

sixty years
celebrating
the arts



annual review 2006

**National Lottery etc Act 1993
(as amended by the National Lottery Act 1998)**

Presented pursuant to section c39, section 35 (5) of the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998) for the year ending 31 March 2006, together with the Report of the Comptroller and Auditor General thereon.

**Arts Council England grant-in-aid and
lottery annual report and accounts 2005/06**

Ordered by the House of Commons to be printed 18 July 2006

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A list of grants offered during 2005/06 is available from our website.

welcome

Arts Council England works to get more art to more people in more places. We develop and promote the arts across England, acting as an independent body at arm's length from government.

Between 2006 and 2008, we will invest £1.1 billion of public money from government and the National Lottery in supporting the arts. This is the bedrock of support for the arts in England.

We believe that the arts have the power to change lives and communities, and to create opportunities for people throughout the country.

For 2006 to 2008, we have six priorities:

- taking part in the arts
- children and young people
- the creative economy
- vibrant communities
- internationalism
- celebrating diversity

chair's report

In Arts Council England's 60-year history, there can rarely have been a year like this, when the nature of our arts funding and development system has been under such close scrutiny.

We have seen the publication of a plethora of papers and books from academics and think tanks of various political persuasions. In addition, we faced our first independent Peer Review, led by Baroness McIntosh of Hudnall.

Central to these debates has been the role of the Arts Council and the future of the 'arm's length' principle. Some based their arguments on a perception that government has shackled the arts to a list of social policy goals and bureaucratic targets. Often, they argued, these goals and targets have little to do with creative process or the value that the public gains from the arts. A few went so far as to suggest that the arm's length principle, which since 1946 has guaranteed the independence of funding decisions from political interference, may have outlived its usefulness.

Having been in the front line of those who have raised concerns about the danger of political encroachment on the arm's length principle, I can say with real optimism that this year was the year when the tide flowed again – and strongly – in favour of the principle. The Peer Review emphatically backed the continuation of Arts Council England as an arm's length agency and the Rt Hon Tessa Jowell MP, Secretary of State for Culture, Media and Sport, gave that her wholehearted and public support. In principle, and in practice, it works.

Wherever you stand in relation to these arguments, one thing is certain – cultural policy is no longer a backwater of political thinking. The interface between government, its agencies, and the arts and creative industries is an area of debate finally beginning to take its rightful place alongside the other big contested issues in public life.



Sir Christopher Frayling
Photo: Piers Allardyce

We will take an even more central role in these debates in future. There is much to discuss – the importance of creativity and innovation to our place in the global economy, the politics of wellbeing and happiness, national identity, freedom of expression, a cultural foreign policy – the list goes on.

There is much else to celebrate this year. The public consultation on the National Lottery good causes has resulted in the Government announcing that the arts will continue to benefit from the lottery for another 10 years – providing more than £1 billion for arts projects throughout England. The current golden age for the arts is set to continue. Our artists and arts organisations have had yet another great year.

Apart from *The Sultan's Elephant* in spring 2006, my favourite personal arts experiences of the year happened at Arthur Miller's *The Crucible* by the Royal Shakespeare Company, watching contemporary dance at Sadler's Wells, in the main concert hall at The Sage Gateshead and in various ways celebrating the centenary of $E=mc^2$. In 2005/06, it has definitely been a case of $E=ACE$.

The coming year will have many challenges. Making the case for enhanced public investment in the arts to government and others will be a major issue for us and our partners. But, we can address these challenges with renewed confidence and optimism. How many public bodies can honestly say, hand on heart, that they combine national policy and regional delivery in such efficient, effective and creative ways?

Sir Christopher Frayling, Chair

chief executive's report

The last year has again been one of change and challenge for Arts Council England. We assessed our achievements and operations and identified some new priorities for the coming years.

Personally, I was lucky enough to be able to spend the first few months of 2005 stepping outside my 'day job' to take stock of the past, present and future of the Arts Council. I returned from my strategic 'time out' refreshed, stimulated and excited by the challenge ahead.

I came back convinced that the Arts Council has achieved a huge amount in 60 years and that to have maintained impact and relevance we have had to constantly change. But just as clear was the need to adapt again to meet the new challenges of the next 10 to 15 years.

All this was confirmed by a Peer Review of the Arts Council that took place in summer 2005. Commissioned jointly by the Department for Culture, Media and Sport and the Arts Council, the Peer Review looked at our strengths and weaknesses, achievements and progress and identified opportunities for the future.

The review team recognised our role in shaping the national artistic and cultural landscape, crediting us for 'the increased vibrancy of the arts sector and the greater centrality of arts in national life'.

But the review also gave pointers for further positive change. The team encouraged us to build on the progress made since our merger with the regional arts bodies and become even more a national development agency for the arts in England. A lead body for the arts with authority and impact, one whose voice is heard by – and listened to – not just government but every part of national public life.

The Arts Council has always had a dual responsibility: to develop and improve the practice of the arts and to increase accessibility of the arts. Arguably for the last 60 years we have focused more on the first side of that equation – investing in and supporting artists and arts organisations. Now is a good time to start to redress that



Peter Hewitt
Photo: Piers Allardyce

balance and to invest in and support audiences and participation in the arts. This is reflected in a new ambition, which sets the tone for our work for the next two years: to put the arts at the heart of national life and people at the heart of the arts.

Which is why one of our main themes for the next two years is to encourage more people to take part in and engage with the arts. New technology and the way people interact with it require us to re-think what we mean by traditional phrases like 'attendance' and 'participation'. There are tremendous opportunities to find new ways for audiences to enjoy and participate in the arts and for artists to create in different ways.

We also need to connect better with the public – and other stakeholders – and find new ways to listen to and understand them and their expectations and aspirations for the arts. So later in 2006 we will launch a major debate – a public value exercise, talking with and listening to a wide range of people and testing with them what we stand for and what we should prioritise in the future. The findings will refresh our purpose and inform our long-term direction and objectives.

Near the end of 2005, we contributed to the government's comprehensive spending review looking at the period since 1997. This process gave us a valuable opportunity to assess our performance and achievements. And the story that emerged is one of a sustained increase in government investment, matched by reform and delivery within the Arts Council and across the arts, resulting in massive achievements and real progress. In fact, arts and culture have never been better.

Our objective now must be to build on that remarkable success. We must make the case to government and beyond, that arts and culture have an enormous and still untapped potential to inspire the nation and deliver tangible benefits to our children, our communities and our wider society.

Peter Hewitt, Chief Executive

grants for the arts

Grants for the arts is our major open application programme for individuals and organisations. Grants for organisations and for national activities are funded by the National Lottery.

There are examples of work funded by Grants for the arts throughout this annual review, including Peterloo Poets on page 8, the Artists' Resource Centre on page 14 and the Castleford heritage group on page 20.

Grants for the arts in figures

	Year two 2004/05	Year three 2005/06
Number of applications received	9,442	9,484
Number of grants made	4,692	4,707
Total awarded	£69.4 million	£81.7 million



Mrs Gibson's Coat, by Janet Vaughan, one of five artworks created to mark completion of The Herbert Gallery's first phase of development. This unique collaboration between Coventry Arts and Heritage and Coventry Artspace was part funded by Grants for the arts. Photo: Janet Vaughan

taking part in the arts

Navigate Live Arts Festival

Navigate was a four-day festival of live art with 'navigation' as the theme: mapping real and virtual geographies, the body as site, navigating data within digital media, and navigating time across physical and emotional space.

This unique and dynamic festival took place aboard Stubnitz, a German ship that travelled to the Tyne for the festival, at BALTIC and on a coach touring throughout the region.

The festival from June to July 2005 attracted important international artists

and critics, and premiered work from artists such as Karen Finley, André Stitt and Kira O'Reilly.

Produced by amino, BALTIC Centre for Contemporary Art, Forma and Michelle Hirschhorn, Navigate was funded through the Urban Cultural Programme and NewcastleGateshead Initiative Culture10, and supported by motorschiff Stubnitz.

Melati Suryodarmo performs *Exergie – butter dance* at the Navigate Live Arts Festival.
Photo: Manuel Vason





Baljinder Bhopal reading from *Transitions*, at Page meets Stage, an event hosted by Peterloo Poets and Apples & Snakes at the Old Chapel, Calstock, Cornwall. Photo: Kevin Clifford

Using technology to champion poetry

In November 2005, the **Poetry Archive** launched a national online collection of recordings of poets reading their own work.

The brainchild of Andrew Motion, UK Poet Laureate, and recording producer, Richard Carrington, the recordings make poetry accessible, relevant and enjoyable to a wide audience. Enabling access to poets' own interpretation of their works gives a uniquely illuminating experience that can re-energise the teaching of poetry at all levels.

This Gloucestershire-based resource grows continually as old recordings are discovered and new ones made. The Poetry Archive receives regular funding from us.

One of the few remaining independent poetry presses in the country, **Peterloo Poets** in Cornwall, was founded and is still run by former English lecturer Harry Chambers. To date, the press has published nearly 200 volumes of poetry by 125 authors, together with numerous anthologies and the house journal *Poetry Matters*.

Peterloo aims to publish quality work by new and neglected poets and is expanding into online publishing as a way of increasing exposure. Online publishing is a cost effective solution to help manage the thousands of new manuscripts received, without risking large financial outlay for print.

Peterloo Poets receives Grants for the arts funding.

Worldbench

Worldbench is a commissioned art installation by internationally acclaimed artist, Greyworld. It was launched by Creative Partnerships Durham Sunderland and Creative Partnerships London South simultaneously. The launch took place at Southwick Primary School in Sunderland and at the Mayor's office in London with young people and teachers from Sandhurst Junior School in Lewisham.

The installation uses an ordinary park bench placed with one end touching a wall in a public place such as a canteen, an office or a school playground. A video image projected onto the wall next to the bench shows the bench continuing into the distance. By sitting on the park bench and watching the screen, a pupil sitting in a school playground in London can talk with a pupil in a playground in Sunderland. They can chat over their lunch as if they were sitting on the same park bench in the same place.

This exciting project has huge potential for people to exchange knowledge, build friendships and practise using new technology.

Arts and sport research

Almost three quarters of year 9 pupils in the north west take part in arts activities in school and during lessons. The same number takes part in arts activities outside school informally with friends. One quarter are active members of an out-of-school arts club or programmed activity. One in six belongs to a dance club.

The 2004 Arts and Sport study provided a unique, large scale insight into the regular participation of school pupils in a broad range of cultural activities. The study emphasised the huge opportunities for young people to benefit from the crossover between creative and health agendas – the common commitment to self-esteem, creativity, and healthy bodies and minds.

The north west is already profiting from these findings with their commitment to dance organisations such as the regularly funded Cultural Fusion – which provides creative spaces and support for young people to sing, dance and make music – and Games without Frontiers – a project that combined a youth sports event with arts performances.



Getting people reading

Quick Reads is a collaboration aimed at people who have stopped or have difficulty reading. In 2005/06, Arts Council England granted £50,000 further funding on top of initial funding for the project.

Tony Blair, the Prime Minister, launched Quick Reads in March 2006. Short books from authors including Ruth Rendell, Joanna Trollope and Minette Walters sell for £2 each.

The Premier League Reading Stars

supports a series of family reading groups at libraries across the country. Players recommend books, such as Roald Dahl's *Matilda*, recommended by Steven Caldwell of Sunderland. This is a partnership between the Football Foundation, the National Literacy Trust, the Premier League and the Arts Council.

Get London Reading encourages Londoners to make more time for books. The campaign is managed by Booktrust, which receives over £238,000 each year from the Arts Council to support core operating costs. It works with Transport for London, the Mayor of London, Creative London, Rough Guides and London Book Fair to bring stimulating promotions and events to London.

A Book for Every Londoner is a series of free activities in the capital's libraries, organised by the London Libraries Development Agency (LLDA), which receives regular revenue funding of £30,000 from the Arts Council to support reader development.

David James, Manchester City Football Club, at a Premier League Reading Stars event in The Blue Zone Study Support Centre, City of Manchester Stadium. Photo: Fabio De Paola



Prigates the company

The journey
starts with

just
one
step



children and young people

Children's books and theatre

2005/06 saw three openings of major venues for children's art.

In August, Britain's only centre dedicated to celebrating children's books – **Seven Stories** – opened its doors. The £6.5 million project converted a Grade II listed Victorian granary into a modern, family-friendly art gallery and interactive centre in the heart of Newcastle. It houses a nationally important collection of books, manuscripts, original artwork and related media for children, focusing on work created in post-war Britain.

In December, **Unicorn Theatre** opened a purpose-built theatre for children. The stunning £13 million building in Southwark, London, includes two theatre spaces, an education studio and a cafe, and has a pedestrianised path to the Thames. The architecture is both impressive in its own right and rich in child-scale detail. This reflects Unicorn's belief that theatre for children should have the same high standards as theatre for adults. The theatre will play to over 100,000 children each year.

The £3 million **egg theatre** – so named for its egg-shaped auditorium – also opened in 2005/06. Part of the Theatre Royal Bath, it is the first dedicated theatre space for children and young people in the south west and welcomed over 4,000 visitors in its first month.

Left: Scarabeus Total Theatre Company at the official opening of Seven Stories, the Centre for Children's Books. Photo: Critical Tortoise

Artsmark

Artsmark recognises schools that have made a strong commitment to the arts.

In June 2005, we awarded nearly 1,200 Artsmarks, in the fifth round of this national award for schools. The highest number yet brought the total of Artsmark schools to 3,067. Nationally, 13 per cent of schools hold an Artsmark – 10 per cent of primary schools and 31 per cent of secondaries.

Of the 165 schools receiving the award in the West Midlands, nearly half attained Artsmark Gold for providing an excellent range of arts opportunities. Castle Special School in Walsall showed how the arts are applied across the curriculum when, for example, pupils learnt about forensics by actors presenting a science-based mystery. Motivating techniques like these have noticeably enhanced the confidence, behaviour and listening skills of pupils with moderate learning difficulties.

Young people's dance

Dance is increasingly popular for young people, but many parts of the country lack sufficient teachers and leaders. In November 2005, we awarded the largest yet of our Grants for the arts for national activities to support the development of dance for young people in England.

£635,000 has been awarded to Youth Dance England, over two years, for their programme **Next Steps**. Next Steps will bring together nine dance organisations, one from each region of England, to improve the opportunities available for young people and consolidate these for the future.

A recent success in dance for young people was the site-specific performance of music and dance *Amu*, in Durham Cathedral,

February 2006. Choreographed by Wayne McGregor, it was inspired by the sound and images of the living human heart, representing both humanity and the divine.

The schoolchildren performed in the cathedral, to Northern Sinfonia playing Sir John Tavener's score. This was the culmination of a year-long project between Creative Partnerships Durham Sunderland, Random Dance, DanceCity and five local schools. International fashion designer Shelley Fox worked with the young dancers to design and create their costumes.

Amu, at Durham, performed by Random Dance and children from Creative Partnerships Durham Sunderland. Photo: Marcus Ginns



Arts Award

The young people's Arts Award launched in October 2005. David Lammy MP, Minister for Culture, spoke at a lively event at the Royal Opera House, London, alongside performances and exhibitions from young people who had taken part in the two-year pilot.

The Arts Award is the first accredited award scheme to recognise how young people develop as artists and arts leaders. Participants get credit for their own arts achievement and for helping others to enjoy their favourite artform by organising arts projects. They choose what they want to explore and achieve, and plan their programme with ongoing support from an Arts Award adviser.

The award is for young people aged 11–25 of all abilities and backgrounds, and can be taken at Bronze, Silver and Gold levels, which are accredited at levels 1, 2 and 3 on the National Qualifications Framework. Arts Award centres may be arts organisations, schools, colleges, youth projects or community groups and are supported through regional agencies.

The award is run in partnership with Trinity Guildhall, which manages and quality assures the programme, and supported by Canon (UK) Ltd, which helps raise the profile of the award and provides equipment to support its delivery. Celebrities endorsing it include Graham Norton, Joanna Lumley, Siobhan Davies, John Hegley, Benjamin Zephaniah, Simon Pegg and Sam Taylor-Wood.



Original Heroes, a breakdance collective based in Bradford, performs at the national launch of the young people's Arts Award, Royal Opera House, October 2005. Photo: John Nassari

the creative economy

Helping artists to be successful

We develop partnerships that help artists contribute to the creative economy. In the south east, this work is going from strength to strength.

In 2005, we secured funding from the Department for Trade and Industry through the Phoenix Fund to roll out the **Creative Industries Business Advisory Service** (CIBAS) to six locations across the south east. CIBAS provides one-to-one bespoke business advice and guidance from specialist business advisors, as well as local networking events and seminars. It is for artists, creative practitioners and businesses, and deals with specific issues that arise from artistic and creative practice within a business context.

The **Artists' Resource Centre** (ARC) at Aspex Gallery in Portsmouth has been granted £99,000 from Grants for the arts to develop ARC+, a new professional development initiative for artists and artist-led organisations in the south east. This project will run a two-year programme at four partner organisations: the De La Warr Pavilion, Bexhill-on-Sea; the Oxfordshire Visual Arts Development Agency (OVADA) in partnership with Modern Art Oxford; South Hill Park, Bracknell; and Turner Contemporary, Margate.

Visitors at Contemporary Applied Arts, London, a member of the Own Art scheme.
Photo: Mark Wilkinson

Own Art in 2005/06

- Over 2,600 people used the Own Art interest free loan scheme in 2005/06
- These purchases were worth more than £2 million, up 30 per cent on the previous year
- The number of galleries applying for membership increased steadily, with 260 registered across England in October 2005 and many more expected throughout 2006
- Eighty per cent of its customers felt that Own Art had enabled them to make purchases that they otherwise could not have afforded
- Twenty-nine per cent of customers were first time buyers of contemporary art or craft, showing that the scheme successfully attracts new buyers to the market

The growing popularity of this Arts Council scheme has been reflected in ongoing press interest. In January 2006, we announced that Own Art would be rolled out in the London area, focusing on galleries under five years old to help them establish their client-base.





Nicholas Daniel, Britten Sinfonia's Principal Oboe and curator for the 2005 lunchtime concerts.
Photo: Patrick Harrison

Music in the East

In our East office, the talent initiative **Escalator** works across all artforms to identify and support the most talented regional artists and help them develop sustainable careers in the creative industries.

Run by a team of industry professionals, Escalator Music helps emerging rock and pop artists, providing expertise with all aspects of the business from production and record label management to public relations. Artists are chosen from each area in the region and mentored and supported to achieve their professional goals, and to promote their work to a wider commercial audience.

As well as offering artists the opportunity to make the move from passion to profession, Escalator Music is building shared knowledge in the region and encouraging a more integrated way of working between the industry specialists, creating an infrastructure for the future.

Escalator Music also supported an exciting programme of lunchtime concerts with **Britten Sinfonia**, broadcast on BBC3. The 2005 performances, curated by Nicholas Daniel, featured new pieces commissioned from composers with links to the East of England, alongside pieces that influenced their creation.

Since 2004, **Amplifier** has been transforming the opportunities for young people aged 11 and upwards to get involved in rock and pop. It will give 2,000 workshops over three years. Amplifier focuses on all aspects of the industry, from playing an instrument to recording and stage technique, and explains to aspiring musicians how the music industry really works.

