above agreed baseline including:

- increased regulatory oversight requirements; associated professional fees and expanded in-house expertise (£530k);
- escalating work on the fourth licence competition (£400k); and
- legal costs associated with a Freedom of Information request (£117k).

While some of these additional costs are one-off or short term, the fourth licence competition work will continue into the medium term. The process for determining the recharge of appropriate expenses from the fund ensures that costs are responsive to fluctuating levels of activity. Thus costs will increase as need arises and fall back as activity levels return to steady state.

The Gambling Commission has begun its work to deliver a timely competition for the fourth National Lottery Operating Licence, which will commence in 2023. The commission's expenses during the last competition cycle peaked at £9.8m in 2007-08, and we anticipate incremental increases to a similar scale during the current competition cycle.

The table below shows a summary of costs since 2013-14. The Gambling Commission 2017-18 annual report and accounts provides further information on this as well as its continuing role as regulator of the lottery. These can be found on their website, www.gamblingcommission.gov.uk.

	DCMS (note 4)	Gambling Commission (note 5)	CRND (note 6)	Total
	£m	£m	£m	£m
2013-14	0.3	2.5	0.1	2.9
2014-15	0.2	2.5	0.1	2.8
2015-16	0.2	2.8	0.1	3.1
2016-17	0.2	2.5	0.1	2.8
2017-18	0.3	3.7	0.1	4.0

Amount held for lottery distributing bodies

The NLDF balance available in the fund at 31 March 2018 is held in investments by CRND as set out in note 8 to these accounts. The allocation of these funds across the twelve lottery distributing bodies in 2017-18 can be seen in note 10 to these accounts.

CRND publishes an annual report and accounts for the National Lottery Fund Investment Account, which it administers. Copies can be requested directly from CRND. Further information on the investment management role of CRND can be found on its website, www.dmo.gov.uk.

Signed:

Dame Sue Owen DCB
Permanent Secretary and Accounting Officer
Department for Digital, Culture, Media and Sport
3 July 2018

Accountability report

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

The corporate governance report provides information on the governance of the NLDF. The remuneration and staff report provides information on the remuneration of those charged with governance of the NLDF, and other relevant information on staff costs.

The disclosure of this information complies with best practice standards of corporate governance and contributes to the NLDF's accountability to Parliament by virtue of providing a transparent and full account of the corporate governance structure of the NLDF and other relevant information.

Corporate governance report

Directors' report

Governance structure

The department is responsible for the oversight of the National Lottery regime. Details of the governance arrangements are contained in the governance statement in this annual report.

Disclosure of senior staff salaries and production of organisation charts

As part of the government's transparency agenda, the department and its executive arm's length bodies (ALBs) regularly publish data on the remuneration of senior staff within their organisations as well as organisation charts which give the senior staff structure and summary information for staff at junior levels. The latest remuneration data (March 2018) can be found here:

<https://data.gov.uk/dataset/14218517-ef18-40ea-9ad1-aa637174c372/organogram-of-staff-roles-salaries>

Organisation charts for the department and each of our ALBs are available at <https://data.gov.uk/organogram/department-for-culture-media-and-sport/2017-09-30>.

Directorships and other significant interests

Board members completed their annual declarations of interest. Board members are asked to declare any relevant interests in agenda items at the start of each board meeting and absent themselves from those discussions. No directorships or other significant interests were held by executive board members which may have conflicted with their management responsibilities.

Ministers and board members' remuneration

The details of ministers' and board members' remuneration are set out in the remuneration and staff report in the department's annual report and accounts.

Disclosure of relevant audit information

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

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

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

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

This report makes the following recommendations:

1. The Gambling Commission should take steps to secure a fair return for good causes from game changes proposed by Camelot over the remaining life of the current licence.
2. In setting the next licence, the Gambling Commission needs to benchmark the lottery against other regulated sectors to determine what a fair rate of return is for operating the lottery and build flexibility into the licence terms to secure this fair return in changing circumstances.
3. The Gambling Commission should fully evaluate whether significant game changes proposed by Camelot are supported by appropriate, robust research and should intervene promptly to reverse changes if they prove unsuccessful.
4. The department should test the distributors' modelling of future grant programmes and intervene where it believes forward programmes may be unaffordable.
5. The department should share real-time weekly sales data with the distributors. The department or commission should ensure that the distributors have any help they need to understand and interpret the data and, during 2018, provide an updated forecast to distributors taking into account Camelot's plans to address the decline in lottery sales.
6. Camelot should work with the lottery distributors to better publicise the link between good causes and the Lottery and communicate the contribution to good causes from each type of game to customers at the point of sale. We would expect improvements to have been implemented by September 2018.
7. Camelot should review its level of contribution to deal with problem gambling and explain to us within six months why this is a fair contribution to GambleAware for such a widely-played gambling product.

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

Reporting of personal data related incidents

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

As the NLDF is managed and operated within the department, disclosure can be found in the 2017-18 annual report and accounts which will be available, when published, on the department's website at <https://www.gov.uk/government/organisations/department-for-culture-media-sport>.

Signed:

Dame Sue Owen DCB

Permanent Secretary and Accounting Officer

Department for Digital, Culture, Media and Sport

3 July 2018

Statement of Responsibilities of the Secretary of State, Accounting Officer and the Gambling Commission

Under section 33(1) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998), the Secretary of State for Digital, 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 HM Treasury. A copy of the Accounts Direction may be obtained from the finance team, within the Department for Digital, Culture, Media and Sport. The accounts are prepared on an accruals basis and must give a true and fair view of the National Lottery Distribution Fund's state of affairs at the year end and of its income and expenditure and cash flows for the period.

In preparing the accounts the Secretary of State is required to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards 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.

HM Treasury has appointed me as the Permanent Secretary of the Department for Digital, Culture, Media and Sport to be the Accounting Officer for the National Lottery Distribution Fund. My relevant responsibilities as Accounting Officer, including my responsibility for the propriety and regularity of public finances and for the keeping of proper records, are set out in *Managing Public Money* published by HM Treasury.

My responsibilities over the National Lottery Distribution Fund extend to the receipt of lottery revenues from Camelot Group plc, their placement with the Commissioners for the Reduction of the National Debt and disbursements to the lottery distributing bodies. The Gambling Commission is responsible, using the powers set out in the National Lottery etc. Act 1993, as amended by the National Lottery Act 1998, and in the licence granted to Camelot Group plc under section 5 of the 1993 Act, for ensuring that Camelot Group plc meet their obligations under the licence, including their financial obligations to the National Lottery Distribution Fund. I have no locus in operational matters related to the licence.

