

Olympic Lottery Distribution Fund Account 2010-11

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2011

Presented to Parliament pursuant to section 33(3) of the National Lottery etc. Act 1993, as amended by the National Lottery Act 1998, and applied by section 34(11) of the Horserace Betting and Olympic Lottery Act 2004

Ordered by The House of Commons to be printed 15 December 2011

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ISBN: 9780102975253

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

ID2464700 12/11 16966 19585

Printed on paper containing 75% recycled fibre content minimum.

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Management Commentary

Why the Olympic Lottery Distribution Fund (OLDF) was needed

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

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

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

Where the money comes from

The Horserace Betting and Olympic Lottery Act 2004 enabled National Lottery games to be established dedicated to raising funds for the 2012 London Olympic and Paralympic Games. Camelot Group plc has held licences to operate the National Lottery since 1994. In 2007 Camelot successfully bid for the 3rd Lottery Licence that runs for ten years from 1 February 2009, with the possibility of an extension for a further five. Camelot will therefore be the operator throughout the existence of the OLDF.

The principal categories of income into the OLDF for the period to 31 March 2011 comprised:

- a proportion of Olympic Lottery ticket sales, as determined by the licence granted to Camelot Group plc;
- any prizes which are not claimed within 180 days of the draw date for the Olympic Lottery Game, or 180 days of the close of the Olympic Scratchcard or Interactive Instant Win games. These unclaimed prizes fall due to the OLDF after the 180 days;
- interest on the Players Trust Fund, including the reclaim of tax deducted on interest received by the Players Trust Fund;
- a transfer of £292m from the National Lottery Distribution Fund; and,
- Income from Olympic Lottery ancillary activities e.g. income from commercial transactions which utilise the existence of the Olympic Lottery for profit. In this way the OLDF shares in the benefits of any commercial activities which are derived from their connection with the Olympic Lottery.

Where the money goes

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

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

Funding Package

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

This funding package provided up to £2.175 billion towards the public funding package for staging the 2012 Games:

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

Following the General Election of May 2010 the coalition government committed itself to reducing the level of government expenditure. As part of this programme the Olympic Delivery Authority was asked to find savings of £27m in 2010-11. The public sector funding package was reduced by £27m and now stands at £9.298 billion

Financial Commentary

This is the sixth set of accounts of the OLDF. These accounts are for the year ending 31 March 2011. The primary financial statements and associated notes for the OLDF are set out in these accounts. £107m was raised by the Olympic Lottery during the year. There was £292m transferred during the year from the NLDF to the OLDF. The Olympic Lottery Distributor drew down £357m. Expenses incurred in operating the fund are, under regulations made by the Secretary of State using powers created by section 26 of the Act, to be met from the fund. These expenses cover the costs of the Department for Culture, Media and Sport (DCMS) and CRND, as well as the costs of the NLC for regulating the National Lottery. The balance on the fund at 31 March 2011 is held in investments by the CRND.

Governance of the Fund

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

The accounting officer of the OLDF obtains independent confirmation of the reliability of the assurances provided by the Accounting Officer of the Olympic Lottery Distributor on the adequacy of the distributor's systems from the work of the DCMS Government Olympic Executive and the department's internal auditors.

For 2010-11 the fund was maintained under the control and management of the Secretary of State for DCMS. Monies not immediately required for distribution are invested by the Commissioners for the Reduction of the National Debt (CRND), in accordance with Investment Directions issued by HM Treasury (under section 32 of the National Lottery etc. Act 1993).

Sound management of the OLDF plays a pivotal role in managing the flow of funds between Camelot and the Olympic Lottery Distributor. In managing the fund, the department works closely with the National Lottery Commission (NLC) which regulates the Lottery and ensures, among other things, that the operator makes the correct payments to the OLDF. The Cabinet Office confirmed on 24 September 2010 that the National Lottery Commission and the Gambling Commission will be merged as part of the government's review of public bodies. Work is on-going towards achieving this, but the date for this has yet to be announced.