Rural strategies

In 2005, we focused on the needs of artists and arts organisations in rural areas. We are committed to enabling a growth in the scale, reach and confidence of the arts in rural England.

In the **East Midlands**, market towns such as Wirksworth in the Derbyshire Dales have faced big challenges in recent years due to the decline of traditional industries such as farming, quarrying and textiles. At the same time, the area has attracted a thriving community of artists, who have taken over redundant buildings, started new enterprises and launched a festival that has helped re-energise the community.

Puppetcraft performing *The Pied Piper* for a family audience in the Memorial Hall, East Ogwell. Promoted by Villages in Action, one of our regularly funded organisations. Photo: Chris Saville at Apex



Nationally there are 37 touring schemes working with professional companies, artists and performers to offer events in rural communities. In the **south east** since 2004, 22 new communities have promoted theatre in villages – further evidence that our rural strategy is helping communities develop their own sense of creativity and place, and flourish through the arts.

In 2005, Villages in Action, a rural touring scheme in Crediton, Devon, ran an innovative participatory project in five villages across Devon. The villages worked with three professional artists to produce a performance, event or exhibition celebrating Devon's links with other parts of the world. Events ranged from a drum festival with Karen people from the UK and Thailand, to a Spice of Life festival in South Brent. Six of the seven rural touring schemes in the **south west** receive regular funding and many individual performances and events also receive grants.

There are thousands of high quality arts events taking place in rural and other communities, extending access to the arts to tens of thousands of people who may have only limited access to live performance. These events play an important part in the social life of rural and other small communities. See our 2005 publication *Arts in rural England* for more details.



Artist Anthony Whishaw RA (Royal Academician) at Acme Bonner Road Studios, Bethnal Green, London, during Arts Unwrapped 2005. Arts Unwrapped was created and funded by Creative London with the Arts Council and ASC Studios. Photo: Dave King

Open studios

In November 2005, CIDA, the creative industries development agency based in Huddersfield, Yorkshire, organised and managed **HOST:05**, the Huddersfield open studio trail. **HOST:05** allowed the public a rare opportunity to see inside local artists' studios. The event spread across eight venues, bringing a varied and enriching experience to both artists and audiences.

Arts Unwrapped, an Arts Council and Creative London initiative, brought together exhibitions and events in studios across London in November and December 2005. It was the largest event of its kind in Europe.

The Project Director, Ms H Dunn, says, 'Open studio events give artists an opportunity to show and sell their work... they offer visitors a rare chance to see the creative process at work... It makes sense to capitalise on the skills and vision they bring to our city.'

Acme Studios, founded in 1972, provides over 400 studios for London artists. There is huge demand, with over 3,500 artists on waiting lists for affordable London studios. In 2005, we awarded Acme Studios a £2 million capital grant to increase artists' studio space in London.

vibrant communities

Urban Cultural Programme

Cities across England are at the centre of an exciting programme of events that encourages new collaborations and opportunities within regions funded by the Urban Cultural Programme.

We set up the Urban Cultural Programme with the Millennium Commission, allocating £15 million of National Lottery funds to support cultural projects in urban areas across the UK.

In June 2005, Derby, Leicester and Nottingham collaborated on Three Cities Create and Connect. This helped fund the first ever International Festival of Children's Theatre and Dance across the three cities with performers from Italy, Canada and Germany. Other initiatives support carnival stars from the Caribbean to undertake residencies and

community workshops, a summer urban music series, and *Under Scan*, the world's largest interactive video installation.

In the south east – Brighton and Hove, Canterbury and Oxford – Urban Cultural Programme initiatives have also been successful with projects such as:

- *The Friend Ship* – an array of activities touring schools in the region
- *Make it Real* in Canterbury, which supports 19 performing and visual arts projects such as the youth-focused Mozart Now
- *Evolving City*, exploring today's Oxford as a more complex, interesting and contradictory place than the image generally portrayed
- *making a difference*, a range of projects and festivals in Brighton and Hove to improve the environment and develop the arts scene in the area





Outhouse by Vong Phaophanit and Claire Oboussier, Liverpool Housing Action Trust project. Photo: Hannah Jamieson

Left: *Under Scan* by Rafael Lozano-Hemmer. Installation at Lincoln University, November 2005. Photo: Richard Cannon

Under Scan was a £750,000 investment from emda to celebrate Cultural Quarters across the East Midlands. The project was also financially supported by Arts Council England and Three Cities Create and Connect.

Liverpool Housing Action Trust

Liverpool Housing Action Trust was set up by the government in 1993 to improve or redevelop the high-rise blocks across Liverpool over 12 years. Since 2000, it has commissioned and managed a number of groundbreaking arts projects with Modus Operandi and creative organisations in Liverpool. We awarded it £30,000 from Grants for the arts for these projects.

Two of these commissioned projects are *Outhouse* and *Light Signatures*. *Outhouse* is a pavilion-like sculpture by Vong Phaophanit and Claire Oboussier, in collaboration with architect Andrew Brown, based on two-storey houses developed for Woolton by architects The Owen Ellis Partnership.

Light Signatures, by Andrew Holmes, is a contemporary memorial to local figures who have influenced the life and culture of Liverpool. The signatures of these citizens are projected onto four perimeter sites at Sefton Park and at dusk appear as if written in light. This project is to be further developed for Liverpool's 2008 European Capital of Culture year.

Castleford regeneration project

We are supporting collaboration between artists, architects and residents to develop creative ideas for regenerating Castleford. Several projects are under way, including collaborations between Pierre Vivant and Hudson's Architects on designs for a local square and Martin Richman and DSDHA on light works for a pedestrian underpass. Significant international artists are also working with the town to create work that responds to Castleford's regeneration, including Carlos Garaicoa from Cuba and German artists Winter/Hörbelt, who are designing a pavilion to complement the waterways in and around the town.

Supported through Grants for the arts, the Castleford heritage group worked with writer Ian Clayton and visual artist Harry Malkin to develop heritage trails in the town in collaboration with residents.

Over 10,000 local people have been involved in The Castleford Project, led by Channel 4 and Wakefield Council. The project is increasing community pride and improving the public realm and has already attracted major private investment to the town.



The arts and local government

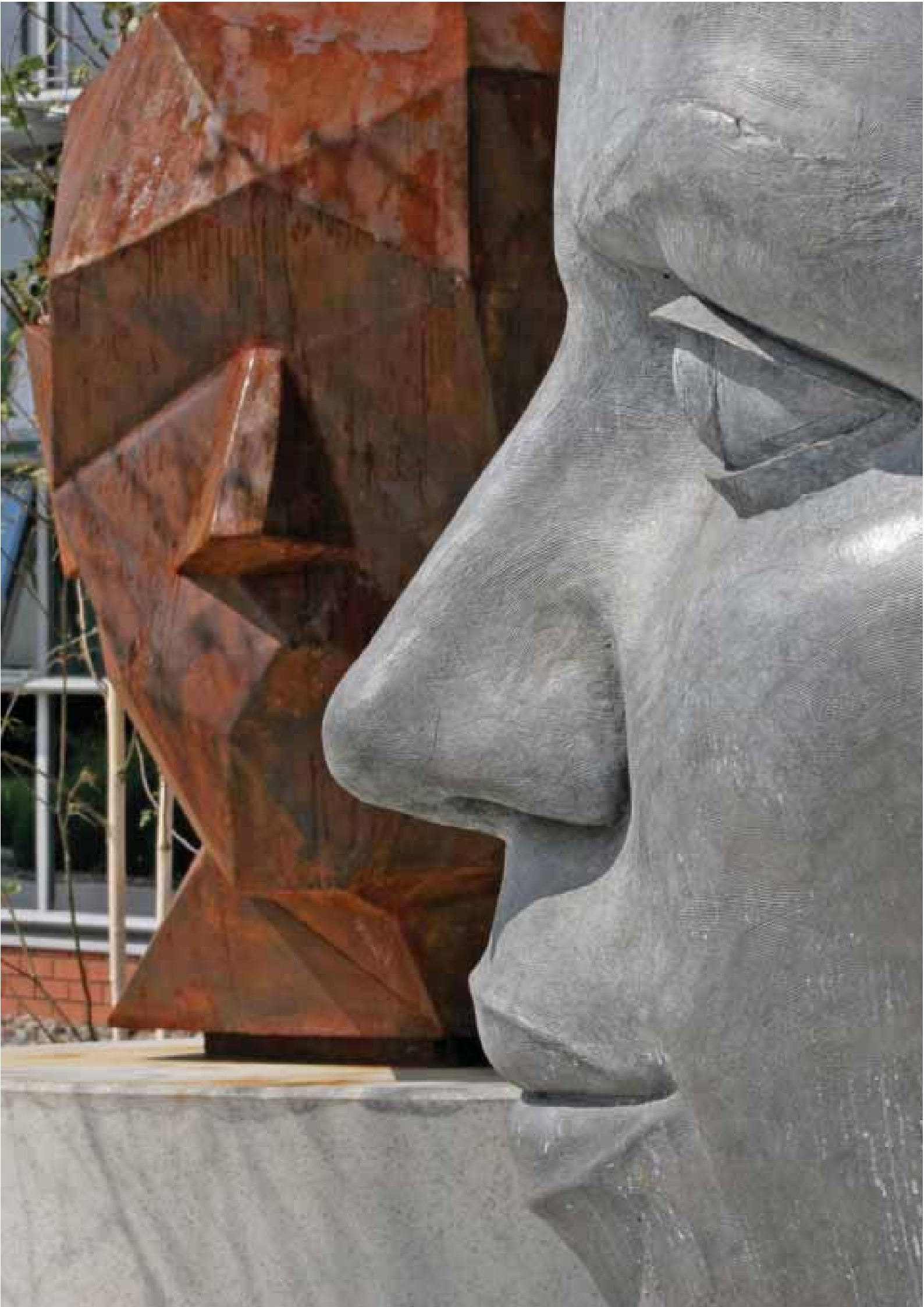
We believe the arts can be a powerful catalyst for economic growth and social regeneration and a revitalising force in rural and urban areas. In June 2005, our East region's local government arts forum brought together councillors and arts development officers from 54 local authorities. The summit looked at ways that the arts could be used to support development and regeneration initiatives in the region. It focused on collaboration between different areas of government and the arts, and embedding the arts into new projects.

One example is the Green Heart Partnership, a three-year programme for environmental planning and capital projects in Hertfordshire. Projects include new park and play areas and refurbishment plans for a rundown community centre in Broxbourne.

This partnership involves all 10 local authorities in the county alongside Lee Valley Regional Park Authority, Hertfordshire County Council and Arts Council England, East. These partners will invest £570,000 and the project is expected to attract a further £570,000.

Right: *Generation* by Joe Hillier at the headquarters of One NorthEast, the regional development agency.
Photo: David Williams

The Forum, a bench created by visual artist Harry Malkin for the Castleford meeting place of the same name.
Photo: Porl Medlock



internationalism

WOMEX 2005

Five hundred musicians, 2,100 industry professionals, five days – sold out. In 2005, the World Music Expo (WOMEX) came to the UK for the first time, to The Sage Gateshead in the north east. Dedicated to world music of all kinds, the event allows musicians to forge new links and swap creative ideas.

We awarded over 30 bursaries totalling £20,000 to people, including Black and minority ethnic artists and those who have never attended WOMEX before, to allow them to share their work and be part of a vital international networking event.

Performers included Hermeto Pascoal from Brazil, Jagwa Music from Tanzania, Mariem Hassan from the West Sahara and Spain, Pakistani/UK performers as diverse as Aziz, Bavar Luck and DJ Aki Nawaz, and the Chehade Brothers from Palestine and Lebanon.

In 2005, Arts Council England produced *World music in England*, a practical guide for users. It gives a history of world music in England and lists information on active artists and organisations.

Peter Hewitt, Chief Executive, Arts Council England, said, 'The Arts Council's support and development of world music over two decades has given us a high profile and an artistically excellent home-grown world music industry... wherever it comes from, world music has come of age.'

Chehade Brothers performing at WOMEX 2005. Photo: Dan Brady





People enjoying the Multicultural festival, Portsmouth, run by the Portsmouth Multicultural Group during September 2005. Photo: Steve Spurgin

Festivals

Festival officers in the East Midlands work with local festival organisers to develop skills that aid organisational development, enhance artistic programming and increase festivals' profiles nationally and internationally.

There is a large number of arts festivals in this region, which have the potential to grow and develop significantly. We awarded £80,000 of funding through the Urban Cultural Programme to support these.

The work extended to international audiences through partnership with the European Festivals Association, which resulted in an international festivals' conference in Leicester in March 2006.

Roots

Roots is a successful collaboration between Arts Council England and the BBC English Regions, celebrating African, Asian, Caribbean and Chinese arts and culture. Roots identifies, showcases and develops talent by generating online coverage, research and supporting local community events. Roots runs many successful projects.

The **Ghana link programme** took 12 teenagers from schools in Plymouth and the city's twin town, Sekondi-Takoradi in Ghana, to teach them about each other's cultures. In 2005, teachers in Sekondi-Takoradi proposed a unique production of *A Midsummer Night's Dream*, and a Ghanaian singing and drumming workshop. Students spent three weeks in Ghana rehearsing and the final production was hosted by the Theatre Royal in Plymouth.

The **Yuen Film School** began in 2004 when the Plymouth Race Equality Council worked with the BBC to reconnect British Chinese children with their culture by making lions heads for the Chinese New Year celebrations. Since *Lion Dance*, the film school has continued to develop projects including an hour-long documentary celebrating 30 years of the Devon and Cornwall Chinese Association, and a 12-minute film looking at the Chinese year of the dog.

Building an international agenda for the East

As part of supporting and developing our creative industries sector, we recognise the importance of international partnerships and excellence.

Parallel Realities: Asian Art Now

The Fukuoka Asian Art Triennale is the largest exhibition presented by the Fukuoka Asian Art Museum in Japan. The tour of this exhibition from January to November 2005 was part of C21 – a year-long cultural and community arts event in Blackburn with Darwen, Lancashire – which celebrated and showcased cultural creativity and diversity across Asia.

The contemporary exhibition included challenging, enlightening and sometimes disturbing work by 50 artists from 21 countries and regions across Asia. The exhibition refocused traditional impressions of 'exotic' art, reconfirming Asia as a modern partner in the creative industries.

Artists featured in the exhibition included Tiffany Chung from Vietnam, Kill Your Television (KYTV) from Singapore and Ham Jim from Korea.

C21 was awarded £500,000 as part of the Urban Cultural Programme.

Arts Council England, East's unique shared prospectus with the East of England Development Agency identifies international partnerships as one of the important areas for strategic joint investment.

International links with the United States, Poland and Latin America are developing new marketplaces and securing additional resources while individual creative and cultural collaborations are sharing knowledge and raising ambitions, invigorating the creative sector in the East of England.

The Malopolska region is economically important for Poland and a significant academic and cultural hub, with the country's oldest university. Creative leaders from The Junction, Britten Sinfonia and Norwich Gallery discussed plans for cultural exchanges and collaborations with a variety of arts organisations. The delegation also forged partnerships with the Marshall's office in Malopolska and the Mayor's office in Krakow.

San Jose in California has existing connections to the East through hi-tech industry. The initial visit allowed us to develop relationships with cultural organisations and businesses and to confirm our involvement in San Jose's exciting new Zero One festival. Work from the East of England – Random Dance, Troika Ranch and IGLOO – will feature in 2006 with opportunities for reciprocal hosting planned for 2007.

celebrating diversity

Heart 'n Soul

2005 saw the 10th anniversary of the Beautiful Octopus Club. Its club nights, run and developed by people with learning disabilities, feature original and experimental music, theatre, dance, film, an interactive computer games room and massage.

As well as being a good night out for people in London and beyond, these nights act as an important social centre and a unique platform for the participants' talents. They offer invaluable work experience for those

interested in any aspect of production from lighting and DJing to making sets.

The club was set up by Heart 'n Soul, which is led by artists with learning disabilities, and is one of our regularly funded organisations. It has been a major success, inspiring similar projects in other regions and even in Australia. Heart 'n Soul also runs The Squidz Club, for young people aged 14–25 with learning disabilities.

We have invested over £240,000 in 2005/06 to support Heart 'n Soul.

A participant at The Squidz Club run by Heart 'n Soul in London for young people with learning disabilities, their friends and families. Photo: Nilu Izadi



Creative Partnerships and diversity

Through Creative Partnerships, we support people to take part in cultural activities of the highest quality.

The **Migrations** project is the result of a collaboration between five secondary schools in the north east area of Birmingham with SAMPAD (South Asian Arts). This collaboration was developed to reflect the diverse range of cultures within the schools. SAMPAD introduced a creative literature project called *Spinning a Yarn*, which involved writing bilingual stories. In autumn 2005, the schools got involved in a storytelling performance and the project culminated in a collaborative installation including live and recorded performance, visual arts and craft and multimedia exhibitions.

The south east is hosting **The Margate Exodus**, a high profile community arts event in 2006. *Towards a Promised Land*, which formed part of the planning for this event, is based on an ancient story of migration and the search for a promised land. The story is retold to reflect the modern experience of migration. The focus of the project, led by artist Wendy Ewald, was to encourage and help children in the region – especially those whose lives have been disrupted by drastic change in some of the world's worst trouble spots – to explore their own feelings about history and place through words and images. The community worked collaboratively with local artists on the performance, which forms part of a film for Channel 4.

The Darbar Festival

The Darbar Festival, the largest South Asian music festival outside India, took place in Leicester from February to March 2006. It had strong links with the Saplak music festival, India's largest and most respected music festival.

More than 30 of the world's finest musicians in Indian classical music performed, bringing together styles including Khayal, Thumri, Dhrupad and Jugalbandi duets. Performers included Ajoy Chakraborty, Kala Ramnath, Swapan Chaudhuri and Pandit Jasraj.

The festival was a tribute to Bhai Gurmit Singh Virdee, a long term resident of Leicester who passed away in spring 2005. He was a tabla player of international acclaim who performed with world-class artists and taught hundreds of students, some of whom are now playing on the world stage.

The festival was held in partnership with the Peepul Centre – a capital project with funding for its ongoing artistic programme.



Performance of *The Deranged Marriage* by RIFCO. Photo courtesy of RIFCO

Caribbean Kitchen, a co-production by Sister Tree and Birmingham Repertory Theatre, draws on the experiences of elderly Afro-Caribbean people who settled in the UK. Photo: Kate Bunce, courtesy of Sister Tree



Diversifying our portfolio of regularly funded organisations

In 2005/06, we were able to increase our support for the arts for Black and minority ethnic groups by extending our portfolio of regularly funded organisations. Both Kajans in Birmingham and RIFCO in Slough have been added, in recognition of their work towards developing opportunities for local people and building international links.

Kajans has been providing artistic, educational and outreach programmes for over a decade. Kajans focuses on developing Black art, and community involvement in and ownership of the arts. Its programme includes collaborative projects with international artists to run residencies on music and dance, a weekly arts programme and running an international Black dance summer school. It offers a resource and information service, arts administration and training.

RIFCO uses theatre to help audiences explore South Asian culture and tradition in the context of modern Britain. The funding has enabled RIFCO to tour their successful play *The Deranged Marriage*. Pravesh Kumar, RIFCO's Director, says, 'What pleased us most was that we attracted South Asian families who don't traditionally come to the theatre, as well as a growing non-Asian audience.'