The department is notified of amounts due to be paid to the National Lottery Distribution Fund by Camelot; this is overseen by the Gambling Commission. The Gambling Commission's commissioners are also required to report after the end of each financial year to the Secretary of State on the exercise of their functions during the year. The Accounting Officer of the Gambling Commission has provided me with a statement of assurance and in this he outlines the compliance work undertaken at Camelot Group plc during the year ended 31 March 2018 which has led him to be

satisfied that the payments to the National Lottery Distribution Fund during the year ended 31 March 2018 are complete and accurate in all material respects.

As Accounting Officer, I am not aware of any relevant audit information of which the fund's auditors are unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the fund's auditors are aware of that information.

I take personal responsibility for the annual report and accounts and confirm that they as a whole are fair, balanced and understandable, as are any judgements used to determine this view.

Signed:

Dame Sue Owen DCB

Permanent Secretary and Accounting Officer

Department for Digital, Culture, Media and Sport

3 July 2018

Governance statement

This statement sets out the governance structures, risk management and internal control procedures that have operated within DCMS and consequently applied to the National Lottery Distribution Fund (NLDF) during the financial year 2017-18 and accords with HM Treasury guidance.

The department has a wide ranging remit incorporating a number of complex projects and programmes. DCMS's formal governance systems, structures and processes enable clarity and accountability facilitating the effective delivery of departmental objectives and priorities.

Oversight of the National Lottery

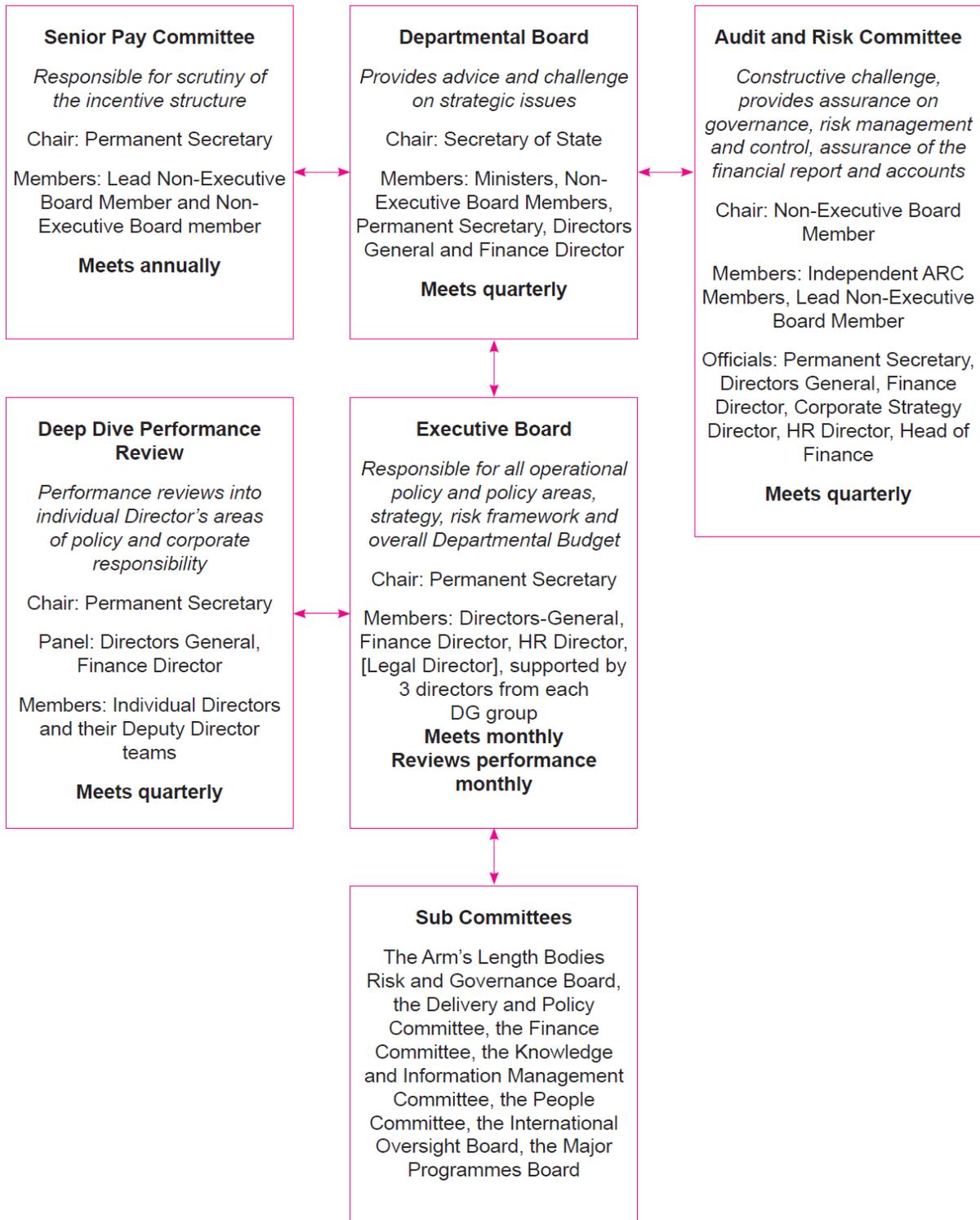
The department is responsible for the architecture of the National Lottery regime and works closely with the Gambling Commission, the independent regulator of the National Lottery licence holder. Amongst other things, the Gambling Commission monitors and reports on the performance of Camelot (the current licence holder) and enforces the terms of its Section 5 licence. The department maintains oversight of the Gambling Commission's activities through appropriate controls, including a Management Statement covering regularity and propriety issues, and through an established series of regular meetings and ad hoc interactions.

The amounts raised through the National Lottery for Good Causes are paid into the NLDF which is managed and run by staff employed by DCMS. Lottery monies are independent of government and are distributed by independent lottery distributors. DCMS implements appropriate controls over lottery distributors, including Financial Directions, to ensure propriety, regularity and accountability in their handling of lottery monies drawn down. DCMS seeks annual confirmation from all lottery distributors of key systems of internal control in relation to their handling of lottery monies.

The Permanent Secretary appeared before the Public Accounts Committee in January 2018 to discuss issues in relation to the National Audit Report *National Lottery Funding for Good Causes*. The minute is published in a Treasury Minute, at <https://www.gov.uk/government/publications/treasury-minutes-28-june-2018>

Governance structure

The governance structure shown in the diagram below applies to the core department, also referred to as DCMS in this statement.



During 2017-18, DCMS has sought and implemented feedback from Departmental Board members in order to enhance the Board and make better use of its non-executives to provide scrutiny and challenge.

Departmental Board

The Departmental Board, chaired by the Secretary of State, meets on a quarterly basis and is comprised of ministers, senior executives and non-executives. The

Departmental Board met four times (plus one extraordinary meeting) in 2017-18. There was one meeting of the executive team and non-executives without ministers.

The Departmental Board focused on performance and strategic risk, the Single Departmental Plan, the Finance Review, the Board Effectiveness Evaluation, business planning and resourcing.