The OLDF produces an annual account separately to that for the NLDF. These accounts provide the primary accounting statements and notes required by the Horserace Betting and Olympic Lottery Act 2004, and under the Accounts Direction given by HM Treasury. The Act requires that the accounts are examined and certified by the Comptroller and Auditor General and laid, together with his report thereon, before each House of Parliament.

The investment strategy for the OLDF seeks to balance liquidity risks and interest rate risks over the life of the Olympics project. The investment strategy for the fund is informed by the department's review of the Olympic Lottery Distributor's forward commitment profile. During the period of these accounts, the funds invested by CRND have been wholly in cash instruments, primarily to avoid liquidity risks as the OLD was expected to need to make payments to the Olympic Delivery Authority at short notice.

Grant Commitments of the Olympic Lottery Distributor

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

At 31 March 2011, the Olympic Lottery Distributor had hard grant commitments of £590m compared with the balance in OLDF of £152m. As a result the OLD was over committed by £438m. These commitments are expected to be funded by future lottery proceeds up to the date of the Olympics, and by the transfer of funds from the NLDF during 2011-12 of £292m and £136m in 2012-13.

Liquidity Risks

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

Interest Rate Risks

The Financial assets of the OLDF are invested with the CRND which manages its investments. The investments made by the CRND are made in accordance with directions made by HM Treasury and are therefore not controlled by the OLDF. The average return on the investments in the financial year was 0.50%. OLDF is not exposed to any significant interest rate risks because the investments are in cash.

Foreign Currency Risks

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

Staffing and Organisation

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

At DCMS, members of GOE, as well as staff from both Finance and Programmes Teams are engaged part time on OLDF matters. Their staff costs are charged to the OLDF in proportion to the amount of time staff have spent on OLDF duties.

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

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

Operating costs

Expenses incurred in operating the fund (by the DCMS, and CRND) and by the NLC for regulating the National Lottery are met from the fund and totalled £336k for the year, £256k of which relates to the National Lottery Commission. The NLC 2010-11 accounts provide further information on this as well as their role as regulator of the Lottery. These can be found on their website, www.natlotcomm.gov.uk.

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

Disclosure of Relevant Audit Information

As far as the Accounting Officer is aware there is no relevant audit information of which the fund's auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the fund's auditors are aware of that information.

Reporting of personal data related incidents

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

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

As the OLDF is managed and operated within DCMS then full disclosure can be found set out in Table 2 on page 49 of the DCMS Annual Report and Accounts. The DCMS Annual Report and Accounts is available on the DCMS website at <http://www.culture.gov.uk>.

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

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

Important events which have occurred since the year end

These are shown in note 12 to the accounts.

Signed:

1 November 2011

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

Remuneration Report

REMUNERATION POLICY

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

Management and control of the OLDF is vested in the Secretary of State for Culture, Olympics, Media and Sport. Details of the composition of DCMS Ministers and Board and remuneration information may be found in the Remuneration Report of the DCMS Annual Report and Accounts 2010-11 [HC1002] which has been subject to audit, and is available on the DCMS website at www.culture.gov.uk.

Owing to revised [guidelines released by Cabinet Office](#), corporate governance across Whitehall has changed. In addition to cross-Whitehall changes in the composition and role of departmental boards, DCMS has also changed the structure and membership of its other committees. For more details of these changes please refer to the DCMS Annual Report and Accounts

Signed:

1 November 2011

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

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

Under section 33(1) of the National Lottery etc. Act 1993, as amended by section 34(11) of the Horserace Betting and Olympic Lottery Act 2004 and the Transfer of Functions (Olympics and Paralympics) Order 2007, the Secretary of State is required to prepare a statement of accounts for each financial year in the form and on the basis directed by the Treasury. A copy of the accounts direction may be obtained from the finance team, within the Department for Culture, Media and Sport. The accounts are prepared on an accruals basis and must give a true and fair view state of affairs of the OLDF at the year-end and of its income and expenditure and cash flows for the period.

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

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

The Treasury has appointed the Permanent Secretary of the Department for Culture, Media and Sport as the Accounting Officer for the Olympic Lottery Distribution Fund. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of public finances and for the keeping of proper records, are set out in *"Managing Public Money"* – during the year of account the standards in force were set out in the Accounting Officers' Memorandum issued by the Treasury and published in the *"Government Financial Reporting Manual"*.