Visitors to the Black History Month Black British Style exhibition at Cartwright Hall, Bradford, wearing 1970s fashion for a family portrait. Photo: Paul Floyd Blake

Celebrating Black History in Yorkshire

Black History Month, every October, recognises and celebrates the significant achievements and contributions made by African and Caribbean communities to society, promoting a positive awareness of the people, culture, history and contemporary achievements.

In October 2005, Yorkshire celebrated Black History Month with a stimulating programme of events celebrating and profiling African and Caribbean culture across the region.

A Black British Style exhibition, touring from the Victoria and Albert Museum, was held at Cartwright Hall in Bradford, looking at fashion and styling across all aspects of Black life and culture over the past 50 years. The exhibition explored clothes and the bodies that wear them, looking at what is worn and how, and highlighted the variety of lifestyles that co-exist

in Black culture, focusing on dress but also incorporating music, photography and film.

Other highlights included:

- Maya Angelou headlining the Ilkley Literature Festival
- a Black history exhibition at the Wilberforce House Museum in Hull
- Benjamin Zephaniah performing in Bradford
- *Runaway Diamonds*, the inspirational story of abolitionist Frederick Douglass at the Theatre Royal, York
- Leeds West Indian Centre's celebration of the steel pan

'Yorkshire Celebrating Black History' was led by our Yorkshire office in partnership with Audiences Yorkshire, the region's audience development agency.

highlighted information

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reporting against our official commitments

The Arts Council has a funding agreement with our sponsoring department, the Department for Culture, Media and Sport (DCMS). This section reports on our performance towards particular strategic priorities and public service targets (PSA3 targets) in that agreement for the period April 2005 to March 2006.

Focusing on our customers

We are making changes to improve customer satisfaction across our organisation. We have established a project team to create a stronger customer focus ethos within the organisation. This project team is made up of representatives or leaders of interdependent projects or areas of work such as Grants for the arts and enquiries.

Each regional office has developed an action plan to address issues identified in relation to its own operational customers. Senior management teams and regional councils have endorsed these action plans and executive directors are responsible for their implementation.

The project team has also identified a range of initiatives to address issues that are common across the organisation.

The Grants for the arts programme has made improvements, including being clearer about what we offer in the new Grants for the arts pack, training for staff in giving feedback to unsuccessful applicants, and improving the activity report form. Our enquiries team and regional offices are working together for

improved communication, generating better processes and enhancing the service for callers.

We also aim to make better use of our existing communications with our customers, including our regularly funded organisations, regional partners, and communities with special needs. The Grants for the arts activity report forms are an example of this. We want ongoing feedback on our customer focus between the major surveys of customer satisfaction: spring 2007 is the next.

Other initiatives in development include: investigating the feasibility of purchasing customer relationship management software to link to 'Arena', the new single IT system; ensuring that customer focus becomes an integral part of our induction programmes; and revising our customer focus guidelines, ensuring they dovetail with our responsibilities under the Joint Lottery Distributors' customer service charter.

In 2006/07, the customer satisfaction survey will form part of a broader programme of stakeholder engagement that aims to ensure that the Arts Council continues to deliver value to the public, the arts community and our partners in central and local government.

We have set a target of raising our overall satisfaction rating among operational customers from 70.4 per cent in 2005 to 75 per cent, and among strategic customers from 69 per cent in 2005 to 75 per cent by the spring 2007 survey.

reporting against our official commitments continued

Creative Partnerships

We were committed to establishing 36 Creative Partnerships by March 2006, and achieved this. From May 2002 until March 2006, the number of young people involved in Creative Partnerships was 499,039, nearly 50,000 over target. There have been 4,747 projects, involving 46,539 teachers.

Administrative savings

We have agreed with DCMS a target for recurrent administrative cost savings for our grant-in-aid and lottery activities combined as a result of the merger of the former Arts Council of England with the 10 regional arts boards in April 2002. The target is to achieve savings by comparison with the administration costs of the 11 previous organisations prior to the merger.

The savings arose from a number of areas. These include the reduction of staff numbers following the merger in April 2002, the merger of two regional arts boards into our South East office, savings relating to the reduction in use of office space in London and savings in relation to support services and procurement. This measure excludes the one-off costs of change and of new developments, the most material of which is the Creative Partnerships programme. All calculations are adjusted to remove the impact of inflation.

The target and actual savings for 2005/06 are:

	Target £m	Actual £m
2003/04	5	5.614
2004/05	6	6.977
2005/06	6.7	7.252

Reduction in staff numbers

As part of the reorganisation savings target detailed above, we also agreed with DCMS, in 2004, a target for reduction in staff numbers by March 2006. Actual staff numbers at the end of March 2006 were 630 compared with a target of 600. This is a reduction of 81 from the 711 staff for the base year, 2001/02. Again this excludes staff working on one-off projects and Creative Partnerships.

A further reduction in staff numbers is anticipated as a result of the structural review of the national office, proposals for which were announced in March 2006.

reporting against our official commitments continued

Arts participation

The Arts Council's public service (PSA2) targets are to:

- increase the proportion of people from priority groups who participate in at least two different arts activities a year by two percentage points
- increase the proportion of people from priority groups who attend at least two arts events a year by three percentage points

Arts activities are defined as:

- writing stories, plays or poetry
- doing ballet or other dance
- playing a musical instrument to an audience or for pleasure
- writing music
- rehearsing or performing in a play/drama or opera/opera
- painting, drawing, printmaking or sculpture
- using a computer to create original artworks or animation
- textile, wood or other crafts

Arts events are defined as:

- exhibition or collection of art, photography or sculpture
- play/drama
- other theatre performances (eg musical, pantomime)
- opera/opera
- classical music concert
- jazz concert
- ballet
- contemporary dance

Priority groups are defined as:

- disabled – those people defined by themselves as having any long-standing illness, disability or infirmity that limits their activities in any way
- Black and minority ethnic – those people defined by themselves as Asian or British Asian, Black or British Black, mixed ethnicity, Chinese and other ethnic groups
- socially excluded – those people in socio-economic groups C2, D and E

reporting against our official commitments continued

Changes in participation and attendance levels since 2001

Group	Participation		Attendance	
	2001	Most recent result*	2001	Most recent result*
Disabled people	12%	12%	29%	26%
Socially excluded	10%	9%	23%	26%
Black and minority ethnic	15%	11%	32%	30%
General population	13%	13%	38%	40%

*The most recent data was collected in 2003/04 for disabled and socially excluded groups and the general population and in 2004/05 for Black and minority ethnic groups

The table above is largely based on the data available for our *annual review 2005* but includes a small amount of additional data regarding Black and minority ethnic attendance. Data collection during 2006 is within DCMS's continuous *Taking Part* survey, see pages 133 to 135 for more details. We will publish final figures on our PSA2 targets in our annual review 2007.

Regularly funded organisations' activity

Attendance figures for our regularly funded arts organisations are well above target, as is attendance at educational sessions they run. The targets are set within our funding agreement with DCMS. (We have shown the most recently collected data, which relates to 2004/05 and is provisional.)

	Target	Actual
Number of commissions of new work by regularly funded organisations	3,000	5,840
Attendance at regularly funded organisations (thousands)	26,900	36,290
Attendance at educational sessions of regularly funded organisations (thousands)	2,210	4,355

remuneration report

1 April 2005–31 March 2006

The remuneration committee

The Council has appointed a remuneration committee advising on the remuneration of regional chairs and for specific matters relating to the remuneration and performance of the chief executive and executive directors. The members of the committee during the year were Dorothy Wilson, Sir Brian McMaster CBE, Professor Stuart Timperley and Professor Alan Livingston. The committee operates within written terms of reference, and usually meets once during the year.

Council members' remuneration

Our supplemental charter issued in March 2002 provides us with the authority to remunerate our national Council members who are also regional chairs. Remuneration amounts are set by the Department for Culture, Media and Sport and agreed by the Charity Commission.

We paid nine members of Council who are also chairs of regional councils remuneration of £6,045 each during 2005/06 (2004/05: £5,880). The chair and remaining members of Council received no remuneration during 2005/06 (2004/05: £nil).

Executive directors' remuneration

The remuneration system for executive directors was established in 2003/04. There are two pay bands and jobs are allocated to a band depending on the scale of responsibilities for the role.

Salary progression through the bands is dependent on individuals' performance and non-consolidated, one-off bonuses are also awarded to the highest performing executive directors each year, from a pot calculated as 1.5 per cent of the overall salary budget for this group of employees.

The chief executive makes proposals on salary progression and bonus awards for executive directors to the Remuneration Committee for approval. The chair makes similar recommendations for the chief executive to the committee for approval.

remuneration report continued

The remuneration of our executive directors for the year ended 31 March 2006 was:

	Salary £000s	Pension £000s	Bonus £000s	Total remuneration 2005/06 £000s	Total remuneration 2004/05 £000s
Peter Hewitt (Chief Executive)	140	19	3	162	156
Nick Capaldi (South West)	74	11	3	88	77
Andy Carver (Yorkshire)	74	11	0	85	77
Clive Caseley (External Relations)*	58	11	0	69	91
Andrew Dixon (North East)*	27	10	0	37	92
Laura Dyer (East Midlands)	74	13	3	90	39
Michael Eakin (North West)	83	12	0	95	90
Kim Evans (Arts)	136	13	3	152	148
Keith Harrison (Finance & Operations)	84	16	3	103	95
Felicity Harvest (South East)	74	14	0	88	80
Sally Luton (West Midlands)	74	11	3	88	82
Mark Robinson (North East)*	44	6	0	50	0
Andrea Stark (East)	82	16	1	99	96
Pauline Tambling (Development)	83	16	0	99	93
Nicola Thorold (Arts)*	16	3	0	19	21
Sarah Weir (London)	87	17	3	107	102
Andrew Whyte (Communications)*	8	0	0	8	0

* Part year figures

Peter Hewitt is on a fixed contract which expires in March 2008 and Mark Robinson is on a fixed contract which expires in March 2008. All other executive directors are on permanent contracts. Kim Evans was acting Chief Executive and Nicola Thorold acting Executive Director, Arts from January 2005 to June 2006 to cover Peter Hewitt's strategic time out. Clive Caseley left the organisation in December 2005 and Andrew Whyte took up post as Executive Director, Communications in March 2006. Andrew Dixon was seconded to become Chief Executive of Newcastle Gateshead Initiative in August 2005 and Mark Robinson took up post as Executive Director from that date.

remuneration report continued

Details of the pension entitlements for our executive directors for the year ended 31 March 2006 were:

	Accrued pension at 31 March 2006 £000s	Pension increase in the year (net of inflation) 2005/06 £000s	Cash equivalent transfer value at 31 March 2006 £000s	Increase in cash equivalent transfer value (net of inflation) £000s	Cash equivalent transfer value at 31 March 2005 £000s
Peter Hewitt (Chief Executive)	119	9	412	81	331
Nick Capaldi (South West)	65	9	209	35	174
Andy Carver (Yorkshire)	50	9	183	38	145
Laura Dyer (East Midlands)	45	5	127	16	111
Michael Eakin (North West)	109	10	393	44	349
Kim Evans (Arts)	34	6	124	36	88
Keith Harrison (Finance & Operations)	37	7	94	30	64
Felicity Harvest (South East)	50	14	177	60	117
Sally Luton (West Midlands)	100	10	417	52	365
Mark Robinson (North East)	22	15	65	21	44
Andrea Stark (East)	16	4	40	13	27
Pauline Tambling (Development)	72	8	224	52	172
Sarah Weir (London)	13	5	34	16	18

Peter Hewitt, Chief Executive
Sir Christopher Frayling, Chair
 4 July 2006

grant-in-aid accounts

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Arts Council England grant-in-aid accounts 1 April 2005–31 March 2006

Trustees' report and foreword

Reference and administrative details of the charity, its trustees and advisors

The Arts Council of England, trading as Arts Council England, is a registered charity, charity registration number 1036733. The address of our principal office is 14 Great Peter Street, London SW1P 3NQ.

Our Council members are the trustees of Arts Council England. The national Council consists of 15 members, nine of whom also take on the role of chair of one of the regional councils as detailed in brackets below:

Member	Date of appointment	End of appointment
Sir Christopher Frayling (Chair)	February 2004	January 2008
Diran Adebayo	October 2004	October 2008
Janet Barnes (Yorkshire)	February 2005	January 2009
Tom Bloxham MBE (North West)	May 2002	May 2010
Deborah Bull CBE	May 2002	June 2005
Kentaké Chinyelu-Hope (South East)	October 2005	September 2009
Deborah Grubb (South East)	May 2002	July 2005
Professor Alan Livingston (South West)	May 2002	May 2007
Stephen Lowe (East Midlands)	May 2002	July 2005
François Matarasso (East Midlands)	October 2005	September 2009
Sir Brian McMaster CBE	May 2002	May 2008
Elsie Owusu OBE	May 2002	May 2009
Dr Tom Shakespeare (North East)	October 2004	September 2008
William Sieghart	May 2002	May 2006
Professor Stuart Timperley (East)	May 2002	May 2008
Dorothy Wilson (West Midlands)	May 2002	May 2009
Lady Sue Woodford Hollick (London)	May 2002	May 2008

During the year, Deborah Grubb, Stephen Lowe and Deborah Bull CBE retired as members of the Council at the end of their respective terms of appointment. One seat on Council was vacant at the end of the financial year and this has since been filled by Keith Khan with effect from 1 May 2006.

Reference and administrative details of the charity, its trustees and advisors continued

The Council has appointed an Audit Committee, with Dorothy Wilson as Chair. Sir Brian McMaster CBE, Professor Stuart Timperley and Professor Alan Livingston served as members of the committee during the year, with David Brierley CBE and Gill Laver as co-opted members. The Committee is responsible for overseeing the internal and external audit process, to monitor the codes of practice for Council members and staff, and to oversee the Risk Register. The Committee operates within written terms of reference, and met four times during the year.

Sir Christopher Frayling took up post as Chair on 2 February 2004. The Chief Executive, Peter Hewitt, was appointed by the Council on 9 March 1998 with the approval of the Secretary of State for Culture, Media and Sport. His contract expires on 31 March 2008. From 4 January to 3 May 2005, Peter Hewitt took strategic time out from his role as Chief Executive to step outside his day job, stand back and take stock. During that time Kim Evans became acting Chief Executive.

Our banker is the Co-operative Bank of 78–80 Corn Hill, London EC3V 3NJ.

Our auditor is the Comptroller and Auditor General of 157–197 Buckingham Palace Road, Victoria, London SW1W 9SP. Fees paid to the National Audit Office for grant-in-aid external audit services during 2005/06 were £53,000 (2004/05: £51,000).

Hewitt Bacon & Woodrow Limited of 6 More London Place, London SE1 2DA, are

the administrators, actuaries and investment advisors to the Arts Council Retirement Plan.

Arts Council England has appointed a number of specialised solicitors to its external solicitor pool.

We attempt to abide by the Better Payment Practice Code, and in particular to pay bills in accordance with contract. Invoices are normally settled within our suppliers' standard terms, usually 30 days. In 2005/06, 84% of undisputed grant-in-aid invoices were paid within 30 days (2004/05: 86%).

Structure, governance and management

Arts Council England was established by Royal Charter on 13 March 1994, taking over those responsibilities in England previously discharged by the Arts Council of Great Britain. The objectives of the Arts Council as stated in the Royal Charter, our governing document, are i) to develop and improve the knowledge, understanding and practice of the arts, ii) to increase accessibility of the arts to the public, and iii) to advise and cooperate with other government departments, local authorities and the Arts Councils for Scotland, Wales and Northern Ireland (or their successors). To this end, we make grants to artists and arts organisations and engage in other activities on behalf of the sector.

Arts Council England was granted a Supplemental Charter on 18 March 2002. Its purpose was 'to give effect to new arrangements for regionalisation of its structure and activities'. There were no changes to the objects of the Arts Council and the main changes relate to our powers to establish

Structure, governance and management continued

and to delegate powers and functions to regional councils. The charter sets out the new composition of the Council, which includes the chairs of the regional councils.

The Arts Council works at arm's length from government and has the status of a non-departmental public body. As such, we are regulated in accordance with a Management Statement/Financial Memorandum and Funding Agreement issued by the Secretary of State. We prepare our accounts for grant-in-aid and lottery separately to comply with Accounts Directions also issued by the Secretary of State.

Arts Council England has nine regional offices, matching the government's regional boundaries, and a national office. Each region has a council and the 15-strong national Council (details on page 38) includes the chair of each of the regional councils. The national Council met in formal session five times during the year and monitored the work of the chief executive and staff. Council members are appointed by the Secretary of State for Culture, Media and Sport and are eligible for reappointment. The term of office is determined by the Secretary of State.

The Executive Board is made up of the Chief Executive, Peter Hewitt, the nine regional executive directors and the four executive directors at the national office for arts, development, external relations, and finance and operations.

The Arts Council maintains a register of interests of its members, which is available

for public inspection by appointment at our Great Peter Street address.

Policies and procedures adopted for the induction and training of trustees

The Council recognises the importance of ensuring that its members, as trustees, are fully briefed and introduced into their role in the organisation.

For all newly-appointed trustees, the Council arranges for an induction process to be undertaken. This includes meeting with the chief executive and the chair to discuss the role of the member and the functions of Arts Council England, and a range of meetings with staff of the Council to appreciate the policies, strategies and activities of the Council in more detail. Members who are also appointed to chair a regional council receive a further induction to that role, led by the relevant regional director.

The Council undertakes regular debates and facilitated group sessions, ranging from half a day to two days, outside of their business meetings at least four times a year. These afford opportunities for development and to consider a range of issues that are important to the work of the Council outside the formal meeting setting.

The Council organised a day session ('Leading Lights') in October 2004, for all members of the Council and of the regional councils to come together and discuss issues affecting the development and work of Arts Council England. It is intended that a similar event will be held during the later part of 2006.

Policies and procedures adopted for the induction and training of trustees continued

Other training for members of the regional councils is undertaken in the regions.

The Council is currently undertaking a review of the structure and content of its induction programme, to ensure that it meets the needs of members of the Council. The review is being informed by guidance from the Charity Commission and the Cabinet Office.

Organisational structure

The Council, as trustees, retains overall responsibility for the work and conduct of the organisation. The Council is invited to consider and approve major matters of policy development, including the overall framework for the strategic delivery of those policies. In addition, approval of certain financial transactions over a specified monetary limit has been reserved to the Council. A list of matters reserved for the decision of the Council has been agreed in the Council's guidelines to the chief executive.

The Council has approved the delegation of powers for delivery of the agreed policies and strategies to the Executive Board, composed of all of the executive directors and with the chief executive presiding. Written terms of reference and procedure for the Executive Board have been agreed by the Council, including a requirement for the Board to have regard to the authority of the chief executive and the regional councils. The Executive Board met every two months during the year.

The Council has approved the further delegation of powers to a Management Committee as a sub-Committee of the Executive Board. The Management Committee is responsible for day-to-day management and review of the corporate plan, ongoing business and agreed corporate projects. It is composed of five executive directors selected to be a cross-representation of the organisation, and was chaired during the year by the executive director, finance and operations. Written terms of reference and procedure have been agreed by the Council for this committee, including having regard to the authority of the chief executive and the regional councils. During the year, the Management Committee met monthly.