Biographies of all Departmental Board members can be found on the DCMS homepage: <https://www.gov.uk/government/organisations/department-for-culture-media-sport>.

Audit and Risk Committee

The Audit and Risk Committee (ARC) reports to and advises the Departmental Board on governance, risk management and internal control. In 2017-18, the committee met on five occasions. The committee is chaired by a Non-Executive Board Member, Fields Wicker-Miurin OBE. Other members are Charles Alexander (Lead Non-Executive Board Member), Brian Porritt and Phill Wells (independent members). It is attended by the DCMS Permanent Secretary and other senior staff.

In discharging her responsibilities, the ARC chair meets regularly with the Accounting Officer, Directors General, Finance Director, members of the Executive Board, the ALB Risk and Governance Board, Internal Audit and the NAO to discuss issues and assess the performance of the ARC to ensure that it is fulfilling its objectives and remit.

In 2017-18, the ARC provided substantial advice and challenge to the department in the preparation of the DCMS consolidated annual report and accounts (notably on the first time inclusion of BBC Commercial Holdings and the valuation of its public operations), the NLDF annual report and accounts, risk (financial, people and policy), business continuity, shared services, EU exit, whistleblowing, the ALB Assurance Process, General Data Protection Regulation, the work of the Office for Civil Society, staff retention and resourcing. The committee also considered external and internal audit plans and reports. DCMS staff are welcome as observers to ARC.

Executive Board

The Executive Board provides corporate leadership to the department and ensures the effective delivery of departmental priorities and ministerial objectives. The Executive Board meets monthly to review departmental performance, finance and strategic risk. In 2017-18, improvements continued to be made to performance and risk reporting across the department. Items discussed at the Executive Board are published on the intranet and an observer programme open to all DCMS staff, assists visibility and transparency of decision making across the department.

Executive Board Sub-Committees

The Executive Board Sub-Committees have clear remits and accountability focussing on the following areas:

- The Arm's Length Bodies Risk and Governance Board provides assurance on the department's relationship with its arm's length bodies including risk management. The Director of Corporate Strategy is the chair.
- The Delivery and Policy Committee is responsible for improving how policy is made and delivered in DCMS. This ceased in March 2018 and its business was incorporated in to the People Committee.
- The Finance Committee monitors the department's financial risks and capital spend. The Finance Director is the chair. The newly formed Investment Sub-Committee reports into the Finance Committee and is responsible for approving business cases for projects (including museum loans) with a total whole life cost of £15 million or below and light-touch acquisitions cases.
- The Knowledge and Information Management Committee is responsible for oversight of the department's Knowledge, Information Management and IT policies. The Finance Director is the chair.
- The People Committee is responsible for the strategic management of people issues within DCMS. The Director General for Performance and Strategy is the chair.
- The International Oversight Board was established in October 2016. Its role is to monitor and review progress on DCMS EU, trade and international work. The Board incorporates monthly 'deep dives' into DCMS areas, to understand the effect of EU Exit on DCMS sectors. The Director General for Digital and Media is the chair. The International Board and EU Funding Board report into the International Oversight Board on a monthly basis.
- The Major Programmes Board was established in February 2018 and meets quarterly. It provides strategic oversight and assurance on the department's major programmes and focuses on creating the right operating environment for programme/project delivery across the department. This Board replaces the DCMS Broadband Delivery Management Board. The Permanent Secretary is the chair.

After each meeting, the sub-committees provide governance reports after each meeting to the Executive Board, to ensure there is oversight of agendas, key issues, risks to be escalated and other notable items.

For 2017-18, Deep Dive Performance Reviews were planned and undertaken with each directorate on a quarterly basis. These were attended by DCMS' Permanent Secretary, Directors-General, Finance Director and key senior managers who scrutinise performance, risk, finance and staffing information. At present these meetings are currently under review to reflect the greatly changed and increasingly complex DCMS structure.

Non-Executive Board Members

No new non-executive board member appointments were made in 2017-18.

Outside of the Board, non-executives provided expertise and valued contributions across a range of departmental priorities and work programmes such as the Single Departmental Plan, the Strategic Review of Resources, ALB governance, as well as audit and risk management. Non-executives have also undertaken reviews of the Heritage Lottery Fund, a range of museums, Arts Council England and UK Anti-Doping.

Fields Wicker-Miurin, Chair of the DCMS Audit and Risk Committee, also chairs a forum which brings together Audit and Risk Committee chairs from over 30 ALBs to discuss risks, issues and share best practice across the DCMS Group. The forum met in September 2017 and March 2018.

Board and Committee attendance for financial period 1 April 2017 to 31 March 2018

Departmental Board members					
	Committee/Board members	Departmental Board	Audit and Risk Committee	Executive Board	Pay Committee
Ministers	Matt Hancock	3/5			
	Lord Ashton of Hyde	2/5			
	Tracey Crouch	3/5			
	Michael Ellis	1/1			
	Margot James	0/1			
	Karen Bradley	3/4			
	John Glen	3/4			
	Rob Wilson	0/1			
Non-executive board members/Independent members	Charles Alexander	5/5	5/5		1/1
	Matthew Campbell-Hill	4/5			
	Neil Mendoza	5/5			
	Fields Wicker-Miurin	5/5	5/5		1/1
	Michael Higgin		1/2		
	Brian Porritt		5/5		
	Phill Wells		5/5		
Executive management	Sue Owen	4/5	4/5	11/11	1/1
	Matthew Gould	5/5	3/5	10/11	
	Helen Judge	4/5	4/5	9/11	
	Tim Sparrow	4/4	4/4	8/8	
	David Rossington	1/1	2/3	6/7	

Note: The executive management also are executive board members.

Senior officials (rotational attendance)					
	Committee/Board members	Departmental Board	Audit and Risk Committee	Executive Board	Pay Committee
Executive board members	Mark Fisher			2/2	
	Hugh Harris			1/1	
	Kate Joseph/Claudia Kenyatta		2/2	11/11	
	Clare Pillman			6/8	
	Rosemary Pratt			2/3	
	Chris Townsend			0/1	
	Andrea Young			1/2	
	Debra Lang		3/5	10/11	1/1
	Joe Butler		0/1	1/4	
	Sarah Connolly			2/3	
	Gila Sacks			8/10	
	William Priest			3/3	
	Yasmin Brooks			7/8	
	James Heath			6/6	
	Raj Kalia			1/1	
	David Knott			2/2	
Dean Creamer			1/1		
Georgia Hutchinson			1/1		

While DCMS takes into account the widest possible range of views at Executive Board by including all directors on a rotational basis, other government departments tend to have a smaller decision-making body. The correct comparator between DCMS and other government departments is the smaller group that attend the Departmental Board. However, the full list of responsible directors is included here for the purposes of transparency and to meet government reporting standards. Also, late but unavoidable changes to some meeting dates meant that some members were unable to attend meetings due to previous commitments.