The Permanent Secretary's responsibilities over the OLDF extend to the receipt of Lottery revenues from Camelot Group plc, their placement with the CRND and disbursements to the Olympic Lottery Distributor. The National Lottery Commission is responsible, using the powers set out in the 1993 Act, as amended by the National Lottery Act 1998, and in the licence granted to Camelot Group plc under section 5 of the National Lottery etc. Act 1993, for ensuring that Camelot Group plc meet their obligations under the licence, including their financial obligations to the Olympic Lottery Distribution Fund. The Permanent Secretary has no locus in operational matters related to the licence.

The department is notified of amounts due to be paid to the OLDF by Camelot; this is overseen by the National Lottery Commission. The commissioners are also required to report after the end of each financial year to the Secretary of State on the exercise of their functions during the year. The Accounting Officer of the commission has provided me with a statement of assurance and in this he outlines the compliance work undertaken at Camelot Group plc during the year ended 31 March 2011 which has led him to be satisfied that the payments to the OLDF during the year to 31 March 2011 are complete and accurate in all material respects.

Signed:

1 November 2011

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

Statement on Internal Control

Scope of responsibility

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

Purpose of the system of internal control

4. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve the fund's purposes; it can therefore provide only a reasonable and not absolute assurance of effectiveness. The system of internal control is based on a continuing process designed to identify and prioritise the risks to the fund, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2011 and up to the date of approval of the accounts and accords with Treasury guidance.

Capacity to handle risk

5. As Accounting Officer I acknowledge my overall responsibility for ensuring the department is committed to high standards of corporate governance, including the effective management of risk throughout the Department.
6. The OLDF follows the DCMS risk management policy and process, as agreed by the DCMS Audit and Risk Committee, which reports to the Board. Both the policy and the guidance are available to all staff via the Department's intranet.
7. The DCMS Risk Management Policy Statement and Guidance defines what "risk" and "risk management" mean and outlines the key principles underpinning the approach to risk management, the hierarchy for managing risks, the risk identification and management process, the roles and responsibilities of staff etc.

8. The Board sets the Department's risk appetite (i.e. the level of risk considered tolerable in the absence of controls) through a grid showing a range of possible impacts and probabilities, and that is used as a guide to help formulate actions to be taken in response to individual risks.
9. The Department has a Risk Improvement Manager (RIM), who ensures that risk management guidance is fit for purpose and implemented across the Department. The RIM introduces best practice to the Department's risk policy as a result of attending the Risk Improvement Group coordinated by HM Treasury and identifying good practice from internal audit contacts in other bodies, results of internal audit reports and discussions with our ALBs. Risk management features in Departmental training courses and one-to-one training sessions on risk for Risk Champions, who promote best practice across the business areas where they work.

The risk and control framework

10. The OLDF maintains a risk register that is reviewed by the Head of Financial Operations. A self-assessment approach to risk identification is used with risks evaluated in respect of both impact and likelihood. As part of the business planning process risks are evaluated and necessary controls identified. Guidance is available on the types of risk that the fund could face. Each significant risk is required to have a contingency plan which identifies the risk "trigger points" which give early warning of the risk materialising. All risks are assigned Risk Owners i.e. someone with sufficient authority to ensure the risk is addressed and that clear responsibility to manage the risk is allocated to specific offices.
11. Staff within DCMS co-ordinate the department's annual lottery assurance review. The department derives assurance primarily from the Statements on Internal Control (SICs) submitted annually by each distributing body. The SICs are required to incorporate specific references to measures being taken by each distributing body to prevent and detect conflicts of interest and fraud. In addition separate letters of representation are requested from each lottery distributor stating their compliance with these measures. Internal audit monitors and audits this process.