The chief executive has been authorised by the Council to undertake the day-to-day administration and management of the business and staff of the organisation. He is responsible to the Council for those matters. The Council has agreed and issued guidelines to the chief executive, indicating those matters for which it reserves decisions to itself.

The Council has approved a scheme of financial delegations and authorities, which provides a comprehensive scheme for determining an appropriate level of approval or authorisation for financial commitments. Major items are reserved to the Management Committee, the Executive Board or the Council dependent on the level of expenditure proposed.

During 2005, Arts Council England took part in a peer review process run by the Department for Culture, Media and Sport (DCMS). This is designed to modernise the relationship

Organisational structure continued

between DCMS and non-departmental public bodies and help the latter improve overall performance.

In December 2005, we published an action plan identifying a number of ways in which we are responding to the main recommendations in the peer review team's report.

Subsidiary undertakings

Artco Trading Ltd, registered address Central Square, Forth Street, Newcastle upon Tyne NE1 3PJ, is a wholly owned subsidiary of Arts Council England with share capital of two ordinary shares at £1 each. It runs the Own Art programme, which is an art purchase scheme. Grant-in-aid funding for the scheme (2005/06: £250,100) goes directly to Artco Trading Ltd from DCMS. As at 31 March 2006, there are three Arts Council employees on the board.

During 2005/06, the Tabernacle Centre Limited, registered address 2 Pear Tree Court, London EC1R 0DS, became a wholly owned subsidiary of Arts Council England. It is a company limited by the guarantee of its directors. It runs a community arts centre. As at 31 March 2006, there are two Arts Council employees on the board. It is expected that this company will transfer to new ownership during 2006/07.

Research activity

Arts Council England's three-year research strategy for 2003–06 is designed to address our strategic objectives, gather the data needed to demonstrate public accountability, evaluate the outcomes of our funding, develop a sound evidence base which can be used to inform and evaluate policy and

planning, and provide research findings to help make the case for the arts.

During the year, we contributed funding to a major new survey of the general public, *Taking Part*, commissioned by DCMS in partnership with Sport England, English Heritage and the Museums, Libraries and Archives Council. Information was collected from approximately 6,000 adults about their attendance at, participation in, and attitudes to the arts. As well as giving us valuable information on levels of engagement with the arts, the data will also be used to report to DCMS on progress towards achieving the performance indicator in the Funding Agreement. For some results of the survey, see pages 133 to 135.

Financial review

Arts Council England receives grant-in-aid from DCMS and is one of the bodies designated to distribute funds from the National Lottery by the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998).

This year, for the first time, we have implemented significant changes to the disclosure made in the annual accounts as required by the new Charities Statement of Recommended Practice issued during 2005. In particular, this has meant changing the format of the Statement of Financial Activities and related notes to an activity-based presentation, allocating our support costs between our various funding activities. In addition to this, new disclosures are required this year under the new Financial Reporting Manual issued by HM Treasury, including the remuneration report on pages 34 to 36. This report replaces notes previously included in the grant-in-aid

Financial review continued

and lottery accounts on executive directors' and Council members' remuneration.

DCMS provided grant-in-aid of £409 million for the year. Ring-fenced funding is as stated in the table below.

	2007/08 £m	2006/07 £m	2005/06 £m
Creative Partnerships	32.0	32.0	32.0
Young people's Arts Awards	0.3	0.3	0.7
Youth theatre	0.6	0.6	0.6
Centres of Excellence	1.5	1.5	1.5
Cultural Leadership Fund	6.5	5.5	0
European Capital of Culture	0	2.0	3.0
South Bank Centre	0	3.0	2.0
Other capital funds	1.0	3.0	2.0

In addition, we received £11 million of grants and donations for specific strategic projects from a number of other organisations.

During the year, we awarded grants to our 1,100 regularly funded arts organisations of £301 million, and made £9 million awards under the Grants for the arts – individuals, our open application programme for individual artists. In addition, we spent £73 million directly on strategic initiatives, including our Creative Partnerships programme.

The statement of financial activities funded from grant-in-aid shows net incoming resources for the year of £3 million on unrestricted funds. This surplus is due to the change in the timing of some projects, which have slipped into the next financial year.

At 31 March 2006, Arts Council England had unrestricted reserves of £17 million. Our policy on reserves is to ensure that we hold sufficient funds to maintain liquidity, to cover unforeseen short-term cash requirements of £1 million, to cover planned future expenditure and to repay to DCMS grant-in-aid over-committed in previous years, which at 31 March 2006 was £2 million. We review this policy and our reserves position annually. Our use of reserves, however, is restricted by the Government's end-of-year flexibility regulations which mean that we are not currently allowed to use our reserves brought forward from 2001/02 of £10 million.

In December 2004, DCMS announced that our funding for the financial years 2006/07 and 2007/08 would be £415.5 million and £411.5 million respectively. These figures include a capital allocation for the South Bank Centre and the European Capital of Culture 2008 of £5 million in 2006/07 and an undesignated capital allocation of £1 million in 2007/08. In addition, we will receive £12 million over these two years towards the Cultural Leadership Programme.

In 2005/06, we delivered a combined grant-in-aid and lottery administrative saving of £7.3 million compared to the target of £6.7 million as set out in our Funding Agreement and agreed with DCMS (2004/05 saving £7 million; target £6 million), see note 23 to the accounts.

The savings arose from a number of areas. These include the reduction of staff numbers following the merger in April 2002, the merger of two regional arts boards into our South East office, savings relating to reducing the use of office space in London, savings in relation

Financial review continued

to support services and procurement savings.

During the year, responsibility for managing the relationship with most capital grant recipients was delegated from the national office to regional offices. This will achieve further savings in lottery administration costs from 2006/07 onwards. We anticipate further savings by rationalising IT systems and further reviews of staffing in 2006/07 and 2007/08.

Full details relating to financial instruments are given in note 25 to the grant-in-aid accounts.

Consolidated activities

We prepare separate accounts for our grant-in-aid and lottery activities as required by the Secretary of State. We do not prepare a full set of consolidated accounts due to the differing accounting policies we are required to follow under the two separate Accounts Directions. However, to give a better understanding of our activities, we have prepared the following summary results for the two accounts combined for the 2005/06 and 2004/05 financial years.

	2005/06 £000s	2004/05 £000s
Income		
Grant-in-aid income	408,678	368,859
Share of proceeds from the National Lottery Distribution Fund	163,828	160,739
Investment returns on the Distribution Fund	8,115	8,428
Other income	12,537	10,833
Total income	593,158	548,859
Expenditure		
Net grant-in-aid grant commitments	350,610	314,778
Other grant-in-aid arts expenditure	30,216	30,510
Net lottery grant commitments	170,143	186,345
Operating costs	54,121	49,386
Total expenditure	605,090	581,019
Exceptional items		
Cost of fundamental reorganisation	(1,797)	(462)
Net (outgoing) resources	(13,729)	(32,622)
Profit on revaluation of fixed assets	8,003	4,342
Net movement in funds	(5,726)	(28,280)
Consolidated reserves brought forward	18,221	46,501
Consolidated reserves carried forward	12,495	18,221

Consolidated activities continued

The above figures for net lottery grant commitments include an accounting policy adjustment to reflect grant-in-aid accounting policies (note 1). This has the effect of decreasing net grant commitments compared with the figures in the lottery distribution accounts by £28 million in 2005/06 (2004/05: an increase of £10 million). Operating costs have increased by £5 million in the year due to the expansion of the Creative Partnerships programme and the one-off costs of the new 'Arena' single finance, grants and management information system.

Approach to employee development, participation and diversity

Arts Council England's training and development programmes are designed to encourage and support all employees in improving performance and developing their skills and competence. Six regional offices have had Investors in People recognition for a number of years and the organisation achieved the award as a whole in spring 2006.

We have arrangements to promote effective consultation and communication with all staff. Executive Board and Council activities are disseminated through a system of team briefing meetings, our intranet and regularly emailed updates, supplemented from time to time by office and directorate meetings. For the first time, we conducted a staff satisfaction survey in early 2005 and have analysed and acted on the results during 2005/06.

More formally, Arts Council England recognises the trade unions Amicus and Unison for consultation and collective

bargaining, and has established appropriate consultative arrangements to support this through a Recognition Agreement. The National Joint Consultative and Negotiating Committee (NJCNC) handles all core pay, terms and conditions of employment and HR policies and procedures across the whole organisation. The NJCNC is supported by Local Joint Consultative and Negotiating Committees in each of the 10 workplaces.

Arts Council England seeks to ensure that the requirements of health and safety legislation are met in the workplace. Health and safety issues of general concern are discussed with Amicus and Unison.

The organisation is committed to creating a working environment that treats people with fairness and respect, and is free from discrimination, harassment and bullying. Policies and procedures are geared towards eliminating direct and indirect discrimination, and supporting employees in reaching their full potential.

In recognition of our positive approach to recruiting and managing staff with disabilities, we have been awarded the 'Two Ticks' symbol by The Employment Services. We are taking positive steps to encourage more Black and minority ethnic, disabled and lesbian and gay people to become employed in the organisation, with support from specialist external advisory organisations.

Following the introduction of our race equality scheme, we have been working on a programme of 36 projects with the aim of changing the organisation and making

Approach to employee development, participation and diversity continued

real and permanent changes within the arts sector. Internally, this includes training staff, reviewing all our Human Resources procedures, and revamping how we deal with complaints and procurement to include the Commission for Racial Equality's best practice. We have set Black and minority ethnic staff targets for recruitment and retention and set up a Black Workers' Group.

Currently, 13.5% of staff classify themselves as Black, Asian, Chinese or Dual Heritage, and 2.5% of staff classify themselves as disabled.

Statement of trustees' and chief executive's responsibilities

Under the Royal Charter, the Arts Council is required to prepare a statement of accounts for the financial period in the form and on the basis directed by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury. The accounts are to be prepared on an accruals basis and to show a true and fair view of the Arts Council's state of affairs at the year end and of our incoming resources and resources expended and cash flows for the financial year. They are also prepared so as to comply with the Charities Statement of Recommended Practice (revised 2005). In preparing the accounts, the accounting officer must comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction* issued by the Secretary of State, which sets out accounting and disclosure requirements,

and apply suitable accounting policies on a consistent basis

- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that Arts Council England will continue in operation

The accounting officer for DCMS has designated the chief executive as accounting officer for the Arts Council. The responsibilities of the accounting officer, which include the responsibility for the propriety and regularity of the finances for which the chief executive is answerable, and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by HM Treasury.

Peter Hewitt, Chief Executive
Sir Christopher Frayling, Chair

4 July 2006

*a copy of the Accounts Direction is available from the Accounting Officer, Arts Council England, 14 Great Peter Street, London SW1P 3NQ.

Statement on internal control

1 Scope of responsibility

As accounting officer and representative of the trustees, we have joint responsibility for maintaining a sound system of internal control that supports the achievement of Arts Council England's policies, aims and objectives, while safeguarding the public funds and assets for which we are responsible, in accordance with the responsibilities assigned to us in Government Accounting together with ensuring compliance with the requirements of Arts Council England's Management Statement and Financial Memorandum.

2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Arts Council England's policies, aims and objectives, 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 in Arts Council England for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Arts Council England's policy on risk can be summarised as follows. The organisation will

at all times ensure that we meet our statutory reporting and regulatory obligations, that it is accountable to the public and will maintain systems to ensure that it protects its resources. Against this background, risk-taking is acceptable where it helps to deliver the organisation's core objectives.

It is Arts Council England's intention that risk-taking is not avoided; it is managed. The key to this approach is understanding the risks it faces, their causes and how to control them, and then focusing attention on key risks.

3 Capacity to handle risk

Arts Council England undergoes a six-monthly review of its central risk register. The register captures risks identified by staff across the organisation and categorises these risks as strategic, operational, financial, external, reputational, human resources or compliance risks. Their impact and likelihood of occurrence are evaluated by senior staff, and decisions are taken on whether to tolerate, transfer, terminate or treat the risk. Steps to mitigate against each risk are identified and recorded in the register and assigned to a member of the Executive Board to manage. A summary of the high level risks is presented to Arts Council England's Audit Committee every six months.

Risk management forms part of the organisation's ongoing activity and is addressed as standard practice in its corporate project plans. It continues to be a key element of how Arts Council England monitors its corporate policies and initiatives. Each corporate project is monitored against milestones and is supported by a risk management plan.

3 Capacity to handle risk continued

During 2005/06, the organisation developed its approach to capturing risk by broadening the involvement of staff and by discussing risk issues with senior management teams in each office. In addition, Council regularly reviews risks facing its major funded organisations. Arts Council England is also discussing with the Department for Culture, Media and Sport how it can best share its common risks and develop joint monitoring plans.

4 The risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. Arts Council England has established the following processes:

- a) A national Council, made up of the trustees of Arts Council England, which has a code of practice which includes a policy on declaration and registration of interests. Its defined responsibilities include:
 - strategic planning and control including approval each year of a corporate plan and approval of the overall budget allocation on a three-year basis
 - delegating responsibility for specific matters to the regional councils
 - being accountable for public funds, ensuring that Arts Council England conducts operations economically, efficiently and effectively
 - approving the annual report and accounts
 - ensuring that Arts Council England fulfils its obligations as an employer and complies with all relevant legislation
- b) An Audit Committee with agreed terms of reference which include:
 - reviewing Arts Council England's internal and external financial statements to ensure they reflect best practice
 - considering internal and external audit reports and reviewing Arts Council England's relationship with its internal and external auditors
 - reviewing the effectiveness of Arts Council England's internal control system, including the review of the risk management policy and risk register
 - reporting to the national Council on the above duties
- c) An Executive Board and Management Committee sub group with defined terms of reference which include:
 - developing the corporate policy on high level issues and overseeing the implementation of nationally agreed policies and plans
 - receiving and monitoring financial information relevant to Arts Council England's overall management responsibilities
 - taking decisions within delegated powers and approving further delegation as appropriate
- d) An internal audit function that operates to standards defined in the Government Internal Audit Standards and whose programme of work is agreed and monitored by the Audit Committee. Internal auditors base their annual internal audit plans on an analysis of the risk to which Arts Council England is exposed.

4 The risk and control framework continued

This analysis of risk and plans is endorsed by Arts Council England's Audit Committee and approved by us. At least annually, the head of internal audit reports on internal audit activity in Arts Council England. The report includes the head of internal audit's independent opinion on the adequacy and effectiveness of Arts Council England's system of internal control

5 Review of effectiveness

As accounting officer and representative of the trustees, we have responsibility for reviewing the effectiveness of the system of internal control. Our review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Executive Board, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. We have been advised on the implications of the result of our review of the effectiveness of the system of internal control by Executive Board and the Audit Committee and plan to address weaknesses and ensure continuous improvement of the system in place.

Improvements to internal controls made during the year include the establishment of a dedicated procurement staffing resource and training on current procurement policy. This has been rolled out across the organisation. Improvements to the procurement process have been included in the specification for the new grants and information system, which will be implemented during 2006/07.

During 2005/06, the organisation also ran training for senior managers to enhance their understanding of internal financial controls. This included information on Arts Council England's regulatory framework and key issues arising from it, including fraud. Lastly, the organisation restructured the chief executive's unit to increase resources in particular in relation to corporate governance and planning.

Peter Hewitt, Chief Executive
Sir Christopher Frayling, Chair
4 July 2006

The certificate and report of the comptroller and auditor general to the trustees of Arts Council England

I have audited the financial statements of Arts Council England for the year ended 31 March 2006. These financial statements have been prepared in the form directed by the Secretary of State and approved by HM Treasury. These comprise the statement of financial activities, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the trustees, the chief executive and the auditor

The trustees and the chief executive, as accounting officer, are responsible for preparing the annual review, the remuneration report and the financial statements and for ensuring the regularity of financial transactions funded by Parliamentary grant ('grant-in-aid'). These responsibilities are set out in the statement of trustees' and the chief executive's responsibilities on page 46.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Charities Act 1993 and the

directions made thereunder by the Secretary of State. I also report whether in all material respects the expenditure, income and resources funded by grant-in-aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the annual review is not consistent with the financial statements; if Arts Council England has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 47 to 49 reflects Arts Council England's compliance with HM Treasury's guidance on the statement on internal control, and I report if it does not. I am not required to consider whether the trustees' and accounting officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of Arts Council England's corporate governance procedures or its risk and control procedures.

I read the other information contained in the annual review and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

The certificate and report of the comptroller and auditor general to the trustees of Arts Council England

continued

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the trustees and the chief executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to Arts Council England's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the remuneration report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure, income and resources funded by grant-in-aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the remuneration report to be audited.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Charities Act 1993 and directions made thereunder by the Secretary of State, of the state of Arts Council England's affairs as at 31 March 2006 and of the incoming resources and application of resources for the year then ended;
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Charities Act 1993 and Secretary of State directions made thereunder; and
- in all material respects the expenditure, income and resources funded by grant-in-aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

John Bourn

Comptroller and Auditor General

14 July 2006

National Audit Office

157–197 Buckingham Palace Road

Victoria, London SW1W 9SP

Statement of financial activities

For the year ended 31 March 2006

	Note	Unrestricted funds £000s	Restricted funds £000s	Total 2005/06 £000s	Total 2004/05 £000s
Incoming resources					
Incoming resources from generated funds					
Voluntary income	2	368,152	40,526	408,678	368,859
Investment income		1,289	0	1,289	956
Incoming resources from charitable activities	3	829	9,787	10,616	8,849
Total incoming resources		370,270	50,313	420,583	378,664
Resources expended					
Charitable activities					
Governance costs	4	364,671	47,152	411,823	374,090
		1,645	0	1,645	1,355
Total resources expended		366,316	47,152	413,468	375,445
Net incoming resources before exceptional items					
		3,954	3,161	7,115	3,219
Exceptional items					
Cost of fundamental reorganisation	26	(1,000)	0	(1,000)	(203)
Net incoming resources after exceptional items		2,954	3,161	6,115	3,016
Notional costs					
Cost of capital	8	(686)	0	(686)	(436)
Net incoming resources after notional costs		2,268	3,161	5,429	2,580
Reversal of notional costs		686	0	686	436
Net incoming resources for the year	9	2,954	3,161	6,115	3,016
Profit/(loss) on sale of tangible fixed assets		459	0	459	(33)
Profit on revaluation of heritage assets	10	7,544	0	7,544	4,342
Net movement in funds		10,957	3,161	14,118	7,325
Balance brought forward at 1 April		58,614	1,920	60,534	53,209
Balance carried forward at 31 March		69,571	5,081	74,652	60,534

Summary income and expenditure account

For the year ended 31 March 2006

	2005/06 £000s	2004/05 £000s
Gross income of continuing operations	420,583	378,664
Gain/(loss) on sale of fixed assets	459	(33)
Profit on revaluation of tangible fixed assets	7,544	4,342
Total income of continuing operations	428,586	382,973
Total expenditure of continuing operations	414,468	375,648
Net income before investment asset and revaluation gains	14,118	7,325

The notes on pages 56 to 75 form part of these accounts.