Declaration of interests

The non-executive board members and independent members have disclosed a range of interests, further details of which can be found in the directors' report of the DCMS group annual report and accounts.

Information management

The Departmental Board and its sub-committees are provided with a range of management information in order to review the department's performance and capability including the annual Departmental Board effectiveness evaluation, performance reports, risk registers and corporate service data. The Board Secretariat oversees this information and ensures the quality of data complies with

the departmental guidance on writing board papers in order to facilitate informed discussion and decision making. Recently Knowledge, Information Management and Information Technology Committee (KIMIT) moved forward an IT strategy that will complement data and technology, supporting the department's digital transformation and better security approach to digital records.

External reporting

DCMS provides information including the Online System for Central Accounting and Reporting (OSCAR) returns to HM Treasury and transparency information which is published on data.gov.uk and announced in a Cabinet Office Quarterly Written Ministerial Statement. The quality of this data is regularly assessed by DCMS, Cabinet Office and HM Treasury as well as being available for public scrutiny. This data is consistent with data provided to the Board.

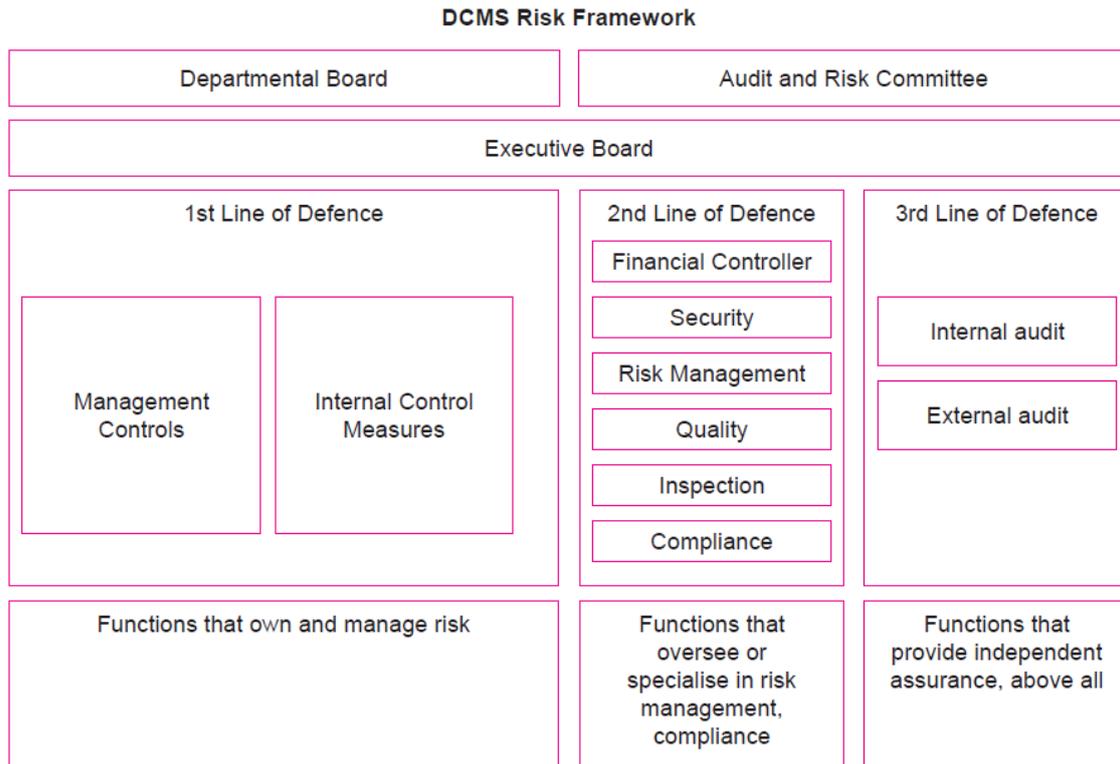
Board performance and effectiveness

Charles Alexander, the DCMS Lead Non-Executive Board Member, conducted a review of the Departmental Board. As the Board had undergone substantial change in 2016-17, the review was a forward looking exercise to best capture how the Board can improve its effectiveness. The recommendations were approved at the meeting of the Departmental Board on 8 May 2017. For the role of the Board this included reduction of executive team representation, a commitment of time to deep dive on pre-agreed topics and the Single Departmental Plan review to be a focused item. The recommendations for the role of non-executive board members include increased information sharing with Executive Board, and a more focused concentration on agenda setting led by the Permanent Secretary with active contribution from non-executive board members.

In March 2017, the Government Internal Audit Agency (GIAA) launched a review of the Executive Board and how it can work more effectively. The annual review considered whether the existing structure of 8 sub-committees meets DCMS' current needs and is fit for purpose for the year ahead. The Executive Board agreed to and implemented a new sub-committee structure and revised terms of reference for sub-committees and information on decisions, attendees, inputs, outputs and links between boards.

Approach to risk management

The DCMS Accounting Officer is responsible for maintaining high standards of corporate governance including effective management of risk throughout the department. The department's risk framework identifies risk management as a key role of the Departmental Board, the Executive Board and its sub-committees. The department has a risk appetite statement which outlines the acceptable risk tolerances across several categories, this is intended to guide decision making within acceptable boundaries. Policy and guidance is available to staff on the intranet.



The department's risk framework is best characterised as three lines of defence:

1. The 1st line of defence is operational management which has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.
2. The 2nd line of defence consists of activities covered by several components of internal governance (compliance, risk management, quality assurance, and IT). This line of defence monitors and facilitates the implementation of effective risk management through operational management and assists the risk owners in reporting risk related information up and down the organisation.
3. The 3rd line of defence uses internal audit (Government Internal Audit Agency) and external audit (NAO). An independent audit function, through a risk-based approach, provide assurance to the organisation's board of directors and senior management. This assurance covers how effectively the organisation assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of risk management (from risk identification, risk assessment and response, to communication of risk related information) and all categories of organisational objectives: strategic, ethical, operational, reporting and compliance.

Risks are managed and categorised at all levels within, across and throughout the department. Escalation of risks consists of three management levels where risks are managed:

- Local/Project: Most risk is dealt with at the local/project level. Risk is managed by policy and operational teams across the department, who when appropriate escalate risk. Depending on the complexity and level of risk, local teams may manage risk registers. All projects have risk registers.
- Committee: Committees of the Executive Board such as the People Committee or Finance Committee have their own risk registers, which are reviewed at every meeting, and decide whether the risk should continue to be monitored at committee level or escalated to the Executive Board.
- Board level: Through the Executive Board and Departmental Board. The Executive Board has an overview of strategic risks across the department and reviews risks in the monthly performance management reports and the Strategic Risk Register. The DCMS Executive Board and ARC provides advice and challenge on the departmental risk process and reviews risks at monthly and/or quarterly meetings. The Departmental Board reviews any critical risks which have been escalated from the Executive Board.