Review of effectiveness

12. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control, key elements of which are set out above. My review is informed by:
- Key elements of the Department's governance: the DCMS Ministerial Board, the Executive Board (which has replaced the Executive Committee that was in place at the start of the year) and the Audit and Risk Committee (which supports the Board in its responsibilities for risk, control and governance)
 - The work of the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework
 - Review of distributing bodies' SICs and letters of representation and comments made by internal audit in respect of them
 - Comments made by the external auditors in their management letter and other reports.
13. The following bodies also inform my view regarding the system for the Department as a whole, which also includes the management of the fund:
- The Audit and Risk Committee meets four times a year and supports me in my responsibilities for risk management, control and governance. The chairman sits on the Board, which takes decisions based on the advice received. During the reporting year the committee comprised a non-executive chairman and up to five other non-executive members. Others in attendance include the finance director, National Audit Office and the head of internal audit.
 - The internal audit unit operates to government internal audit standards, and is provided by Communities and Local Government. The unit submits regular reports, which include the head of internal audit's independent opinion on the adequacy and effectiveness of the arrangements for risk management, control and governance, together with recommendations for improvement.
14. Despite all the systems, processes and controls that I have put in place, and which should similarly have been put in place by Accounting Officers appointed for the Department's sponsored bodies, exceptions do occur from time to time. I have emphasised the need to be promptly alerted to them, when that is deemed appropriate, by the respective Accounting Officer and/or by DCMS staff. All such control issues are considered on their own

merits for potential inclusion in this statement. When I conclude that they relate to events that occurred at the sponsored body but which are not within DCMS's direct control, nor likely to be identified when following normal Departmental monitoring and oversight procedures, then I do not consider that they need to be included in this statement – unless their significance is so great as to potentially affect the interpretation of these accounts. Otherwise, I am made aware of their nature and whether they are being reported in the NDPBs' accounts – and will consider whether a general communication on the nature of such control issues is appropriate to inform the department's sponsored bodies, with a view to improving their overall controls and minimising the likelihood of similar issues arising elsewhere.

15. I continue to attach importance to developing and embedding our risk management framework, to ensuring that the assurance process is fully understood by the Department and the Board, to increasing awareness of the importance of robust and internal controls that are monitored throughout the year – and so to increasing the overall reliability that I can place upon the overall system of internal control.

Signed:

1 November 2011

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

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

I certify that I have audited the financial statements of the Olympic Lottery Distribution Fund for the year ended 31 March 2011 under the Horserace Betting and Olympic Lottery Act 2004. These comprise the Statement of Comprehensive Net Income, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

As explained more fully in the Statement of Responsibilities of Secretary of State, Accounting Officer and the National Lottery Commission, the Secretary of State for Culture, Olympics, Media and Sport is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Horserace Betting and Olympic Lottery Act 2004. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. This includes an assessment of: whether the accounting policies are appropriate to the Olympic Lottery Distribution Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Olympic Lottery Distribution Fund; and the overall presentation of the financial statements.

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

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Olympic Lottery Distribution Fund's affairs as at 31 March 2011 and of its increase / increase in funds available for the year then ended; and
- the financial statements have been properly prepared in accordance with the Horserace Betting and Olympic Lottery Act 2004 and HM Treasury's directions issued thereunder.

Opinion on other matters

In my opinion:

- the information given in the Management Commentary 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
- the financial statements are not in agreement with the accounting records or returns; or

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

24 November 2011

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

Statement of Comprehensive Net Income for the year ended 31 March 2011

	Note	2010-11 £000	2009-10 £000
Income			
National Lottery	2	106,849	86,458
Transfer from NLDF	2	292,000	292,000
Investment Income	3	886	934
Total Income		399,735	379,392
<i>Less: Operational Costs</i>			
Department for Culture, Media and Sport	4	37	63
National Lottery Commission Grant in Aid	5	256	302
Other Expenses	6	43	43
		336	408
Net Realised Income for Distribution		399,399	378,984
Amounts authorised for payment to the Distributing Body		(357,110)	(382,583)
Increase/(decrease) in Amounts Held for Distributing Body		42,289	(3,599)
Balance brought forward		109,310	112,909
		151,599	109,310

All transactions are in respect of continuing operations.

OLDF has no recognised gains or losses in year other than those that appear in the statement on comprehensive net income.

The notes on pages 16 to 22 form an integral part of these accounts.