Balance sheet

As at 31 March 2006

	Note	Unrestricted funds £000s	Restricted funds £000s	Total 31 March 2006 £000s	Total 31 March 2005 £000s
Heritage assets					
Works of art	10	<u>50,987</u>	<u>851</u>	<u>51,838</u>	<u>44,176</u>
Fixed assets					
Tangible assets	10	<u>5,652</u>	<u>0</u>	<u>5,652</u>	<u>6,313</u>
Current assets					
Debtors	12	2,190	4,119	6,309	6,252
Grant-in-aid receivable	2	1,000	0	1,000	1,000
Due from Arts Council lottery accounts		1,917	0	1,917	598
Grants paid in advance		10,822	1,653	12,475	13,261
Cash at bank and in hand		20,307	10,958	31,265	17,029
		<u>36,236</u>	<u>16,730</u>	<u>52,966</u>	<u>38,140</u>
Creditors: amounts falling due within one year					
Grants outstanding		18,759	8,123	26,882	21,928
Creditors	13	<u>6,308</u>	<u>3,488</u>	<u>9,796</u>	<u>8,041</u>
		<u>25,067</u>	<u>11,611</u>	<u>36,678</u>	<u>29,969</u>
Net current assets		<u>11,169</u>	<u>5,119</u>	<u>16,288</u>	<u>8,171</u>
Grant-in-aid receivable in over one year	2	874	0	874	1,874
Total assets less current liabilities		<u>68,682</u>	<u>5,970</u>	<u>74,652</u>	<u>60,534</u>
Represented by income funds					
Unrestricted fund	19	17,386	0	17,386	14,091
Restricted fund		0	5,119	5,119	1,920
Represented by capital funds					
Endowment fund	19	0	0	0	38
Designated fund		51,296	0	51,296	43,634
Donated asset reserve		0	851	851	851
		<u>68,682</u>	<u>5,970</u>	<u>74,652</u>	<u>60,534</u>

The notes on pages 56 to 75 form part of these accounts.

Peter Hewitt, Chief Executive
Sir Christopher Frayling, Chair
4 July 2006

Cash flow statement

For the year ended 31 March 2006

	Note	2005/06 £000s	2004/05 £000s
Operating activities			
Grant-in-aid received		409,678	369,859
Other cash receipts		11,678	9,276
Grants paid to arts organisations and other bodies		(344,870)	(311,549)
Cash paid to and on behalf of employees		(33,961)	(29,843)
Net cash movements relating to the Arts Council lottery accounts		(1,319)	6,548
Cash payment relating to fundamental reorganisation		(1,000)	(203)
Other cash payments (net)		(27,085)	(30,498)
Net cash inflow from operating activities	20	<u>13,121</u>	<u>13,590</u>
Returns on investments and servicing of finance			
Interest received on short-term cash deposits		1,289	956
Net cash inflow from returns on investments		<u>1,289</u>	<u>956</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,752)	(847)
Sale of tangible fixed assets		1,578	159
Net cash outflow from capital expenditure		<u>(174)</u>	<u>(688)</u>
Increase in cash	21, 22	<u>14,236</u>	<u>13,858</u>

The notes on pages 56 to 75 form part of these accounts.

Notes to the grant-in-aid accounts

1 Accounting policies

a) Basis of accounts

We have prepared these accounts in accordance with the Accounts Direction issued by the Secretary of State for Culture, Media and Sport in May 2002. They meet the requirements of the Companies Acts, and of the Statements of Standard Accounting Practice/Financial Reporting Standards issued and adopted by the Accounting Standards Board, so far as those requirements are appropriate. The accounts are presented in accordance with the revised Statement of Recommended Practice (SORP) issued by the Charity Commission in 2005, and comparative amounts have been restated accordingly.

The accounts are prepared on a historic cost basis. The Accounts Direction requires the inclusion of fixed assets at their value to the business by reference to current costs. However, for 2005/06, the values of fixed assets expressed in current cost terms, with the exception of the works of art collection and freehold land and buildings, are not materially different to historic costs. Therefore these fixed assets are shown at historic cost on the balance sheet. Freehold land and buildings are revalued periodically to current market value and are included at this valuation on the balance sheet.

Separate accounts have been prepared for the Arts Council's lottery activities, in accordance with the directions issued by the Secretary of State, which follow different accounting policies. Grant commitments are recognised in the lottery accounts once grant offers are accepted. Grant commitments in the grant-in-aid accounts are recognised when the offer is issued. Consequently, in the opinion

of the trustees, it is not possible to prepare full consolidated accounts covering both grant-in-aid and lottery activities as it would not provide a fair view of the application of the Arts Council's resources. In this respect, we have not been able to comply with paragraph 381 of the SORP issued by the Charity Commission in 2005. However, we have included a summary of the consolidated figures for our combined activities and an estimate of the impact of the change in accounting policy on the lottery accounts in the foreword to the accounts, on page 44.

b) Incoming resources

All income is accounted for on a receivable basis. Grant-in-aid from the Department for Culture, Media and Sport allocated to general purposes is taken to the statement of financial activities in the year in which it is received.

c) Expenditure

Grant expenditure is charged to the statement of financial activities in the year in which funded activities take place. Any amounts unpaid from grants at the year end are shown in the balance sheet as creditors.

Grant commitments made in the year relating to future years' activity as disclosed in note 14 of the accounts are not charged to the statement of financial activities, as we cannot recognise grant-in-aid income to match against these commitments before we have received it. The trustees do not believe this would provide a true and fair view of the Arts Council's resources. In this respect, we have not been able to comply with paragraph 159 of the SORP issued by the Charity Commission in 2005. Any advance payments to funded organisations in

Notes to the grant-in-aid accounts continued

1 Accounting policies continued

anticipation of grants to be charged in the following financial year are shown as assets in the balance sheet.

Expenditure classified as activities undertaken directly relates to expenditure supporting the arts other than grants. This includes the cost of delivering major arts policies and projects.

Support costs comprise operational expenditure, including staff costs, directly attributable to charitable activities.

Governance costs comprise an apportionment of general administration expenditure based on an estimate of staff time and direct costs such as the cost of administering Council and external and internal audit.

d) Depreciation and fixed assets

Depreciation is provided on all tangible fixed assets (excluding freehold land and works of art) at rates calculated to write off the cost less estimated residual value of each asset systematically over its expected useful life as follows:

- freehold buildings: 50 years
- leasehold buildings: life of the lease
- equipment, fixtures and fittings: four years
- motor vehicles: four years

A full year's depreciation is provided in the year of an asset's acquisition, and none in the year of its disposal. Software costs are written off in full in the year of acquisition. Donated fixed assets are capitalised and included as income at market value in the year in which they are received. All individual assets valued greater than £2,000 are

capitalised, except our freehold interests in the South Bank Centre and National Theatre as described in notes 17 and 18 of these accounts.

Our works of art collection is revalued at market value on a rolling basis, with all assets being revalued at least once every five years, and the highest value items at least every three years.

e) Leases

Costs in respect of operating leases are charged to the income and expenditure account on a straight line basis over the life of the lease.

f) Taxation

Arts Council England is a registered charity (No 1036733) and is eligible under the Income and Corporation Taxes Act 1988 to seek from HM Revenue and Customs exemption from taxes on income arising from its charitable objectives. HM Revenue and Customs has granted this exemption. Accordingly, no taxation has been provided for in these accounts.

g) Pensions

We provide a defined benefit pension scheme for our employees (the Arts Council Retirement Plan 1994) and are a participating employer in the West Yorkshire Pension Fund. However, as these are multi-employer schemes, we cannot identify our share of the underlying assets and liabilities. We have therefore accounted for the schemes as if they were defined contribution schemes, in accordance with FRS17 *Retirement Benefits*, with the costs of the schemes charged to the statement of financial activities.

Notes to the grant-in-aid accounts continued

1 Accounting policies continued

h) Apportioned costs

Arts Council England incurs indirect costs which are shared between activities funded from grant-in-aid and activities funded from the National Lottery. We are required to apportion indirect costs properly between the two areas on a full cost basis in accordance with good accounting practice. The notes to the statement of financial activities are shown before costs apportioned to the Arts Council lottery distribution accounts.

In accordance with the SORP 2005, we have apportioned support costs between our different activities. We have used an estimate of staff time spent on each activity to do this. Prior year figures have been restated accordingly.

i) Notional costs

In accordance with HM Treasury guidance, the notional cost of capital is charged in the statement of financial activities in arriving at a net incoming/(outgoing) resources figure. This is then added back in the statement of financial activities, and so no provision is included on the balance sheet.

2 Voluntary income

	Unrestricted funds £000s	Restricted funds £000s	Total 2005/06 £000s	Total 2004/05 £000s
Cash grant-in-aid voted by Parliament and paid in full	369,152	0	369,152	340,455
Capital funds for South Bank Centre	0	2,000	2,000	0
Capital funds for Capital of Culture	0	3,000	3,000	0
Other ring-fenced funds	0	2,800	2,800	0
Creative Partnerships	0	32,726	32,726	29,404
	<u>369,152</u>	<u>40,526</u>	<u>409,678</u>	<u>369,859</u>
Less: grant-in-aid receivable at 31 March 2005	(2,874)	0	(2,874)	(3,874)
	<u>366,278</u>	<u>40,526</u>	<u>406,804</u>	<u>365,985</u>
Plus: grant-in-aid receivable outstanding as at 31 March 2006	1,874	0	1,874	2,874
Grant-in-aid as shown in the statement of financial activities	<u>368,152</u>	<u>40,526</u>	<u>408,678</u>	<u>368,859</u>

Notes to the grant-in-aid accounts continued

3 Incoming resources from charitable activities

	Unrestricted funds £000s	Restricted funds £000s	Total 2005/06 £000s	Total 2004/05 £000s
Grants, sponsorship and donations received	139	9,693	9,832	8,304
Local authority subscriptions	380	3	383	89
Sundry	310	91	401	456
	<u>829</u>	<u>9,787</u>	<u>10,616</u>	<u>8,849</u>

	Unrestricted funds £000s	Restricted funds £000s	Total 2005/06 £000s	Total 2004/05 £000s
Grants, sponsorship and donations are analysed as follows:				
Arts Council of Northern Ireland	0	150	150	200
Arts Council of Wales	0	150	150	0
Association of Greater Manchester Authorities	0	340	340	170
Birmingham City Council	0	189	189	0
Bolton Metropolitan Borough Council	0	84	84	101
Commission for Architecture and the Built Environment	0	223	223	258
Department for Culture, Media and Sport	0	375	375	350
Department for Education and Skills	0	2,504	2,504	2,591
Deutsche Bank	0	60	60	0
DTI Phoenix Fund	0	1,003	1,003	0
Esmee Fairbairn Foundation	0	84	84	0
European Regional Development Fund	0	970	970	83
European Social Fund	0	1,118	1,118	1,924
Lancashire County Council	0	69	69	69
Manchester City Council	0	101	101	170
North West Development Agency	0	58	58	362
Northumberland County Council	0	73	73	0
Nottingham County Council	0	70	70	0
One NorthEast	0	200	200	250
Scottish Arts Council	0	240	240	120
South East England Development Agency	0	203	203	392
Other	139	1,429	1,568	1,264
	<u>139</u>	<u>9,693</u>	<u>9,832</u>	<u>8,304</u>

Notes to the grant-in-aid accounts continued

4a Charitable activities

	Activities undertaken directly £000s	Grant funding of activities £000s	Net support costs £000s	Total 2005/06 £000s	Total 2004/05 £000s
Regularly funded organisations	72	300,806	5,331	306,209	284,390
Grants for the arts – individuals	0	8,865	3,644	12,509	11,443
Strategic funding and activities	13,773	19,180	13,298	46,251	47,834
Creative Partnerships	14,496	12,373	7,212	34,081	27,830
Other restricted funds	1,875	11,177	1,512	14,564	3,906
Lapsed and revoked commitments	0	(1,791)	0	(1,791)	(1,312)
	<u>30,216</u>	<u>350,610</u>	<u>30,997</u>	<u>411,823</u>	<u>374,091</u>

- Regularly funded organisations are those organisations of strategic importance with which the Arts Council has long-term, multi-year funding agreements
- Grants for the arts – individuals are awards for activities that benefit people in England or help artists from England to carry out their work
- Strategic funding and activities are those specific projects funded by grants and direct arts expenditure. They provide essential leverage for national, regional and local partnerships, and act as investment in seed funding, research and development for the arts in England
- Creative Partnerships are projects through which the Arts Council encourages schools to explore new ways to improve learning and attainment through creativity
- Other restricted funds are those specific projects delivered through funds provided by partners as detailed in note 3

4b Analysis of grant funding by office

	Regularly funded organisations £000s	Grants for the arts individuals £000s	Other £000s	Total 2005/06 £000s	Total 2004/05 £000s
East	8,250	618	2,160	11,028	10,969
East Midlands	9,239	842	1,864	11,945	10,814
London	151,488	2,802	2,046	156,336	145,798
North East	11,439	706	4,051	16,196	14,855
North West	20,522	877	6,492	27,891	22,444
South East	12,865	769	1,348	14,982	14,085
South West	14,307	743	1,799	16,849	15,034
West Midlands	36,513	830	1,742	39,085	35,202
Yorkshire	23,488	678	1,527	25,693	24,095
National	12,695	0	7,328	20,023	18,030
Creative Partnerships	0	0	12,373	12,373	4,764
	<u>300,806</u>	<u>8,865</u>	<u>42,730</u>	<u>352,401</u>	<u>316,090</u>

Notes to the grant-in-aid accounts continued

4c Analysis of grants by recipient

	Grants to institutions £000s	Grants to individuals £000s	Total 2005/06 £000s	Total 2004/05 £000s
Regularly funded organisations	300,784	21	300,805	279,373
Grants for the arts – individuals	23	8,843	8,866	8,005
Strategic funding and activity	21,920	883	22,803	21,559
Creative Partnerships	10,129	2,244	12,373	4,764
Other restricted funds	7,439	115	7,554	2,389
	<u>340,295</u>	<u>12,106</u>	<u>352,401</u>	<u>316,090</u>

4d Analysis of support costs

	Unrestricted £000s	Restricted £000s	Less recharge to lottery £000s	Total 2005/06 £000s	Total 2004/05 £000s
Staff costs	22,208	3,465	(9,092)	16,581	16,249
Agency staff costs	1,981	343	(820)	1,504	1,444
Depreciation	1,012	10	(615)	407	407
Travelling, subsistence and entertainment	1,408	429	(587)	1,250	1,299
Rent and rates	4,037	798	(1,742)	3,093	2,885
Professional fees	770	536	(450)	856	947
Office and sundry	3,828	1,228	(1,637)	3,419	3,351
IT project*	4,364	0	(1,704)	2,660	1,031
Irrecoverable Value Added Tax	1,479	403	(655)	1,227	1,189
	<u>41,087</u>	<u>7,212</u>	<u>(17,302)</u>	<u>30,997</u>	<u>28,802</u>

* This reflects costs incurred in the year on developing the new 'Arena' system for finance, grants and management information to replace the different IT systems currently in place in each office.

5 Staff costs

	2005/06 £000s	2004/05 £000s
Salaries and wages	25,678	22,625
Employer's National Insurance	2,126	1,932
Employer's pension contributions	3,670	2,957
Agency staff	2,487	2,329
	<u>33,961</u>	<u>29,843</u>

The above figures for 2005/06 are net of £295,000 for staff on secondment to other organisations during the year.

Staff costs include £4,544,000 (2004/05: £2,366,000) for staff involved in direct delivery of programmes included in activities undertaken directly in note 4.

Notes to the grant-in-aid accounts *continued*

5 Staff costs *continued*

The average number of employees during the year was made up as follows:

	2005/06	2004/05
Direct delivery of programmes	38	35
Creative Partnerships	170	120
Support and corporate governance	616	628
(Includes agency staff)	<u>824</u>	<u>783</u>

The figures above are net of five staff seconded to other organisations during 2005/06.

The number of employees whose remuneration exceeded £60,000 for the year are detailed below. These figures do not include executive directors who are listed in the remuneration report.

	2005/06	2004/05
Emoluments for the year:		
£60,000–£69,999	6	5
£70,000–£79,999	4	1

6 Council members' expenses

It is part of Council members' duties to assess artistic work. The cost of their tickets for attendance at performances and events is met by the Arts Council. In 2005/06, the total cost of tickets purchased for this purpose was £1,000 (2004/05: £3,000). All our Council members are able to claim back their travel and subsistence costs. The total amount reimbursed in the year is shown in note 9.

7 Pensions

We are a participating employer in the Arts Council Retirement Plan (1994), and the West Yorkshire Pension Fund and also contribute to a group personal pension arrangement.

Arts Council Retirement Plan (1994)

The scheme is a defined benefit scheme. However, because it is a multi-employer scheme, we are unable to identify our share of the underlying assets and liabilities. Consequently, we have accounted for the scheme as if it were a defined contribution scheme, in accordance with FRS17 *Retirement Benefits*.

The scheme is financed by payments by Arts Council England and employees into a trustee-administered fund independent of Arts Council England's finances. These contributions are invested by a leading fund management company. The net market value of the scheme's assets at 31 March 2006 was £48.3 million.

An actuarial valuation of the pension fund takes place every three years. At the last valuation on 1 April 2005, the actuarial value of the assets using the projected unit method was sufficient to cover 67% of the value accrued to members, a deficit of £17,100,000. As a result, and on the advice of the actuary, we will be increasing our employer's contribution to 23.5% with effect from 1 April 2006.

The main long-term assumptions used for the actuarial valuation were as follows:

Price inflation rate	2.9%
Rate of pay increases	4.4%
Rate of pension increases	2.8%

Amounts due to the fund at 31 March 2006 were £nil (31 March 2005: £nil).

Notes to the grant-in-aid accounts *continued*

7 Pensions *continued*

West Yorkshire Pension Fund

We are an admitted member of the West Yorkshire Pension Fund. The scheme is a defined benefit scheme. However, because it is a multi-employer scheme, we are unable to identify our share of the underlying assets and liabilities. Consequently, we have accounted for the scheme as if it were a defined contribution scheme, in accordance with FRS17 *Retirement Benefits*.

The net market value of total scheme assets at 31 March 2006 was £6.6 million.

An actuarial valuation of the pension fund takes place every three years. At the last valuation on 31 March 2004, the actuarial value of the assets using the projected unit method was sufficient to cover 82% of the value accrued to members. From 1 April 2003, employer contributions were set at 15%.

The main long-term assumptions used for the actuarial valuation were:

Rate of inflation	2.8%
Rate of pay increases	4.6%
Rate of pension increases	2.8%

Amounts due to the fund at 31 March 2006 were £nil (31 March 2005: £42,000).

Axa Sun Life

Arts Council England contributes to a group personal pension arrangement in respect of some London office employees. All contributions are charged to the income and expenditure account as they arise. At 31 March 2006, amounts due to the fund were £6,000 (2004/05: £6,000).