Fraud and error

The department's policy towards fraud, malpractice and corruption is one of zero tolerance, whether in the core department or the ALBs for which it is responsible. The department's Fraud Policy sets this out in detail, whilst the Fraud Response Plan sets out the arrangements for reporting and responding to fraud. The policy and plan have been reviewed and updated in line with Cabinet Office guidelines.

The main emphasis of the Fraud Policy is on fraud prevention, achieved through risk assessment, process design informed by awareness of fraud risk, and by keeping staff alert to risks. To facilitate counter fraud practice and communications, DCMS has a Counter Fraud Champion, a role held by the Head of Strategic Finance, who disseminates good practice across the core department and its ALBs, including lessons arising from fraud investigations, and information received from the National Fraud Intelligence Bureau of frauds. DCMS's Internal Audit Service also supports the department in reviewing its counter fraud controls and procedures.

The core department works with its ALBs and the Cabinet Office to identify and counter fraudulent activities, and the DCMS lottery bodies operate a Fraud Operations Group where they share fraud information and best practice. Through working with the Cabinet Office Counter Fraud Network and supporting ALBs, the core department will continue to strengthen its processes and controls to reduce the risk of fraud. In addition over the coming year we will offer training and awareness activities, drawing on expert knowledge from the Cabinet Office.

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

Lottery distributing bodies

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

The Sports Council Northern Ireland (SCNI) is one of twelve lottery distributing bodies that are funded by the NLDF.

We reported in the 2015-16 and 2016-17 NLDF annual report and accounts on issues relating to a number of changes to key personnel in Sports Council Northern Ireland (SCNI) including substantial movements in Board membership and interim appointments to the Chief Executive post. These have largely been resolved in 2017-18. The Chair of the Board is content that there are sufficient members to discharge responsibilities effectively; and the substantive Chief Executive has returned to post. We also reported last year that the 2014-15, 2015-16 and 2016-17 SCNI annual report and accounts, including the Lottery accounts, remained outstanding. That remains the case.

A transformation programme was delivered in 2016-17 to ensure SCNI's continued fitness for purpose across, among other areas, Board and Executive leadership and Management, and Governance and Accountability. The programme was independently and satisfactorily reviewed in October 2017.

In February 2017 the Northern Ireland Audit Office announced its intention to report on Governance Issues at SCNI, including examining the adequacy of the governance, leadership and Departmental oversight of SCNI during a period of internal instability and change. The report is expected to be published during 2018.

We seek regular and specific assurances from SCNI's sponsoring department (Department for Communities Northern Ireland, DfC) that the systems of oversight and control of lottery monies remain fit for purpose. The Permanent Secretary of DfC has confirmed that currently there are a number of persistent organisational issues which, although they detract from the smooth running of the body and its relationship with DfC, do not relate directly to or negatively impact on SCNI's NLDF distributor responsibility. They do however require ongoing management and scrutiny by DfC, which addresses these issues through regular accountability meetings and its established governance processes.

It is the position at this time that SCNI's lottery activity remains unaffected by the ongoing issues and DfC continues to closely monitor the SCNI Board's effectiveness in fulfilling its oversight and challenge function on the body's regularity and propriety responsibilities in handling lottery monies. DCMS will continue to liaise regularly with DfC with regard to SCNI to confirm that assurances about the lottery distribution function remain maintained.

Compliance with the Corporate Governance Code

DCMS fully complies with the Code of Corporate Governance with the following variations:

- The Pay Committee, which comprises the Permanent Secretary, Lead Non-Executive Board Member and a second non-executive board member, fulfils the role of the Nominations and Governance Committee, focusing primarily on scrutinising the incentive structure, and is supported by the Senior People Development Committee.
- The Head of Internal Audit attends the Audit and Risk Committee. The chair of the Audit and Risk Committee reports key issues and the work of the committee to the Departmental Board.

Other key governance activities

Internal audit annual report

NLDF was not subject to an internal audit in 2017-18. With the agreement of the Accounting Officer and the Audit and Risk Committee, the Government Internal Audit Agency (GIAA) decided not to conduct an audit of NLDF due to the NLDF's low risk to the department and the levels of assurance that the annual audits had received in the previous three years (respectively: substantial, moderate and moderate).

Conflict of interest policy and procedure

Non-executives, along with all other board members, are required to declare any personal or business interest which may, or may be reasonably perceived (by a member of the public), to influence their judgement in performing their functions and obligations. Where a board member declares a potential conflict at meetings, it is recorded in the minutes and the board member takes no part in the meeting for the duration of that item of discussion.

Whistleblowing policy and procedure

In 2017-18, DCMS reported no whistleblowing cases. DCMS adopts and implements the latest Civil Service model policy on whistleblowing. The DCMS whistleblowing policy guidance, procedures and FAQs are published on the DCMS intranet.

DCMS has updated information on the intranet for employees to use as guidance in the event of raising concerns about perceived wrongdoings or actions that contradict the Civil Service Code. This information is also incorporated into the DCMS anti-bullying policy.

DCMS has two independent nominated officers that staff can approach to anonymously report any perceived wrongdoings. These officers attended formal training.

DCMS takes part in the annual Civil Service Whistleblowing Awareness Week. In September 2017, DCMS organised a range of activities which included workshops to raise awareness of the process by which concerns can be raised and information provided about the resources available to support staff when raising concerns. A workshop was also facilitated by the Civil Service Commission on the Civil Service Code and the work of the Civil Service Commission.

Although not directly responsible for the whistleblowing policy across its ALBs, the DCMS HR team use ALB HR and Finance Directors as a channel for sharing best practice and have shared the current DCMS policy and guidance with ALBs. ALBs

are required to report separately on their whistleblowing arrangements in their annual reports and accounts.

In the 2017 People Survey, DCMS obtained the highest score for inclusion and fair treatment at 84% across the Civil Service. 95% staff reported that they were aware of the Civil Service Code, 66% know how to raise concern under the Code and 83% confirmed they were confident that a raised concern under the Civil Service Code would be properly investigated.

Further information on key governance activities

Further information on key governance activities may be found in the governance statement of the DCMS annual report and accounts 2017-18 which is subject to audit, and will be available, when published, on the department's website at <https://www.gov.uk/government/organisations/department-for-culture-media-sport>.

Such key governance activities include:

- Ministerial directions
- Accounting Officer system statement
- Personal data incidents
- Machinery of government changes
- Internal audit annual report
- Tax policy of off-payroll appointees

Accounting Officer's conclusion

I have considered the evidence provided regarding the production of the annual governance statement including from the department's governance structures, reviews of our ALB's and the independent advice provided by the Audit and Risk Committee. I conclude that the department has satisfactory governance and risk management systems in place with effective plans to ensure continuous improvement.