Statement of Financial Position as at 31 March 2011

	Note	2010-11 £000	2009-10 £000
Current Assets			
Receivables	7	1,520	1,063
Investments held by CRND at fair value	8	150,141	108,304
Cash at Bank and in Hand		-	-
Total current assets		<u>151,661</u>	<u>109,367</u>
Current liabilities			
Payables: Amounts falling due within one year	8	(62)	(57)
Total assets less liabilities	8	<u>151,599</u>	<u>109,310</u>
Represented by:			
Statement of comprehensive net income: amounts held for the Distributing Body	8	<u>151,599</u>	<u>109,310</u>

The notes on pages 16 to 22 form an integral part of these accounts.

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

1 November 2011

Statement of Cash Flows for the Year Ended 31 March 2011

	Note	2009-10 £000	2008-09 £000
Cash flows from Operating Activities			
Cash received from Lottery operator		106,392	85,891
Transfer from NLDF		292,000	292,000
Cash paid for operating expenses		(331)	(777)
Cash paid to Distributing Body		(357,110)	(382,583)
Net cash inflow/(outflow) from operating activities	9	<u>40,951</u>	<u>(5,469)</u>
Cash flows from investing activities			
Cash Paid to CRND for Investment		(398,061)	(377,114)
Cash received from CRND for distribution		357,110	382,583
Net cash inflow/(outflow) from investing activities		<u>(40,951)</u>	<u>5,469</u>
Net increase/decrease in cash		<u>-</u>	<u>-</u>

All investment income is re-invested by the Commissioners for the Reduction of the National Debt.

The notes on pages 16 to 22 form an integral part of these accounts.

Notes to the Financial Statements

1 Statement of Accounting Policies

Basis of Accounting

These accounts have been prepared in accordance with the Accounts Direction given by the 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 context.

The particular policies adopted by the fund are described below.

Accounting convention

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

Nature of Account Balances

Balances held in the OLDF remain under the stewardship of the Secretary of State. The amount attributable to the 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 as being available for distribution by the body in respect of current and future commitments.

Recognition of Lottery Income

Proceeds from the Lottery due to the OLDF from the operator, Camelot Group plc, are calculated on an annual basis as set out in the Section 5 Licence. Payments are made to the OLDF 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 2010 in respect of all draws up to and including 31 March 2011.

The lottery primary contribution also includes income due to the OLDF from the sale of scratchcards. Under the terms of the licence, income is collected by Camelot and paid to the OLDF on packs of cards once a pack becomes settled. The retail value of each pack is £120. This occurs 30 days after a pack is activated or once 60% of the low tier prizes have been won, whichever is the sooner.

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

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

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

Interest on the player's trust fund is recognised in the accounts on an accruals basis.

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

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

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

Recognition of Amounts Drawn by Distributor

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

Investments

Investments held by the CRND are valued in these accounts at fair value at 31 March 2011, these accounts only disclose the cash flows for the movement of cash between CRND OLDF and the lottery distributors.

HM Treasury has directed CRND, under sections 32(1) and 32 (2) of the 1993 ACT that the OLDF income 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 their absolute discretion, determine.

Having taken account of DCMS's wish to avoid negative income returns over a 3-month period, but without prejudice to their absolute discretion, CRND intend to exercise their investment powers in accordance with the investment framework.

Each quarter, DCMS reviews the investments in partnership with CRND.

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.

Balances held at the OLDF are adjusted to fair value 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 interest account.

Receivables are recognised at carrying value, reduced by appropriate allowances for estimated irrecoverable amounts. Payables are short term and are stated at carrying value in recognition that these liabilities fall due within one year.

No prior year adjustment is required as a result of the implementation of these reporting standards.

Impact of new IFRS and Financial Reporting Manual Amendments

The following new, revised or amended IFRS and FReM amendments will become effective for future reporting periods, and have not been adopted early in these financial statements:

- IFRS 9 Financial Instruments (effective date 1 January 2013)
- IAS 24 Related Party Disclosures
- FRAB(98)06B and FRAB(103)05: Alignment of budgets, Estimates and accounts
- FRAB(101)05: IAS20 and IAS 16: Accounting for Capital Government Grants and Similar Financing

Under IFRS9 financial assets should be classified on the basis of the entity's business model for their management and their contractual cash flow characteristics. They should be measured at fair value and subsequently at either fair value or amortised cost. IFRS9 simplifies the clarification and measurement of financial assets, removing the numerous categories of financial assets specified in IAS 39 and resulting in one impairment method.