Legacy Regional Arts Board pension schemes

All active Regional Arts Board pension members, except those from London Arts, transferred to the West Yorkshire Pension Fund on 1 April 2002. However, their past service remained with the legacy pension provider as detailed below:

East England Arts	Cambridgeshire Council
East Midlands Arts	Nottingham Council
Northern Arts	Tyne & Wear Pension Fund
North West Arts	Greater Manchester Pension Fund
Southern Arts	Hampshire Pensions Trust
South East Arts	Surrey Council
South West Arts	Devon Council
West Midlands Arts	Staffordshire County Council
Yorkshire Arts	Remained in West Yorkshire Pension Fund

Arts Council England is responsible for meeting any further liabilities relating to Regional Arts Board employees which arise in respect of these funds. Liabilities in relation to three schemes have been addressed. The remaining schemes have not indicated that any liability exists. No provision has been made in these accounts for potential sums payable, because of the uncertain nature of these liabilities.

8 Notional costs

Notional cost of capital is calculated as 3.5% (2004/05: 3.5%) of the average net assets employed by the Arts Council in the year.

Notes to the grant-in-aid accounts continued

9 Net incoming resources for the year

	2005/06 £000s	2004/05 £000s
Net incoming resources are stated after charging:		
a) auditors' remuneration	53	51
b) operating leases	3,893	3,422
c) Council members' travel, subsistence and hospitality	42	25
d) insurance: trustees' and senior officers' indemnity	16	15

10 Heritage assets and tangible fixed assets

	Land and buildings £000s	Equipment fixtures and fittings £000s	Vehicles £000s	Heritage assets: works of art £000s	Total £000s
Costs at 1 April 2005	7,565	1,980	0	44,176	53,721
Additions	672	884	18	178	1,752
Revaluations	0	0	0	7,544	7,544
Less: disposals	(1,148)	(6)	0	(60)	(1,214)
Cost at 31 March 2006	<u>7,089</u>	<u>2,858</u>	<u>18</u>	<u>51,838</u>	<u>61,803</u>
Depreciation at 1 April 2005	2,024	1,208	0	0	3,232
Less: depreciation on disposals	(89)	(6)	0	0	(95)
Revaluations	0	0	0	0	0
Provided for 2005/06	535	636	5	0	1,176
Depreciation at 31 March 2006	<u>2,470</u>	<u>1,838</u>	<u>5</u>	<u>0</u>	<u>4,313</u>
Net book value at 31 March 2006	<u>4,619</u>	<u>1,020</u>	<u>13</u>	<u>51,838</u>	<u>57,490</u>
Net book value at 31 March 2005	<u>5,541</u>	<u>772</u>	<u>0</u>	<u>44,176</u>	<u>50,489</u>

The net book value of land and buildings comprises:

	31 March 2006 £000s	31 March 2005 £000s
Freehold	1,344	1,746
Short leasehold improvements	3,275	3,795
	<u>4,619</u>	<u>5,541</u>

Our freehold property in Dewsbury was professionally revalued at 31 March 2005 by Drivers Jonas to an open market value of £600,000. On a historic cost basis the net book value at 31 March 2006 would have been £405,000.

Notes to the grant-in-aid accounts continued

10 Heritage assets and tangible fixed assets continued

Works of art and poetry collection

The Arts Council Collection has been valued by the curator at £51,838,000 at 31 March 2006 (31 March 2005: £44,176,000).

The purpose of the collection is to increase the understanding and appreciation of contemporary art and to widen the audience for contemporary art through loans to other galleries, public institutions and exhibitions. It is not held for investment or resale, and is therefore classified as a designated fund.

Arts Council England also owns a library of 20th century poetry that is managed by the Hayward Gallery. Due to the difficulty in obtaining an accurate valuation for this asset, it has not been included on the balance sheet.

11 Costs apportioned to Arts Council England lottery distribution accounts

Directions issued by the Secretary of State require that costs incurred which relate to both grant-in-aid and lottery activities should be apportioned between the two in accordance with good accounting practice. Consequently, we have apportioned them accordingly, based on an assessment of time spent on each activity. Costs associated with Creative Partnerships are excluded from this assessment.

12 Debtors

	31 March 2006 £000s	31 March 2005 £000s
Trade debtors	4,350	2,298
Other debtors	710	562
Prepayments and accrued income	1,249	3,392
	<u>6,309</u>	<u>6,252</u>

13 Creditors: amounts falling due within one year

	31 March 2006 £000s	31 March 2005 £000s
Trade creditors	749	2,055
Other creditors including taxes and social security	418	164
Accruals and deferred income	8,629	5,822
	<u>9,796</u>	<u>8,041</u>

Notes to the grant-in-aid accounts continued

14 Grant offers

	31 March 2006 £000s	31 March 2005 £000s
Forward funding:		
2005/06	n/a	295,144
2006/07	313,226	309,331
2007/08	323,202	320,267
	<u>636,428</u>	<u>924,742</u>

Forward funding at 31 March 2006 mainly represents allocations for regularly funded organisations for the three-year funding cycle 2005/06 to 2007/08 that were announced before the year end.

15 Leases

At 31 March 2006, the Arts Council had annual commitments under non-cancellable operating leases as set out below.

	Land & buildings 31 March 2006 £000s	Land & buildings 31 March 2005 £000s
Operating leases which expire:		
within one year	660	130
within two and five years inclusive	515	1,019
over five years	2,402	2,455
	<u>3,577</u>	<u>3,604</u>

16 Capital commitments

There were contracted capital commitments at 31 March 2006 of £nil (31 March 2005: £nil).

17 South Bank Centre lease

The Arts Council owns the freeholds of the National Film Theatre, the Museum of the Moving Image, the Hayward Gallery, the Queen Elizabeth Hall, the Purcell Room and the Royal Festival Hall, which are leased to the South Bank Centre. Since the lease is long term and we derive no income from the freeholding, the value of the asset is immaterial and has therefore not been included in these accounts.

Notes to the grant-in-aid accounts continued

18 Royal National Theatre lease

The Arts Council owns the freehold of the Royal National Theatre, which is leased to and occupied by the Royal National Theatre Board Limited. Since the lease is long term and we derive no income from the freeholding, the value of the asset is immaterial and has therefore not been included in these accounts.

19 Reconciliation of movements in funds

	At 1 April			At 31 March	
	2005	Income	Expenditure	Transfers	2006
	£000s	£000s	£000s	£000s	£000s
Income funds					
Unrestricted funds	13,204	370,270	(366,857)	(118)	16,499
Revaluation reserve	887	0	0	0	887
Restricted funds					
Creative Partnerships	75	32,726	(31,444)	0	1,357
Other restricted funds	1,845	17,587	(15,670)	0	3,762
Capital funds					
Designated funds	3,570	0	0	118	3,688
Donated asset reserve	851	0	0	0	851
Endowment funds	38	0	(38)	0	0
Revaluation reserve	40,064	7,544	0	0	47,608
	<u>60,534</u>	<u>428,127</u>	<u>(414,009)</u>	<u>0</u>	<u>74,652</u>

Description of funds

Income funds

a) Unrestricted funds

Grant-in-aid is received from the Department for Culture, Media and Sport. This is the Arts Council's main source of income, and is supplemented by other income. This fund is applied to grants expenditure and the running costs of the Arts Council.

b) Revaluation reserve

This relates to the unrealised surplus on revalued freehold properties.

Notes to the grant-in-aid accounts continued

19 Reconciliation of movements in funds continued

c) Restricted funds

The Arts Council receives grants, sponsorship and donations from various sources for specific activities. Any such income and associated expenditure is identified separately. The balance is represented as follows:

	31 March 2006 £000s	31 March 2005 £000s
Department for Culture, Media and Sport (Creative Partnerships)	1,357	75
Department for Culture, Media and Sport (other)	1,635	200
European Regional Development Fund	579	241
European Social Fund	711	638
North West Development Agency	60	113
South East England Development Agency	270	211
Other	507	442
	<u>5,119</u>	<u>1,920</u>

Capital funds

a) Designated funds

This fund relates to capital expenditure on works of art allocated from the unrestricted fund. The transfer figure of £118,000 relates to additions to the collection purchased during the year from unrestricted funds less disposals in the year.

b) Donated asset reserve

This fund relates mainly to donations received by the Arts Council for obtaining works of art for our collection.

c) Endowment funds

This fund was transferred to another organisation during the year.

d) Revaluation reserve

Due to improvements in our system for valuing works of art, we are now able to show our collection at full market value on the balance sheet. The difference between the cost and market value of the collection is included in this fund.

Notes to the grant-in-aid accounts continued

20 Cash flow reconciliation

	2005/06 £000s	2004/05 £000s
Reconciliation of operating surplus to net cash inflow from operating activities		
Operating surplus	14,118	7,325
Interest receivable	(1,289)	(956)
Depreciation charges	1,176	1,046
(Profit)/loss on disposal of fixed assets	(459)	33
Decrease in stocks	0	13
Fixed assets written off in year	0	33
Revaluation of fixed assets	(7,544)	(4,342)
(Increase)/decrease in debtors and prepayments	(376)	7,750
Decrease/(increase) in grants paid in advance	786	(1,014)
Increase in grants outstanding	4,954	4,243
Increase/(decrease) in creditors	1,755	(541)
Net cash inflow from operating activities	<u>13,121</u>	<u>13,590</u>

21 Reconciliation of net cash flow to movement in funds

	2005/06 £000s	2004/05 £000s
Increase in cash in the year	14,236	13,858
Funds at 1 April	17,029	3,171
Funds at 31 March	<u>31,265</u>	<u>17,029</u>

22 Analysis of net cash

	1 April 2005 £000s	Cash flow £000s	31 March 2006 £000s
Cash	17,029	14,236	31,265

23 Efficiency target performance

Arts Council England has agreed with the Department for Culture, Media and Sport a target for recurrent administrative cost savings for our grant-in-aid and lottery activities combined as a result of the merger of the former Arts Council of England with the 10 regional arts boards in April 2002. The target is to achieve savings by comparison with the administration costs of the 11 previous organisations prior to the merger. This measure excludes the one-off costs of change and the cost of new developments, the most material of which is the Creative Partnership programme. All calculations are adjusted to remove the impact of inflation. The target and actual savings for 2005/06, taking grant-in-aid and lottery activities together, are disclosed below:

	2005/06 £000s	2004/05 £000s	2003/04 £000s
Target	6,700	6,000	5,000
Actual	7,252	6,977	5,614

Notes to the grant-in-aid accounts continued

24 Related parties

24a) Council members

We maintain publicly available registers in which Council members declare their interests, including any direct interests in grant applications made to and commercial relationships with the Arts Council. These are the interests in grant recipients declared for the year ended 31 March 2006:

Grant for the year ended 31 March 2006 £000s	Balance unpaid at 31 March 2006 £000s	Organisation	Council member	Relationship
5	0	Mojisola Adebayo	Diran Adebayo	Relative
151	0	Cardboard Citizens		Relative is employee
40	20	York Museums	Janet Barnes	Employee
0	25	Capital of Culture	Tom Bloxham MBE	Board member
0	5	Urban Splash		Board member
50	5	Creative People	Kentaké Chinyelu-Hope	Board member
18	2	Freeform Arts Trust	Sir Christopher Frayling	Relative is employee
90	1	Royal College of Art		Other
153	76	Culture East Midlands	François Matarasso	Advisor/ consultant
82	0	Northamptonshire County Council		Other
28	28	Nottingham Playhouse		Board member
416	101	Visiting Arts		Board member
165	0	National Opera Studio	Sir Brian McMaster CBE	Board member
31	0	Young Concert Artists Trust		Trustee
3	0	Elsie Owusu Architects	Elsie Owusu OBE	Board member
20	46	Royal Society of Arts		Practice
36	0	Yaa Asantewaa Arts and Community Centre		Advisor/ consultant

Notes to the grant-in-aid accounts continued

24 Related parties continued

Grant for the year ended 31 March 2006 £000s	Balance unpaid at 31 March 2006 £000s	Organisation	Council member	Relationship
10	3	Centre for Arts and Humanities in Health and Medicine	Dr Tom Shakespeare	Collaborator
368	10	DanceCity		Freelance worker
403	5	Graeae Theatre		Advisor/ consultant
15	0	Hatton Gallery		Collaborator
540	11	Live Theatre		Writer/ performer
63	0	Monster Productions		Board member
0	6	PEALS Research Institute, University of Newcastle		Employee
106	8	aliss	Dorothy Wilson	Co-director
0	41	Birmingham Arts Marketing		Board member
886	123	mac (Midlands Arts Centre)		Employee
205	20	Motionhouse Dance Theatre		Board member
240	3	Nitro	Lady Sue Woodford Hollick	Relative is employee
20,209	16	South Bank Centre*		Partner is chair

*In addition to the above, in the year ended 31 March 2006, advance payments on grants are included in the balance sheet for the following:

	Debtor balance at 31 March 2006 £000s
South Bank Centre	5,352

Notes to the grant-in-aid accounts continued

24 Related parties continued

24b) Directors and senior managers

Executive directors and senior managers in Arts Council England are also required to declare any direct interests in grant applications made to and commercial relationships with the Arts Council. These are the interests in grant recipients declared for the year ended 31 March 2006:

Grant for the year ended 31 March 2006 £000s	Balance unpaid at 31 March 2006 £000s	Organisation	Executive director/ senior manager	Relationship
191	0	Pacitti Company	Mark Allen	Board member
1	0	Goldsmiths College	Marjorie Allthorpe-Guyton	Board member
25	3	Norwich School of Art		Honorary doctorate
90	1	Royal College of Art		Honorary fellow
149	34	Fierce Festival	Maria Balshaw	Board member
347	0	The Public		Family member is employee
170	0	Robert Hylton Urban Classicism	Theresa Beattie	Advisory committee member
140	5	Manchester Camerata	Hilary Boulding	Mentor to chief executive
153	4	Bristol Cultural Development Partnership	Nick Capaldi	Board member
14	0	Culture South West		Board member
63	0	Kirklees Metropolitan Borough Council	Andy Carver	Partner is director
17,261	77	Royal National Theatre	Moss Cooper	Partner is employee
581	126	Artangel	Kim Evans	Patron
100	0	Ixia	Caroline Foxhall	Partner is member of executive committee
43	13	Leeds Metropolitan University	Adrian Friedli	Partner is employee

Notes to the grant-in-aid accounts continued

24 Related parties continued

Grant for the year ended 31 March 2006 £000s	Balance unpaid at 31 March 2006 £000s	Organisation	Executive director/ senior manager	Relationship
396	90	De La Warr Pavilion	Felicity Harvest	Family member is employee
0	2	Hastings Borough Council		Family member is employee
57	19	Kent County Council		Family member is employee
28	28	Nottingham Playhouse	Isobel Hawson	Partner is employee
41	21	Groundwork Birmingham	Sally Luton	Former director
8	8	Maverick TV		Director
230	18	Clore Leadership Programme	Pauline Tambling	Member of management committee
200	0	Théâtre Sans Frontières	Linda Tuttiett	Partner is board member
0	4	University of Teesside		Partner is advisor/ consultant
1,260	45	InIVA	Sarah Wason	Partner is director

24c) Other government bodies

The Department for Culture, Media and Sport is the sponsoring department for Arts Council England and is regarded as a related party. At the year end, the Arts Council had the following balances outstanding with other government bodies:

	Creditor 31 March 2006 £000s	Debtor 31 March 2006 £000s
Balances with other central government bodies	13,531	3,081
Balances with local authorities	5,865	77
Balances with NHS Trusts	9	0
Balances with public corporations and trading funds	15	20

Notes to the grant-in-aid accounts continued

25 Financial instruments

FRS 13, *Derivatives and other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period, in creating or changing the risks the entity faces in undertaking its activities.

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

a) Liquidity risk

All the Arts Council's liabilities are covered by current assets. As a result, we are not exposed to significant liquidity risks.

b) Interest rate risk

The cash balance of £31,265,000 at 31 March 2006 was held in instant access variable rate bank accounts which carried an average interest rate of 0.22% below base rate.

c) Foreign currency risk

Our exposure to foreign currency risk is not significant.

26 Exceptional items

In March 2006, we announced a major restructuring of our national office and a provision for the cost of implementing this has been included in the accounts. Costs relating to the restructuring, as detailed below, have been disclosed separately in the income and expenditure account as an exceptional item. Also included in this figure are the final costs of the merger of the Arts Council of England with the 10 regional arts boards in April 2002.

	2005/06 £000s	2004/05 £000s
Redundancy costs	<u>1,000</u>	<u>203</u>
	<u>1,000</u>	<u>203</u>

Notes to the grant-in-aid accounts continued

27 Subsidiary undertakings

Arts Council England owns the entire share capital of Artco Trading Limited through which we operate Own Art, our art purchase scheme. We have consolidated the following figures for this subsidiary into our accounts.

Own Art	2005/06 £000s	2004/05 £000s
Cash at bank and in hand	349	61
Other debtors	4	7
Current assets	353	68
Other creditors	65	42
Amounts due to Arts Council England	101	3
Current liabilities	166	45
Net assets	187	23
Reserves	187	23

The 2005/06 figures were unaudited at the date of signing these accounts.

During 2005/06, the Tabernacle Centre Limited became a wholly owned subsidiary of Arts Council England. It is a company limited by guarantee of its directors. It runs a community arts centre. As at 31 March 2006, there are two Arts Council employees on the board.

The Tabernacle Centre	2005/06 £000s
Fixed assets	23
Cash at bank and in hand	34
Other debtors	4
Current assets	61
Other creditors	8
Current liabilities	8
Net assets	53
Reserves	53

The 2005/06 figures were unaudited at the date of signing these accounts.

lottery distribution accounts

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Arts Council England lottery distribution accounts 1 April 2005–31 March 2006

Foreword

Reference and administrative details of the charity, its trustees and advisors

The Arts Council of England, trading as Arts Council England, is a registered charity, charity registration number 1036733. The address of our principal office is 14 Great Peter Street, London SW1P 3NQ.

Our Council members are the trustees of Arts Council England. The national Council consists of 15 members, nine of whom also take on the role of chair of one of the regional councils as detailed in brackets below:

Member	Date of appointment	End of appointment
Sir Christopher Frayling (Chair)	February 2004	January 2008
Diran Adebayo	October 2004	October 2008
Janet Barnes (Yorkshire)	February 2005	January 2009
Tom Bloxham MBE (North West)	May 2002	May 2010
Deborah Bull CBE	May 2002	June 2005
Kentaké Chinyelu-Hope (South East)	October 2005	September 2009
Deborah Grubb (South East)	May 2002	July 2005
Professor Alan Livingston (South West)	May 2002	May 2007
Stephen Lowe (East Midlands)	May 2002	July 2005
François Matarasso (East Midlands)	October 2005	September 2009
Sir Brian McMaster CBE	May 2002	May 2008
Elsie Owusu OBE	May 2002	May 2009
Dr Tom Shakespeare (North East)	October 2004	September 2008
William Sieghart	May 2002	May 2006
Professor Stuart Timperley (East)	May 2002	May 2008
Dorothy Wilson (West Midlands)	May 2002	May 2009
Lady Sue Woodford Hollick (London)	May 2002	May 2008

During the year, Deborah Grubb, Stephen Lowe and Deborah Bull CBE retired as members of the Council at the end of their respective terms of appointment. One seat on Council was vacant at the end of the financial year and this has since been filled by Keith Khan with effect from 1 May 2006.