Signed:

Dame Sue Owen DCB
Permanent Secretary and Accounting Officer
Department for Digital, Culture, Media and Sport
3 July 2018

Remuneration and staff report

Remuneration policy

Administration of the NLDF is undertaken on a part-time basis by a small number of officials in the department, whose costs are reimbursed by the NLDF. The department does not recharge the NLDF for the remuneration costs of departmental ministers or the Departmental Board.

Management and control of the NLDF is vested in the Secretary of State. Details of the composition of the department ministers and board and remuneration information may be found in the remuneration report of the DCMS annual report and accounts 2017-18 which is subject to audit, and will be available, when published, on the department's website at <https://www.gov.uk/government/organisations/department-for-culture-media-sport>.

Signed:

Dame Sue Owen DCB

Permanent Secretary and Accounting Officer

Department for Digital, Culture, Media and Sport

3 July 2018

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

Opinion on financial statements

I certify that I have audited the financial statements of the National Lottery Distribution Fund for the year ended 31 March 2018 under the National Lottery etc. Act 1993. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Changes in Amount Held for Lottery Distributing Bodies, Financial Position, Cash Flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the financial statements give a true and fair view of the state of the National Lottery Distribution Fund's affairs as at 31 March 2018 and of its comprehensive net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 and HM Treasury's directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

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

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

As explained more fully in the Statement of Responsibilities of the Secretary of State, Accounting Officer and the Gambling Commission, the Secretary of State for Digital,

Culture, Media and Sport is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Lottery Distribution Fund's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Lottery Distribution Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

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

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

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Other Information

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

Opinion on other matters

In my opinion:

- in the light of the knowledge and understanding of the National Lottery Distribution Fund and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the are not in agreement with the accounting records and returns; or

- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

Date: 6 July 2018

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Financial statements

Primary statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
Income			
Income from the National Lottery	2	1,639,068	1,632,742
Investment income	3	4,726	5,312
Total income		<u>1,643,794</u>	<u>1,638,054</u>
Less: operational costs			
Department for Digital, Culture, Media and Sport	4	(259)	(235)
Gambling Commission	5	(3,673)	(2,496)
Other expenses	6	(52)	(69)
Total operational costs		<u>(3,984)</u>	<u>(2,800)</u>
Net realised income for distribution		1,639,810	1,635,254
Amounts authorised for payment to lottery distributing bodies	10	<u>(1,824,105)</u>	<u>(1,826,447)</u>
Decrease in realised amount held for lottery distributing bodies		<u>(184,295)</u>	<u>(191,193)</u>
Total comprehensive net expenditure		<u><u>(184,295)</u></u>	<u><u>(191,193)</u></u>

All transactions are in respect of continuing operations.

The notes on pages 39 to 51 form an integral part of these accounts.

Statement of Financial Position as at 31 March 2018

	Note	2017-18 £000	2016-17 £000
Current assets			
Receivables	7	34,994	37,565
Investments held by CRND at fair value	8	1,321,052	1,502,752
Cash at bank and in hand		-	-
Total current assets		<u>1,356,046</u>	<u>1,540,317</u>
Current liabilities			
Payables: amounts falling due within one year	8	<u>(259)</u>	<u>(235)</u>
Total assets less liabilities		<u>1,355,787</u>	<u>1,540,082</u>
Represented by:			
Realised amount held for distributing bodies		<u>1,355,787</u>	<u>1,540,082</u>
Amounts held for lottery distributing bodies	10	<u>1,355,787</u>	<u>1,540,082</u>

The notes on pages 39 to 51 form an integral part of these accounts.

Signed:

Dame Sue Owen DCB

Permanent Secretary and Accounting Officer

Department for Digital, Culture, Media and Sport

3 July 2018

Statement of Cash Flows for the year ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
Cash flows from operating activities			
Cash received from lottery operator		1,641,639	1,630,857
Cash paid for operating expenses		(3,960)	(3,279)
Cash paid to lottery distributing bodies	10	<u>(1,824,105)</u>	<u>(1,826,447)</u>
Net cash outflow from operating activities	9	<u>(186,426)</u>	<u>(198,869)</u>
Cash flows from investing activities			
Cash paid to CRND for investment		(1,637,679)	(1,627,578)
Cash received from CRND for distribution		<u>1,824,105</u>	<u>1,826,447</u>
Net cash inflow from management of liquid resources		<u>186,426</u>	<u>198,869</u>
Change in cash		<u>-</u>	<u>-</u>

All investment income is reinvested by CRND.

The notes on pages 39 to 51 form an integral part of these accounts.

Statement of Changes in amount held for lottery distributing bodies for the year ended 31 March 2018

	Note	£000
Amount held for lottery distributing bodies at 1 April 2016		1,731,275
Total comprehensive net expenditure 2016-17		<u>(191,193)</u>
Amount held for lottery distributing bodies at 31 March 2017	10	1,540,082
Total comprehensive net expenditure 2017-18		<u>(184,295)</u>
Amount held for lottery distributing bodies at 31 March 2018	10	<u>1,355,787</u>

The notes on pages 39 to 51 form an integral part of these accounts.

Notes to the financial statements

1. Statement of accounting policies

1.1 *Basis of accounting*

These accounts have been prepared in accordance with the Accounts Direction given by HM Treasury. This Direction has been applied consistently in dealing with items that are considered material to the accounts. The accounting policies apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector by the Government Financial Reporting Manual (FRoM).

The particular policies adopted by the fund are described below.

1.2 *Basis of preparation*

These accounts have been prepared on a going concern basis.

1.3 *Accounting convention*

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of assets at fair value.

1.4 *Functional and presentational currency*

These accounts are presented in pounds sterling, the functional currency of the fund, and all values are rounded to the nearest thousand pounds (£000).

1.5 *Nature of account balances*

Balances held in the NLDF remain under the stewardship of the Secretary of State for Digital, Culture, Media and Sport. The share of the fund attributable to each lottery distributing body at the date the Statement of Financial Position was signed, and shown in these accounts, has been certified by the Secretary of State for Digital, Culture, Media and Sport as being available for distribution by each body in respect of current and future committed liabilities.

1.6 *Recognition of lottery income*

Proceeds from the lottery due to the NLDF from the operator, Camelot Group plc, are calculated on an annual basis as set out in the Section 5 Licence. Payments are made to the NLDF each week on the basis of actual sales and prizes. The amounts recognised in these accounts for the lottery primary contribution include income receivable on ticket sales from 1 April 2017 to 31 March 2018.

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

Camelot must seek approval from the Gambling Commission for any promotional events that may reduce the net weekly proceeds into the NLDF. The Gambling Commission will only permit these promotions if they are satisfied that they are likely to increase proceeds for the good causes over a longer period.

The lottery primary contribution also includes income due to the NLDF from the sale of scratchcards. Under the terms of the licence, income is collected by Camelot and paid to the NLDF on packs of cards once a pack becomes settled. This occurs 30

days after a pack is activated or once 60% of the low tier prizes have been won, whichever is the sooner.