IAS 24 Related party disclosures simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government. Application of the revised IAS 24 is required for any reporting period beginning on or after 1 January 2011.

There are no other standards and interpretations in issue but not yet adopted that the department anticipates will have a material effect on future reporting periods.

2. Income from Lottery Activities

	2010-11	2009-10
	£000	£000
Basic Contribution from Lottery Operator under licence	103,293	77,529
Camelot adjustment ¹	(66)	-
National Lottery Promotion Unit ²	(70)	(65)
New Media Sales	-	(209)
	<hr/>	<hr/>
Primary Contribution (see note below)	103,157	77,255
Unclaimed Prizes	3,585	9,091
Interest on Players Trust Fund	-	-
Penalties on lost and stolen tickets	92	112
Income from Ancillary Activities	15	-
	<hr/>	<hr/>
	106,849	86,458
Transfer from National Lottery	292,000	292,000
	<hr/>	<hr/>
	398,849	378,458

Under the Licence to run the National Lottery, Camelot is allowed to recover certain amounts from the Primary Contribution figures. These adjustments are divided between the NLDF and OLDF in proportion to ticket sales

¹ This adjustment was made in accordance with the conditions of the third licence competition. Flexibility around recharge arrangements was included in the tender contract to ensure a fair competition, and with the aim of enhancing future yields to maximise value to good causes. Further details can be found in the tender document for the third licence, available at

www.natlotcomm.gov.uk/assets-uploaded/documents/Invitationtoapplyforthethirdlicence

² This recovers the OLDF share of the combined NLDF/OLDF contribution to the National Lottery Promotions Unit (NLPU).

3 Investment income

	2010-11 £000	2009-10 £000
Interest received on investments	<u>886</u>	<u>934</u>

The investment objective for OLDF is to protect the capital of the fund and to provide for the Olympic Lottery Distributor's liquidity needs. The range of permitted investments is restricted to those contained within a direction made by HM Treasury, and is implemented by CRND.

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

4 Operational Costs: Department for Culture, Media and Sport

	201-11 £000	2009-10 £000
Staff Costs	10	21
Other costs (including audit)	27	42
Interest Received on investments	<u>37</u>	<u>63</u>

The external auditor's remuneration for the year was £23,500.

In 2010-11 five members of DCMS were engaged on OLDF matters. Their staff costs are charged in proportion to the amount of time they spend on OLDF duties. There was a reduction in the time spent on OLDF matters by DCMS staff, which has reduced the operational costs.

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

Similarly a share of the Central Service Costs incurred by DCMS has been charged on the basis of the number of DCMS staff engaged on OLDF matters as a proportion of the total number of DCMS staff.

5 Reconciliation of National Lottery Commission Operational Costs

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

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

	2010-11	2009-10
	£000	£000
Gross share of costs	266	302
Lottery Operator licence fee Income	(10)	(5)
	256	297

The total Grant in Aid paid to the National Lottery Commission was £4,521k with a total of £48,400 received by DCMS in operator licence fee income. The split between the NLDF and the OLDF is as follows:

	NLDF	OLDF	Total
	£000	£000	£000
Grant in Aid paid to NLC by DCMS	4255	266	4,521
Lottery Operator licence fee income	(38)	(10)	(48)
Amount recoverable by DCMS	<u>4,217</u>	<u>256</u>	<u>4,473</u>

6 Other expenses:

	2010-11	2009-10
	£000	£000
Commissioners for the Reduction of the National Debt	<u>43</u>	<u>43</u>

This is the amount paid to the CRND for management of the OLDF Investment Fund Account.