Reference and administrative details of the charity, its trustees and advisors continued

The Council has appointed an Audit Committee, with Dorothy Wilson as Chair. Sir Brian McMaster CBE, Professor Stuart Timperley and Professor Alan Livingston served as members of the committee during the year, with David Brierley CBE and Gill Laver as co-opted members. The Committee is responsible for overseeing the internal and external audit process, to monitor the codes of practice for Council members and staff, and to oversee the Risk Register. The Committee operates within written terms of reference, and met four times during the year.

Sir Christopher Frayling took up post as Chair on 2 February 2004. The Chief Executive, Peter Hewitt, was appointed by the Council on 9 March 1998 with the approval of the Secretary of State for Culture, Media and Sport. His contract expires on 31 March 2008. From 4 January to 3 May 2005, Peter Hewitt took strategic time out from his role as Chief Executive to step outside his day job, stand back and take stock. During that time Kim Evans became acting Chief Executive.

Our banker is the Co-operative Bank of 78–80 Corn Hill, London EC3V 3NJ.

Our auditor is the Comptroller and Auditor General of 157–197 Buckingham Palace Road, Victoria, London SW1W 9SP. Fees paid to the National Audit Office for lottery external audit services during 2005/06 were £45,000 (2004/05: £44,000).

Hewitt Bacon & Woodrow Limited of 6 More London Place, London SE1 2DA, are

the administrators, actuaries and investment advisors to the Arts Council Retirement Plan.

Arts Council England has appointed a number of specialised solicitors to its external solicitor pool.

We attempt to abide by the Better Payment Practice Code, and in particular to pay bills in accordance with contract. Invoices are normally settled within our suppliers' standard terms, usually 30 days. In 2005/06, 72% of undisputed lottery invoices were paid within 30 days (2004/05: 85%).

Structure, governance and management

Arts Council England was established by Royal Charter on 13 March 1994, taking over those responsibilities in England previously discharged by the Arts Council of Great Britain. The objectives of the Arts Council as stated in the Royal Charter, our governing document, are i) to develop and improve the knowledge, understanding and practice of the arts, ii) to increase accessibility of the arts to the public, and iii) to advise and cooperate with other government departments, local authorities and the Arts Councils for Scotland, Wales and Northern Ireland (or their successors). To this end, we make grants to artists and arts organisations and engage in other activities on behalf of the sector.

Arts Council England was granted a Supplemental Charter on 18 March 2002. Its purpose was 'to give effect to new arrangements for regionalisation of its structure and activities'. There were no changes to the objects of the Arts Council and the main changes relate to our powers to establish

Structure, governance and management continued

and to delegate powers and functions to regional councils. The charter sets out the new composition of the Council, which includes the chairs of the regional councils.

Arts Council England works at arm's length from government and has the status of a non-departmental public body. As such, we are regulated in accordance with a Management Statement/Financial Memorandum issued by the Secretary of State. We prepare our accounts for grant-in-aid and lottery separately to comply with Accounts Directions also issued by the Secretary of State.

Arts Council England has nine regional offices, matching the government's regional boundaries, and a national office. Each region has a council and the 15-strong national Council (details on page 77) includes the chair of each of the regional councils. The national Council met in formal session five times during the year and monitored the work of the chief executive and staff. Council members are appointed by the Secretary of State for Culture, Media and Sport and are eligible for reappointment. The term of office is determined by the Secretary of State.

The Executive Board is made up of the Chief Executive, Peter Hewitt, the nine regional executive directors and the four executive directors at the national office for arts, development, external relations, and finance and operations.

The Arts Council maintains a register of interests of its members, which is available

for public inspection by appointment at our Great Peter Street address.

Our priorities for 2006 to 2008, as published in *Our agenda*, are:

- taking part in the arts
- children and young people
- the creative economy
- vibrant communities
- internationalism
- celebrating diversity

During 2005, Arts Council England took part in a peer review process run by the Department for Culture, Media and Sport (DCMS). This is designed to modernise the relationship between DCMS and non-departmental public bodies and help the latter improve overall performance.

In December 2005, we published an action plan identifying a number of ways in which we are responding to the key recommendations in the peer review team's report.

Research activity

Arts Council England's three-year research strategy for 2003–06 is designed to address our strategic objectives, gather the data needed to demonstrate public accountability, evaluate the outcomes of our funding, develop a sound evidence base which can be used to inform and evaluate policy and planning, and provide research findings to help make the case for the arts.

During the year, we contributed funding to a major new survey of the general public, *Taking Part*, commissioned by DCMS in partnership with Sport England, English Heritage and

Research activity continued

the Museums, Libraries and Archives Council. Information was collected from approximately 6,000 adults about their attendance at, participation in, and attitudes to the arts. As well as giving us valuable information on levels of engagement with the arts, the data will also be used to report to DCMS on progress towards achieving the performance indicator in the Funding Agreement. For some results of the survey, see pages 133 to 135.

Financial review

Arts Council England receives grant-in-aid from DCMS and is one of the bodies designated to distribute funds from the National Lottery by the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998). This licence is currently under review and an announcement as to the future distributors will be made in June 2006.

This year, for the first time, we have implemented significant changes to the disclosure made in the annual accounts as required under the new Financial Reporting Manual issued by HM Treasury, including the remuneration report on pages 34 to 36. This report replaces notes previously included in the grant-in-aid and lottery accounts on executive directors' and Council members' remuneration.

New lottery grant commitments (offers made and accepted) in the year totalled £211 million. At year end, a total of £208 million accepted grant commitments remained outstanding and awaiting payment together with £15 million commitments offered but not accepted. This compares with a balance

in the National Lottery Distribution Fund (NLDF), plus bank balances, of £163 million. We monitor levels of lottery income closely, and the level of outstanding grant commitments is considered prudent, based on past and projected income flows.

At 31 March 2006, our balance in the NLDF account was £153 million. This is less than the target balance agreed with DCMS of £160 million. The cash balance at the same date stood at £10 million.

Throughout the year we awarded grants in support of the arts under a number of separate schemes and programmes. These included our current scheme, Grants for the arts, and also the Arts Capital Programme, Stabilisation programme and Awards for All. Of amounts approved in principle in the previous year, only £3 million had not been offered as grants by the year end under Grants for the arts – capital programme. The equivalent figure for the Arts Capital Programme was £3 million.

In 2005/06, we delivered a combined lottery and grant-in-aid administrative saving of £7.3 million compared to the target of £6.7 million in our Funding Agreement and agreed with DCMS (2004/05 saving £7 million; target £6 million).

The savings arose from a number of areas. These include the reduction of staff numbers following the merger in April 2002, the merger of two regional arts boards into our South East office, savings relating to reducing the use of office space in London, savings in relation to support services and procurement savings.

Financial review continued

During the year, responsibility for managing the relationship with most capital grant recipients was delegated from the national office to regional offices which will achieve savings in lottery administration costs. We anticipate further savings by rationalising IT systems and further reviews of staffing in 2006/07 and 2007/08.

Further details of the activities and policies of the Arts Council are included in the National Lottery report 2005/06 (see pages 106 to 129).

Full details in relation to financial instruments are given in note 20 of the notes to the lottery accounts.

Approach to employee development, participation and diversity

Arts Council England's training and development programmes are designed to encourage and support all employees in improving performance and developing their skills and competence. Six regional offices have had Investors in People recognition for a number of years and the organisation achieved the award as a whole in spring 2006.

We have arrangements to promote effective consultation and communication with all staff. Executive Board and Council activities are disseminated through a system of team briefing meetings, our intranet and regularly emailed updates, supplemented from time to time by office and directorate meetings. For the first time, we conducted a staff satisfaction survey in early 2005 and have analysed and acted on the results during 2005/06.

More formally, Arts Council England recognises the trade unions Amicus and Unison for consultation and collective bargaining, and has established appropriate consultative arrangements to support this through a Recognition Agreement. The National Joint Consultative and Negotiating Committee (NJCNC) handles all core pay, terms and conditions of employment and HR policies and procedures across the whole organisation. The NJCNC is supported by Local Joint Consultative and Negotiating Committees in each of the 10 workplaces.

Arts Council England seeks to ensure that the requirements of health and safety legislation are met in the workplace. Health and safety issues of general concern are discussed with Amicus and Unison.

The organisation is committed to creating a working environment that treats people with fairness and respect, and is free from discrimination, harassment and bullying. Policies and procedures are geared towards eliminating direct and indirect discrimination, and supporting employees in reaching their full potential.

In recognition of our positive approach to recruiting and managing staff with disabilities, we have been awarded the 'Two Ticks' symbol by The Employment Services. We are taking positive steps to encourage more Black and minority ethnic, disabled and lesbian and gay people to become employed in the organisation, with support from specialist external advisory organisations.

Approach to employee development, participation and diversity continued

Following the introduction of our race equality scheme, we have been working on a programme of 36 projects with the aim of changing the organisation and making real and permanent changes within the arts sector. Internally, this includes training staff, reviewing all our Human Resources procedures, and revamping how we deal with complaints and procurement to include the Commission for Racial Equality's best practice. We have set Black and minority ethnic staff targets for recruitment and retention and set up a Black Workers' Group.

Currently, 13.5% of staff classify themselves as Black, Asian, Chinese or Dual Heritage, and 2.5% of staff classify themselves as disabled.

Statement of Council's and chief executive's responsibilities

Under the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998), the Arts Council is required to prepare a statement of accounts for the financial period in the form and on the basis directed by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury. The accounts are to be prepared on an accruals basis and to show a true and fair view of the Arts Council's state of affairs at the year end and of our incoming resources and resources expended and cash flows for the financial year. In preparing the accounts, the accounting officer must comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction* issued by the Secretary of State, which sets out accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that Arts Council England will continue in operation

The accounting officer for DCMS has designated the chief executive as accounting officer for the Arts Council. The responsibilities of the accounting officer, which include the responsibility for the propriety and regularity of the finances for which the chief executive is answerable, and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by HM Treasury.

Peter Hewitt, Chief Executive
Sir Christopher Frayling, Chair
4 July 2006

* a copy of the Accounts Direction is available from the Accounting Officer, Arts Council England, 14 Great Peter Street, London SW1P 3NQ.

Statement on internal control

1 Scope of responsibility

As accounting officer and representative of the trustees, we have joint responsibility for maintaining a sound system of internal control that supports the achievement of Arts Council England's policies, aims and objectives, while safeguarding the public funds and assets for which we are responsible, in accordance with the responsibilities assigned to us in Government Accounting together with ensuring compliance with the requirements of Arts Council England's Management Statement and Financial Memorandum.

2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Arts Council England's policies, aims and objectives, 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 in Arts Council England for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Arts Council England's policy on risk can be summarised as follows. The organisation will

at all times ensure that we meet our statutory reporting and regulatory obligations, that it is accountable to the public and will maintain systems to ensure that it protects its resources. Against this background, risk-taking is acceptable where it helps to deliver the organisation's core objectives.

It is Arts Council England's intention that risk-taking is not avoided; it is managed. The key to this approach is understanding the risks it faces, their causes and how to control them, and then focusing attention on key risks.

3 Capacity to handle risk

Arts Council England undergoes a six-monthly review of its central risk register. The register captures risks identified by staff across the organisation and categorises these risks as strategic, operational, financial, external, reputational, human resources or compliance risks. Their impact and likelihood of occurrence are evaluated by senior staff, and decisions are taken on whether to tolerate, transfer, terminate or treat the risk. Steps to mitigate against each risk are identified and recorded in the register and assigned to a member of the Executive Board to manage. A summary of the high level risks is presented to Arts Council England's Audit Committee every six months.

Risk management forms part of the organisation's ongoing activity and is addressed as standard practice in its corporate project plans. It continues to be a key element of how Arts Council England monitors its corporate policies and initiatives. Each corporate project is monitored against milestones and is supported by a risk management plan.

3 Capacity to handle risk continued

During 2005/06, the organisation developed its approach to capturing risk by broadening the involvement of staff and by discussing risk issues with senior management teams in each office. In addition, Council regularly reviews risks facing its major funded organisations. Arts Council England is also discussing with the Department for Culture, Media and Sport how it can best share its common risks and develop joint monitoring plans.

4 The risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. Arts Council England has established the following processes:

- a) A national Council, made up of the trustees of Arts Council England, which has a code of practice which includes a policy on declaration and registration of interests. Its defined responsibilities include:
 - strategic planning and control including approval each year of a corporate plan and approval of the overall budget allocation on a three-year basis
 - delegating responsibility for specific matters to the regional councils
 - being accountable for public funds, ensuring that Arts Council England conducts operations economically, efficiently and effectively
 - approving the annual report and accounts
 - ensuring that Arts Council England fulfils its obligations as an employer and complies with all relevant legislation
- b) An Audit Committee with agreed terms of reference which include:
 - reviewing Arts Council England's internal and external financial statements to ensure they reflect best practice
 - considering internal and external audit reports and reviewing Arts Council England's relationship with its internal and external auditors
 - reviewing the effectiveness of Arts Council England's internal control system, including the review of the risk management policy and risk register
 - reporting to the national Council on the above duties
- c) An Executive Board and Management Committee sub group with defined terms of reference which include:
 - developing the corporate policy on high level issues and overseeing the implementation of nationally agreed policies and plans
 - receiving and monitoring financial information relevant to Arts Council England's overall management responsibilities
 - taking decisions within delegated powers and approving further delegation as appropriate
- d) An internal audit function that operates to standards defined in the Government Internal Audit Standards and whose programme of work is agreed and monitored by the Audit Committee. Internal auditors base their annual internal audit plans on an analysis of the risk to which Arts Council England is exposed.

4 The risk and control framework continued

This analysis of risk and plans is endorsed by Arts Council England's Audit Committee and approved by us. At least annually, the head of internal audit reports on internal audit activity in Arts Council England. The report includes the head of internal audit's independent opinion on the adequacy and effectiveness of Arts Council England's system of internal control

5 Review of effectiveness

As accounting officer and representative of the trustees, we have responsibility for reviewing the effectiveness of the system of internal control. Our review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Executive Board, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. We have been advised on the implications of the result of our review of the effectiveness of the system of internal control by Executive Board and the Audit Committee and plan to address weaknesses and ensure continuous improvement of the system in place.

Improvements to internal controls made during the year include the establishment of a dedicated procurement staffing resource and training on current procurement policy. This has been rolled out across the organisation. Improvements to the procurement process have been included in the specification for the new grants and information system, which will be implemented during 2006/07.

During 2005/06, the organisation also ran training for senior managers to enhance their understanding of internal financial controls. This included information on Arts Council England's regulatory framework and key issues arising from it, including fraud. Lastly, the organisation restructured the chief executive's unit to increase resources in particular in relation to corporate governance and planning.

Peter Hewitt, Chief Executive
Sir Christopher Frayling, Chair
4 July 2006

The certificate and report of the comptroller and auditor general to the Houses of Parliament

I have audited the financial statements of Arts Council England's lottery distribution accounts for the year ended 31 March 2006 under the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998). These comprise the income and expenditure account, the balance sheet, the cash flow statement, statement of recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Council, chief executive and auditor

The Council and chief executive are responsible for preparing the annual review, the remuneration report and the financial statements in accordance with the National Lottery etc Act 1993 (as amended) and Secretary of State directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the statement of the Council's and chief executive's responsibilities on page 82.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance

with the National Lottery etc Act 1993 (as amended) and Secretary of State directions made thereunder. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the annual review is not consistent with the financial statements, if Arts Council England has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 83 to 85 reflects Arts Council England's compliance with HM Treasury's guidance on the statement on internal control, and I report if it does not. I am not required to consider whether the accounting officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of Arts Council England's corporate governance procedures or its risk and control procedures.

I read the other information contained in the annual review and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

The certificate and report of the comptroller and auditor general to the Houses of Parliament continued

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Council and chief executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Arts Council England's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the remuneration report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the remuneration report to be audited.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Lottery etc Act 1993 (as amended) and directions made thereunder by the Secretary of State, of the state of Arts Council England's affairs as at 31 March 2006 and of its deficit for the year then ended;
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the National Lottery etc Act (as amended) and Secretary of State directions made thereunder; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

14 July 2006

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

Income and expenditure account

For the year ended 31 March 2006

	Note	2005/06 £000s	2004/05 £000s
Share of proceeds from the National Lottery Distribution Fund	7	163,828	160,739
Investment returns on the Distribution Fund	7	9,164	9,081
(Loss) on revaluation of the Distribution Fund		(1,049)	(653)
Interest received		602	929
Other income		30	99
Total income		<u>172,575</u>	<u>170,195</u>
Grant commitments made in the year	9	210,928	189,891
Less: lapsed and revoked commitments	9	(13,012)	(3,064)
Net grant commitments		<u>197,916</u>	<u>186,827</u>
General expenditure:			
Staff costs	2	1,321	1,428
Other operating costs	3a	2,855	3,070
Costs apportioned from grant-in-aid accounts	3b	17,303	14,698
Total operating costs		<u>21,479</u>	<u>19,196</u>
Total expenditure		<u>219,395</u>	<u>206,023</u>
Net resources expended before exceptional items and notional costs		<u>(46,820)</u>	<u>(35,828)</u>
Exceptional items			
Cost of fundamental reorganisation	21	(797)	(259)
Net resources expended after exceptional items before notional costs		<u>(47,617)</u>	<u>(36,087)</u>
Notional costs			
Cost of capital	8	0	0
Net resources expended after notional costs		<u>(47,617)</u>	<u>(36,087)</u>
Reversal of notional costs		0	0
(Decrease) in lottery funds		<u>(47,617)</u>	<u>(36,087)</u>
Accumulated funds brought forward		874	36,961
Accumulated funds carried forward	17	<u>(46,743)</u>	<u>874</u>

Arts Council England has no recognised gains or losses other than those disclosed in the above income and expenditure account. Consequently, no separate statement of recognised gains and losses has been prepared. There are no discontinued activities.

The notes on pages 91 to 105 form part of these accounts.

Balance sheet

As at 31 March 2006

	Note	31 March 2006 £000s	31 March 2005 £000s
Fixed assets			
Tangible assets	5	<u>16</u>	<u>38</u>
		16	38
Current assets			
Debtors	6	998	2,032
Investments: balance in the National Lottery Distribution Fund	7	153,235	173,260
Cash at bank and in hand		<u>9,578</u>	<u>15,170</u>
		163,811	190,462
Creditors: amounts falling due within one year			
Grant commitments	9	101,963	107,028
Creditors	10	565	1,260
Due to grant-in-aid accounts		<u>1,917</u>	<u>598</u>
		104,445	108,886
Net current assets		<u>59,366</u>	<u>81,576</u>
Total assets less liabilities		59,382	81,614
Creditors: amounts falling due over one year			
Grant commitments	9	<u>106,125</u>	<u>80,740</u>
		<u>(46,743)</u>	<u>874</u>
Represented by			
Reserves	17	<u>(46,743)</u>	<u>874</u>
		<u>(46,743)</u>	<u>874</u>

The notes on pages 91 to 105 form part of these accounts.