The secondary contribution relates to the profits of Camelot. When Camelot makes a profit greater than the one that it had predicted in its bid, it will share these profits with the good causes. The amount is based on a formula that varies depending on how much the actual profit before interest and tax varies from the forecast. This secondary contribution is recognised when it becomes payable to the NLDF. The Gambling Commission notifies the NLDF of the level of secondary income.

Lottery prizes that remain unclaimed for 180 days after a draw, or closure of a scratchcard game or interactive instant win game, are paid to the NLDF. Accruals have been made for prizes expiring on or before 31 March 2018 but not yet paid to the NLDF.

Interest on the Players Trust Fund is recognised in the accounts on an accruals basis. Tax refunded on this is recognised when the refund is receivable.

Licensee penalty payments are penalty payments made by Camelot to the NLDF when it has breached the terms of its operating licence. Licensee penalty payments are imposed by the Gambling Commission.

Payments for ancillary activities and adjustments for the National Lottery Promotion Unit are recognised when the cash is receivable by the department.

1.7 Recognition of amounts drawn down by lottery distributing bodies

The amounts recorded as drawn down by the lottery distributing bodies represent their actual cash claims.

1.8 Investments

Investments are available for sale financial assets.

Investments held by CRND are valued in these accounts at fair value as at 31 March 2018. These accounts only disclose the cash flows for the movement of cash between CRND, the NLDF and the lottery distributors.

HM Treasury has directed CRND, under sections 32(1) and 32(2) of the 1993 Act that the NLDF may be invested in those investments specified in paragraphs 1, 2, 3, 5, 5A, 5B, 9 and 9A of Part II of Schedule 1 of the Trustee Investments Act 1961 in such manner as CRND shall, at its absolute discretion, determine.

Having taken account of the department's wish to avoid negative income returns over a three-month period, but without prejudice to their absolute discretion, CRND intends to exercise its investment powers in accordance with the investment framework.

The department regularly reviews the investments in partnership with CRND.

1.9 Investment income

Investment income is recognised when it is receivable.

1.10 Cash and cash equivalents

Cash and cash equivalents are cash in hand and deposits held with the bank. It is the policy of the NLDF to hold a nil cash balance whenever possible and to transfer all funds to CRND for investment on the day of the receipt. Cash transferred to CRND is treated as investments in the Statement of Cash Flows in accordance with IAS 7.

1.11 Financial instruments

The fund accounts for financial instruments in accordance with IAS 32 Financial Instruments: Presentation; IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments: Disclosures.

A financial instrument is any contract that gives rise to a financial asset in one entity, and a financial liability in another. Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. IAS 39 requires financial instruments to be measured in a way that reflects the fair value of the asset or liability.

Available for sale financial assets are adjusted to fair value annually with any revaluation posted to a revaluation reserve. Any premium or discount on cost is amortised in the Statement of Comprehensive Net Income as an adjustment to the investment income (see note 1.8 – Investments above).

Receivables are classified as loans and receivables and are recognised at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts.

Payables are short term and measured at amortised cost, which reflects the fair value of these liabilities as they fall due within one year.

1.12 Impact of new IFRS and Financial Reporting Manual amendments

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

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

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669353/Amendments to IFRS - FReM 2017-18 and FReM 2018-19.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669353/Amendments_to_IFRS_-_FRm_2017-18_and_FRm_2018-19.pdf)

2 Income from the National Lottery

	2017-18	2016-17
	£000	£000
Primary contribution	1,508,686	1,486,930
Secondary contribution	7,110	8,802
Unclaimed prizes	122,645	132,500
Licensee penalty payments	-	3,300
Income from ancillary activities and other items	627	1,210
	1,639,068	1,632,742

3 Investment income

	2017-18	2016-17
	£000	£000
Interest received on investments	4,726	5,312

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

All investments in 2017-18 were held as call notice deposits.

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

	2017-18	2016-17
	£000	£000
Administrative costs	236	212
External auditor's remuneration	20	20
Bank charges	3	3
	259	235

In 2017-18 the department's finance and lotteries teams were engaged on NLDF matters for a proportion of their time. Their staff costs are charged to the NLDF in proportion to the amount of time they spent on NLDF duties.

A share of the accommodation costs of the building occupied by the department has been charged to the NLDF, on the basis of accommodation costs per FTE. Similarly a share of the central service costs incurred by the department has been charged on the basis of central costs per FTE. The

increase in administrative costs is due to increase in accommodation charge per desk to £12,500 (2016-17: £7,782).

The external auditors did not provide any non-audit services in 2017-18 (2016-17: nil).

5 Operational costs: Gambling Commission

The department recovers the net costs of running the Gambling Commission from the NLDF. The net cost consists of the grant-in-aid paid to the Gambling Commission less the licence fee income received by the Gambling Commission and surrendered to the department as appropriations-in-aid.

The increase in funding paid to the Gambling Commission is due to additional approved amounts above agreed baseline including:

- increased regulatory oversight requirements; associated professional fees and expanded in-house expertise (£530k);
- escalating work on the fourth licence competition (£400k); and
- legal costs associated with a Freedom of Information request (£117k).

The licence fee income is the sum of payments made by the lottery operator, Camelot, for each new Section 6 licence granted for new lottery games. In 2017-18, licence fee income of £40,900 relating to new National Lottery games was received by the department.

	2017-18	2016-17
	£000	£000
Funding recovered by the department	3,714	2,539
Lottery operator licence fee income	(41)	(43)
Amount payable to the department	3,673	2,496

6 Other expenses

	2017-18	2016-17
	£000	£000
CRND management fee	52	69

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

7 Receivables

	2017-18	2016-17
	£000	£000
Income due as a result of draws prior to year end	34,994	37,522
Lottery operator licence fee income due	-	43
	34,994	37,565

The carrying value of receivables approximates their fair value.

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

	At 31 March 2018		At 31 March 2017	
	Cost	Fair value	Cost	Fair value
	£000	£000	£000	£000
Investments held by CRND	1,321,052	1,321,052	1,502,752	1,502,752
Receivables (note 7)	34,994	34,994	37,565	37,565
Payables	(259)	(259)	(235)	(235)
Balance held	1,355,787	1,355,787	1,540,082	1,540,082

Under s32 of the National Lottery etc. Act 1993, all monies held by CRND are regarded as "Investments by the Secretary of State". Investments represent call notice deposits that are demand deposits with the Debt Management Account and the National Loans Fund (NLF).

The funds are held in a revolving investment fund i.e. investment returns re-invested directly into the fund. The funds are repayable on demand within one working day. For further details on the investing activities of CRND, refer to the NLDF Investment Account published by CRND, available online at <https://www.gov.uk/government/collections/national-lottery-distribution-fund-investment-account>.

The carrying value of payables approximates their fair value. Payables are in respect of accruals for the department's recharges.