7 Receivables:

	2009-10	2008-09
	£000	£000
Ticket sales income due as a result of draws prior to year end	1,520	1,049
Investment income	-	14
	1,520	1,063
Intra-government balances		
Balances with bodies external to government	1,520	1,049
Balances with other central government bodies	-	14
	1,520	1,063

8 Balance on Olympic Lottery Distribution Fund

	at 31 March 2011		at 31 March 2010	
	Cost	Fair Value	Cost	Fair Value
	£000	£000	£000	£000
Investments held by the CRND	150,141	150,141	108,304	108,304
Receivables (note 7)	1,520	1,520	1,063	1,063
Payables	(62)	(62)	(57)	(57)
Balance held	151,599	151,599	109,310	109,310
Payables: Intra-government balances				
Balances with other central government bodies	(62)	(62)	(57)	(57)

Payables consist of £32k for DCMS operating costs and £30k for the NLC recovery of grant in aid .

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

During the period, all investments held by CRND on behalf of the OLDF – other than a small Ways and Means cash balance - were held as Call Notice Deposits. Funds held by CRND in these asset classes would meet the definition of cash under IAS 7 if they were held directly under the control of the Secretary of State as they are repayable on demand within one working day.

The call notice deposits are demand deposits with the Debt Management Account & the National Loans Fund (NLF).

The funds are actually held at arm's length by CRND in a revolving investment fund i.e. investment returns re-invested directly into the fund. Thus, while the instruments held are highly liquid cash equivalents, the balance held is treated as an investment rather than as cash in accordance with IAS7.

For further details on the investing activities of CRND please refer to the Olympic Lottery Distribution Fund Investment Account published by CRND.

9 Reconciliation of Increase in Amounts Held for Distributing Body as disclosed in Statement of Comprehensive Net Income with Net Cash Inflow from Operating Activities.

	2010-11	2009-10
	£000	£000
Increase/(decrease) in amounts held for distributing body	42,289	(3,599)
Less Investment Income	(886)	(934)
	41,403	(4,533)
(Increase)/decrease in lottery operator receivables	(457)	(567)
Increase/(decrease) in prepayment to DCMS for reimbursement of NLC costs	-	(366)
Increase/(decrease) in payables for operating expenses	5	(3)
Net cash inflow/(outflow) from operating activities	40,951	(5,469)

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

10 Financial Instruments

IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments: Disclosure 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.

Short term Receivables/Payables

As permitted by IFRS 7, receivables and payables which mature or become payable within 12 months of the balance sheet date have been omitted from this note.

11 Related Party Transactions

The OLDF is maintained under the control and management of the Secretary of State for DCMS. The DCMS is considered to be a related party. During the year, a number of staff employed by the DCMS worked on OLDF related activities and the fund used a number of the assets owned by DCMS. These costs were recharged to the fund by DCMS and are reflected in Note 4 of the accounts. DCMS is also the sponsoring department of the Olympic Lottery Distributor and the Olympic Delivery Authority which is the principal recipient of funding from the Olympic Lottery Distributor.

London 2012 Ltd was a related party since the former Secretary of State was a member of the company. London 2012 Ltd (a company limited by guarantee) was created to organise the UK bid for the Olympic and Paralympic games in 2012. Having achieved that objective it was dissolved on 27 April 2010.

The London Organising Committee of the Olympic Games and Paralympic Games Limited is a related party as the Secretary of State is a member of the Company.

The Olympic Park Legacy Company Limited was incorporated on 8 May 2009 as a not for profit company limited by guarantee. Its purpose is to plan, develop and maintain the Olympic Park and those facilities it will own after the London 2012 Games. The Government members at 31 March 2010 were the Secretary of State for Communities and Local Government and the Minister for the Olympics.

During the year the OLDF received £292m from the NLDF. The NLDF is under the management and control of the Secretary of State for DCMS, as such it is regarded as a related party.

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

No Minister, Board member, key manager or other related parties has undertaken any material transactions with the OLDF during the year.

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

12 Events after the reporting period

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

Work is ongoing with respect to the proposed merger of the National Lottery Commission and the Gambling Commission.

The Departments broad structure has changed in 2011-12. The Executive Board will provide support to the Accounting Officer.



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ISBN 978-0-10-297525-3



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