9 Reconciliation of decrease in amounts held for lottery distributing bodies with net cash outflow from operating activities

	2017-18	2016-17
	£000	£000
Decrease in realised amounts held for distributing bodies	(184,295)	(191,193)
Investment income	(4,726)	(5,312)
	(189,021)	(196,505)
Decrease/(increase) in lottery operator receivables	2,571	(1,885)
Increase/(decrease) in payables for operating expenses	24	(479)
Net cash outflow from operating activities	(186,426)	(198,869)

10 Amounts held for lottery distributing bodies at 31 March 2018*Beneficiary sectors*

	Arts	Sport	Heritage Lottery Fund	Big Lottery Fund	Total
	£000	£000	£000	£000	£000
Share of income from lottery	327,813	327,813	327,813	655,629	1,639,068
Less share of operational costs	(797)	(797)	(797)	(1,593)	(3,984)
Share of net operational proceeds	327,016	327,016	327,016	654,036	1,635,084
Amount authorised for payment to lottery distributing bodies	(359,740)	(302,683)	(417,908)	(743,774)	(1,824,105)
Investment income	945	945	945	1,891	4,726
(Decrease)/increase in balance available	(31,779)	25,278	(89,947)	(87,847)	(184,295)
Amounts held for lottery distributing bodies at market value at 1 April 2017	418,930	225,640	496,756	398,756	1,540,082
Amounts held for lottery distributing bodies at market value at 31 March 2018	387,151	250,918	406,809	310,909	1,355,787

Amounts held for lottery distributing bodies at 31 March 2018 (continued)*Arts bodies*

	Arts Council England	Creative Scotland	Arts Council of Wales	Arts Council of Northern Ireland	British Film Institute	Subtotal - arts
	£000	£000	£000	£000	£000	£000
Share of income from lottery	228,748	29,175	16,391	9,179	44,320	327,813
Less share of operational costs	(556)	(71)	(40)	(22)	(108)	(797)
Share of net operational proceeds	228,192	29,104	16,351	9,157	44,212	327,016
Amount authorised for payment to lottery distributing bodies	(245,261)	(34,444)	(22,070)	(9,570)	(48,395)	(359,740)
Investment income	660	84	47	26	128	945
(Decrease)/increase in balance available	(16,409)	(5,256)	(5,672)	(387)	(4,055)	(31,779)
Amounts held for lottery distributing bodies at market value at 1 April 2017	314,515	22,318	21,292	3,252	57,553	418,930
Amounts held for lottery distributing bodies at market value at 31 March 2018	298,106	17,062	15,620	2,865	53,498	387,151

Amounts held for lottery distributing bodies at 31 March 2018 (continued)*Sport bodies*

	Sport England £000	Sport Scotland £000	Sport Wales £000	Sport Northern Ireland £000	UK Sport £000	Subtotal - sport £000
Share of income from lottery	203,244	26,553	14,752	8,523	74,741	327,813
Less share of operational costs	(494)	(64)	(36)	(21)	(182)	(797)
Share of net operational proceeds	202,750	26,489	14,716	8,502	74,559	327,016
Amount authorised for payment to lottery distributing bodies	(174,727)	(28,721)	(17,300)	(8,986)	(72,949)	(302,683)
Investment income	586	76	43	25	215	945
(Decrease)/increase in balance available	28,609	(2,156)	(2,541)	(459)	1,825	25,278
Amounts held for lottery distributing bodies at market value at 1 April 2017	97,340	53,479	18,084	15,152	41,585	225,640
Amounts held for lottery distributing bodies at market value at 31 March 2018	125,949	51,323	15,543	14,693	43,410	250,918

11 Financial instruments

IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7: Financial Instruments: Disclosures, have been applied. IFRS 7 requires disclosures that allow users of the accounts to evaluate the significance of financial instruments for the entity's financial position and performance, and the nature and extent of risks arising from financial instruments during the period.

NLDF investments are held by CRND at fair value and due to the nature of these funds the NLDF is not exposed to the degree of financial risk faced by business entities.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The investments in CRND comprise deposits either with the Debt Management Account or the National Loans Fund. These deposits are obligations of HM Government and therefore considered to have no exposure to credit risk. Receivables relate to income due as a result of draws prior to year end. These monies are also considered to have no exposure to credit risk as legislation requires Camelot to transfer these monies to the NLDF.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the NLDF relate to changes in market interest rates. The interest return on investments is closely linked to the official Bank Rate. The department does not consider that the NLDF is exposed to any significant interest rate risks because of the nature of the assets held.

12 Related party transactions

The NLDF is maintained under the control and management of the Secretary of State for Digital, Culture, Media and Sport. The department is considered to be a related party. During the year, a number of staff employed by the department worked on NLDF related activities and the NLDF used a number of the assets owned by the department. These costs were recharged to the NLDF by the department and are reflected in note 4 of the accounts.

The department is also the sponsoring department of the UK-wide and England-based lottery distributors. These bodies are therefore also considered related parties.

CRND, which is ultimately part of HM Treasury, is also considered a related party. Payments made during the year total £52k and are reflected in note 6 of the accounts.

The Gambling Commission, whose role is to monitor and provide assurance that the payments to the NLDF during the year are complete and accurate in all material

respects, forms part of the DCMS group accounts and is a related party. Net payments made to the Gambling Commission totalling £3.7 million were recharged to the NLDF by the department and are reflected in note 5.

No minister, board member, key manager or other related party has undertaken any material transactions with the NLDF during the year.

For further details please see the 2017-18 DCMS annual report and accounts.

13 Lottery distributing bodies' share of fund

The percentages received by each lottery distributing body were set out in sections 22 and 23 of the National Lottery etc. Act 1993, as amended by section 6 of the 1998 Act and section 7 of the 2006 Act and subsequent secondary legislation.

Statutory Instrument 2010 No. 2863 'The Apportionment of Money in the National Lottery Distribution Fund Order 2010' amended percentages to be as follows:

	1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2018
Arts	18.000	20.000
Sport	18.000	20.000
National heritage	18.000	20.000
Charitable, health, education and the environment	46.000	40.000

Arts	1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2018
Arts Council England	12.560	13.956
Creative Scotland	1.602	1.780
Arts Council of Wales	0.900	1.000
Arts Council of Northern Ireland	0.504	0.560
British Film Institute	2.434	2.704
Total arts	18.000	20.000

Sport	1 April 2011 to 31 March 2012	1 April 2012 to 31 March 2018
Sport England	11.160	12.400
Sport Scotland	1.458	1.620
Sport Wales	0.810	0.900
Sport Northern Ireland	0.468	0.520
UK Sport	4.104	4.560
Total sport	18.000	20.000

14 Events after the reporting period

No events occurred up to the date the accounts were approved by the Accounting Officer for issue to Parliament, which was the date the Comptroller and Auditor General signed the audit opinion.

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978-1-5286-0487-1