Peter Hewitt, Chief Executive
 Sir Christopher Frayling, Chair
 4 July 2006

Cash flow statement

For the year ended 31 March 2006

	Note	2005/06 £000s	2004/05 £000s
Operating activities			
Funds received from the National Lottery Distribution Fund	7	191,968	219,984
Other cash receipts		30	99
Grants paid	9	(177,596)	(184,248)
Cash paid to and on behalf of employees		(1,321)	(1,428)
Other cash payments		(19,173)	(23,856)
Net cash movements relating to exceptional items		(797)	(259)
Net cash inflow/(outflow) from operating activities	14	<u>(6,889)</u>	<u>10,292</u>
Returns on investments and servicing of finance			
Interest received		602	929
Loans repaid by other bodies	6	695	0
Loans made to other bodies	6	0	(50)
Net cash inflow from returns on investments and servicing of finance		<u>1,297</u>	<u>879</u>
Decrease/(increase) in cash	15	<u>(5,592)</u>	<u>11,171</u>

The notes on pages 91 to 105 form part of these accounts.

Notes to the lottery distribution accounts

1 Accounting policies

a) Basis of accounts

We have prepared these accounts in accordance with the Accounts Direction issued by the Secretary of State for Culture, Media and Sport in May 2002. They have been prepared in a form directed by the Secretary of State with the consent of HM Treasury in accordance with Section 35(3) of the National Lottery etc Act 1993. They meet the requirements of the Companies Acts, and of the Statements of Standard Accounting Practice/Financial Reporting Standards issued and adopted by the Accounting Standards Board, so far as those requirements are appropriate.

The accounts are prepared on a historic cost basis. The Accounts Direction requires the inclusion of fixed assets at their value to the business by reference to current costs. However, for 2005/06, the values of fixed assets expressed in current cost terms are not materially different to historic costs, and so fixed assets are shown at historic cost on the balance sheet.

Separate accounts have been prepared for the activities funded from grant-in-aid, in accordance with the directions issued by the Secretary of State. Consolidated accounts have not been prepared.

b) Recognition of income and expenditure

All income and expenditure are accounted for on a receivable basis.

As required by the Secretary of State, we have made a distinction between lottery grants that are 'hard' and 'soft' commitments. A hard commitment is when the Arts Council has made a firm offer of grant which (together with appropriate conditions) has been accepted by the recipient. A soft commitment is when we have agreed in principle to fund a scheme and made an offer, but the offer and associated conditions have not been accepted.

Hard commitments are recognised as items of expenditure in the income and expenditure account. Details of soft commitments are disclosed in note 9 to the accounts.

Hard commitments payable within one year of the balance sheet date are recognised in the balance sheet as current liabilities. Those payable more than one year from the balance sheet date are shown as grant commitments over one year.

c) Depreciation and fixed assets

Depreciation is provided on all tangible fixed assets financed by lottery funds at rates calculated to write off the cost less estimated residual value of each asset systematically over its expected useful life as follows:

- leasehold buildings: the life of the lease
- equipment, fixtures and fittings: four years
- a full year's depreciation is provided in the year of an asset's acquisition, and none in the year of its disposal
- software costs are written off in full in the year of acquisition

Notes to the lottery distribution accounts continued

1 Accounting policies continued

Assets used jointly for grant-in-aid and lottery activities are accounted for in the grant-in-aid accounts. A capital recharge for the use of these assets by lottery is included in the apportioned costs (1g).

d) National Lottery Distribution Fund

Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Culture, Media and Sport. However, the share of these balances attributable to Arts Council England is as shown in the accounts and, at the balance sheet date, has been notified by the Secretary of State for Culture, Media and Sport as being available for distribution by Arts Council England for current and future commitments.

e) Taxation

Arts Council England is a registered charity (No 1036733) and is eligible under the Income and Corporation Taxes Act 1988 to seek from HM Revenue and Customs exemption from taxes on income arising from its charitable objectives. HM Revenue and Customs has granted this exemption. Accordingly, no taxation has been provided for in these accounts.

f) Pensions

We provide a defined benefit pension scheme for our employees (the Arts Council Retirement Plan 1994) and are a participating employer in the West Yorkshire Pension Fund. However, as these are multi-employer schemes, we cannot identify our share of the underlying assets and liabilities. We have therefore accounted for the schemes as if they were defined contribution schemes, in accordance with FRS17 *Retirement Benefits*, with the costs of the schemes charged to the statement of financial activities.

g) Apportioned costs

Arts Council England incurs indirect costs, which are shared between activities funded from grant-in-aid and activities funded from the National Lottery. We are required to apportion indirect costs properly between the two areas in accordance with good accounting practice.

h) Notional costs

Arts Council England is required to calculate a notional cost of capital, which is disclosed in the income and expenditure account. These accounts cover the lottery distribution activities of Arts Council England, and only funds from the National Lottery are included which bear a cost of capital of 0%.

Notes to the lottery distribution accounts *continued*

2a) Staff costs

	2005/06 £000s	2004/05 £000s
Salaries and wages	1,042	1,117
Employer's national insurance	107	103
Employer's pension contributions	121	165
Agency	51	43
	<u>1,321</u>	<u>1,428</u>

In addition to the cost of staff working directly on lottery activities in the table above, £9,912,000 (2004/05: £9,027,000) of the costs apportioned from Arts Council England's grant-in-aid accounts relate to staff costs.

The average number of staff engaged directly on lottery activities for the year ended 31 March 2006 was as follows:

	2005/06	2004/05
Management and operational	<u>29</u>	<u>33</u>

2b) Pensions

We are a participating employer in the Arts Council Retirement Plan (1994), and the West Yorkshire Pension Fund, and also contribute to a group personal pension arrangement.

Arts Council Retirement Plan (1994)

The scheme is a defined benefit scheme. However, because it is a multi-employer scheme, we are unable to identify our share of the underlying assets and liabilities. Consequently, we have accounted for the scheme as if it were a defined contribution scheme, in accordance with FRS17 *Retirement Benefits*.

The scheme is financed by payments by Arts Council England and employees into a trustee-administered fund independent of Arts Council England's finances. These contributions are invested by a leading fund management company. The net market value of the scheme's assets at 31 March 2006 was £48.3 million.

An actuarial valuation of the pension fund takes place every three years. At the last valuation on 1 April 2005, the actuarial value of the assets using the projected unit method was sufficient to cover 67% of the value accrued to members, a deficit of £17,100,000. As a result, and on the advice of the actuary, we will be increasing our employer's contribution to 23.5% with effect from 1 April 2006.

The main long-term assumptions used for the actuarial valuation were as follows:

Price inflation rate	2.9%
Rate of pay increases	4.4%
Rate of pension increases	2.8%

Amounts due to the fund at 31 March 2006 were £nil (31 March 2005: £nil).

West Yorkshire Pension Fund

We are an admitted member of the West Yorkshire Pension Fund. The scheme is a defined benefit scheme. However, because it is a multi-employer scheme, we are unable to identify our share of the underlying assets and liabilities. Consequently, we have accounted for the scheme as if it were a defined contribution scheme, in accordance with FRS17 *Retirement Benefits*.

Notes to the lottery distribution accounts continued

2b) Pensions continued

The net market value of total scheme assets at 31 March 2006 was £6.6 million.

An actuarial valuation of the pension fund takes place every three years. At the last valuation on 31 March 2004, the actuarial value of the assets using the projected unit method was sufficient to cover 82% of the value accrued to members.

From 1 April 2003, employer contributions were set at 15%.

The main long-term assumptions used for the actuarial valuation were as follows:

Rate of inflation	2.8%
Rate of pay increases	4.6%
Rate of pension increases	2.8%

Amounts due to the fund at 31 March 2006 were £nil (31 March 2005: £42,000).

Axa Sun Life

Arts Council England contributes to a group personal pension arrangement in respect of some London office employees. All contributions are charged to the income and expenditure account as they arise. At 31 March 2006, amounts due to the fund were £6,000 (2004/05: £6,000).

Legacy Regional Arts Board pension schemes

All active Regional Arts Board pension members, except those from London Arts, transferred to the West Yorkshire Pension Fund on 1 April 2002. However, their past service remained with the legacy pension provider as detailed below:

East England Arts	Cambridgeshire Council
East Midlands Arts	Nottingham Council
Northern Arts	Tyne & Wear Pension Fund
North West Arts	Greater Manchester Pension Fund
Southern Arts	Hampshire Pensions Trust
South East Arts	Surrey Council
South West Arts	Devon Council
West Midlands Arts	Staffordshire County Council
Yorkshire Arts	Remained in West Yorkshire Pension Fund

Arts Council England is responsible for meeting any further liabilities relating to Regional Arts Board employees which arise in respect of these funds. Liabilities in relation to three schemes have been addressed. The remaining schemes have not indicated that any liability exists. No provision has been made in these accounts for potential sums payable, because of the uncertain nature of these liabilities.

Notes to the lottery distribution accounts continued

3a) Other operating costs

	2005/06 £000s	2004/05 £000s
Depreciation	22	22
Travelling, subsistence and entertainment	46	71
Professional fees	578	377
Office and sundry	37	20
Irrecoverable Value Added Tax	313	329
External assessment costs	1,859	2,251
	<u>2,855</u>	<u>3,070</u>

3b) Costs apportioned from the grant-in-aid accounts

	2005/06 £000s	2004/05 £000s
Staff costs	9,092	8,263
Agency staff costs	820	764
Depreciation	615	442
Travelling, subsistence and entertainment	587	637
Rent and rates	1,742	1,408
Professional fees	450	417
Office and sundry	1,637	1,537
IT project*	1,704	655
Irrecoverable Value Added Tax	655	575
	<u>17,302</u>	<u>14,698</u>

* This reflects costs incurred in the year on developing the new 'Arena' system for finance, grants and management information to replace the different IT systems currently in place in each office.

4 Decrease in lottery funds

	2005/06 £000s	2004/05 £000s
Stated after charging:		
a) Auditors' remuneration	45	44
b) Staff travel, subsistence and hospitality	46	71

Notes to the lottery distribution accounts continued

5 Tangible fixed assets

	Short leasehold improvements £000s	Total £000s
Cost at 1 April 2005	213	213
Less: disposals	<u>0</u>	<u>0</u>
Cost at 31 March 2006	<u>213</u>	<u>213</u>
Depreciation at 1 April 2005	175	175
Less: depreciation on disposals	0	0
Provided for 2005/06	<u>22</u>	<u>22</u>
Depreciation at 31 March 2006	<u>197</u>	<u>197</u>
Net book value at 31 March 2006	<u>16</u>	<u>16</u>
Net book value at 31 March 2005	<u>38</u>	<u>38</u>

6 Debtors

	31 March 2006 £000s	31 March 2005 £000s
Prepayments and accrued income	73	404
Other debtors	<u>925</u>	<u>1,628</u>
	<u>998</u>	<u>2,032</u>

Included in 'other debtors' are interest-free loans to the following organisations:

- Royal Exchange Theatre, £545,000, included in 2004/05 and repaid in full on 8 July 2005
- Yorkshire Artspace Society, £75,000, included in 2004/05 and 2005/06 and repayable in equal monthly instalments by 1 May 2013
- FACT Centre, £250,000 in 2004/05 and 2005/06, repayable in amounts equal to 5% of surplus funds after the end of June each year
- Lighthouse Arts And Training Ltd, £150,000, included in 2004/05 and repaid in full on 27 September 2005
- English National Opera, £600,000 in 2004/05 and 2005/06, repayment of this loan is expected in the first six months of 2006/07

Notes to the lottery distribution accounts continued

7 Investments: balance in the National Lottery Distribution Fund

	2005/06 £000s	2004/05 £000s
Balance at 1 April	173,260	224,077
Share of proceeds from the National Lottery Distribution Fund	163,828	160,739
Investment returns on the Distribution Fund	9,164	9,081
Unrealised losses	(1,049)	(653)
Cash drawn down	<u>(191,968)</u>	<u>(219,984)</u>
Balance at 31 March	<u>153,235</u>	<u>173,260</u>

The balance in the National Lottery Distribution Fund at 31 March 2006 was unaudited at the date of signing these accounts.

Arts Council England's ongoing commitments policy can be summarised as follows. Based on forecasts of income and the anticipated timing of cash flows against existing commitments, Arts Council England will set additional commitments at such a level that our National Lottery Distribution Fund balance will move towards and then remain at a balance of £50 million. However, as the end of the current licence period in January 2009 approaches, this ongoing policy will be tempered by the need to ensure that outstanding commitments do not exceed the total amount of lottery cash forecast to be available.

Given our commitments policy, the impact of the January 2009 date and the fact that lottery licence arrangements beyond that date were not confirmed until June 2006, the fund's balances for the next three years are forecast as follows:

	Target £000s	Actual £000s
31 March 2005	175,000	173,260
31 March 2006	160,000	153,235
31 March 2007	105,000	n/a
31 March 2008	50,000	n/a

These forecasts reflect Arts Council England's best estimate of the likely timing of future grant payments, and the level of future lottery ticket sales. The latter is informed by forecasts provided by the Department for Culture, Media and Sport. The timing of future grant payments, particularly on major capital projects, can be subject to material variation beyond Arts Council England's control, depending on the circumstances of the individual projects themselves.

Notes to the lottery distribution accounts continued

8 Notional costs

The Arts Council is required to calculate a notional cost of capital, which is disclosed in the income and expenditure account. These accounts cover the lottery distribution activities of Arts Council England, and only funds from the National Lottery are included which bear a cost of capital of 0%.

9 Soft and hard commitments

	31 March 2006 £000s	31 March 2005 £000s
Soft commitments brought forward	43,187	43,669
Soft commitments transferred to hard commitments	(210,928)	(189,891)
Soft de-commitments	(8,329)	0
Soft commitments made	191,484	189,409
Balance of soft commitments outstanding carried forward	<u>15,414</u>	<u>43,187</u>
Hard commitments brought forward	187,768	185,189
Hard commitments met in the last year	(177,596)	(184,248)
Hard de-commitments	(13,012)	(3,064)
Hard commitments made	210,928	189,891
Balance of hard commitments outstanding carried forward	<u>208,088</u>	<u>187,768</u>
Ageing of hard commitments:		
2005/06	0	107,028
2006/07	101,963	33,798
2007/08	47,860	22,532
2008/09	33,294	24,410
Post 2008/09	24,971	0
Total hard commitments	<u>208,088</u>	<u>187,768</u>

During 2005/06 we paid out £2 million (2004/05: £30 million) on grants awarded to the South Bank Centre into an ESCROW account held by the South Bank Centre. At the year end the South Bank Centre had withdrawn £21 million (2004/05: £7 million) from this account, leaving a balance remaining of £5 million (2004/05: £23 million). £9 million of this amount drawn down is due to be repaid back into the ESCROW by January 2007.

10 Creditors

	31 March 2006 £000s	31 March 2005 £000s
Trade creditors	88	56
Accruals and deferred income	477	1,204
	<u>565</u>	<u>1,260</u>

Notes to the lottery distribution accounts continued

11 Leases

There were no commitments under non-cancellable operating leases at 31 March 2006 (31 March 2005: £nil).

12 Capital commitments

There were no contracted capital commitments at 31 March 2006 (31 March 2005: £nil).

13 Charges on assets

Since November 1997, the standard conditions for grants give Arts Council England an option to take a formal charge on assets for building projects for grants exceeding £250,000.

14 Cash flow reconciliation

	2005/06 £000s	2004/05 £000s
Reconciliation of operating surplus/(deficit) to net cash flow from operating activities		
Operating (deficit)	(47,617)	(36,087)
Interest receivable	(602)	(929)
Unrealised loss on investment	1,049	653
Depreciation charges	22	22
Decrease in debtors and prepayments	19,315	49,981
Increase/(decrease) in creditors	20,944	(3,348)
Net cash (outflow)/inflow from operating cash flows	<u>(6,889)</u>	<u>10,292</u>

15 Reconciliation of net cash flow to movement in funds

	2005/06 £000s	2004/05 £000s
(Decrease)/increase in cash in the year	(5,592)	11,171
Funds at 1 April	15,170	3,999
Funds at 31 March	<u>9,578</u>	<u>15,170</u>

16 Analysis of net cash

	1 April 2005 £000s	Cash flow £000s	31 March 2006 £000s
Cash	15,170	(5,592)	9,578
	<u>15,170</u>	<u>(5,592)</u>	<u>9,578</u>

17 Movement in lottery funds

	2005/06 £000s	2004/05 £000s
Opening lottery reserve at 1 April	874	36,961
Transferred from the income and expenditure account	(47,617)	(36,087)
Lottery reserve at 31 March	<u>(46,743)</u>	<u>874</u>

Notes to the lottery distribution accounts continued

18 Reconciliation of transactions with delegate bodies

18a) National Foundation for Youth Music

The National Foundation for Youth Music (NFYM) is a delegate body of Arts Council England for distributing lottery funds. Transactions in these accounts relating to this delegation reconcile to transactions in the accounts of NFYM as follows:

	2005/06 £000s	2004/05 £000s
Transactions in Arts Council England accounts:		
Grant commitments in the year	10,000	10,000
NFYM creditor balance as at 31 March	0	0
This reconciles to NFYM's accounts for the year ended 31 March as follows:		
Balance at 1 April	(829)	3,070
Incoming funds: Arts Council England grant	10,000	10,000
other funds	1,352	1,726
Outgoing funds: grant expenditure	(9,325)	(14,634)
other expenditure	(354)	(991)
Balance at 31 March	<u>844</u>	<u>(829)</u>
Arts Council England debtor balance as at 31 March	0	0

The 2005/06 figures were unaudited at the date of signing these accounts.

18b) UK Film Council

The UK Film Council is a delegate body of Arts Council England for distributing lottery funds. Transactions in these accounts relating to this delegation reconcile to transactions in the accounts of UK Film Council as follows:

	2005/06 £000s	2004/05 £000s
Transactions in Arts Council England accounts:		
Grant commitments in the year	0	15,000
UK Film Council creditor balance as at 31 March	13,235	15,000
This reconciles to the UK Film Council's accounts for the year ended 31 March as follows:		
Balance at 1 April	13,920	0
Incoming funds: grants received	0	15,000
Outgoing funds: grant expenditure	(12,081)	(840)
other expenditure	(200)	(240)
Balance at 31 March	<u>1,639</u>	<u>13,920</u>
Arts Council England debtor balance as at 31 March	13,235	15,000

The 2005/06 figures were unaudited at the date of signing these accounts.

Notes to the lottery distribution accounts continued

19 Related parties

19a) Council members

Arts Council England maintains publicly available registers in which Council members declare their interests, including any direct interests in grant applications made to and commercial relationships with Arts Council England. The following interests in grant recipients were declared for the year ended 31 March 2006:

Grant for the year ended 31 March 2006 £000s	Balance unpaid at 31 March 2006 £000s	Organisation	Council member	Relationship
0	167	Cardboard Citizens	Diran Adebayo	Relative is employee
5	0	The Xpress		Relative is employee
5	0	Manchester Contemporary Jewellers Network	Tom Bloxham MBE	Partner is member
500	320	Manchester International Festival		Board member
99	10	Victoria and Albert Museum	Sir Christopher Frayling	Trustee
0	100	Culture East Midlands	François Matarasso	Advisor/ consultant
25	19	Northamptonshire County Council		Other
7	29	Nottingham Playhouse		Board member
0	23	Visiting Arts		Board member
97	7	Africa Centre	Elsie Owusu OBE	Practice
0	2	Royal Society of Arts		Practice
86	188	Yaa Asantewaa Arts and Community Centre		Advisor/ consultant
35	18	DanceCity	Dr Tom Shakespeare	Freelance worker
14	0	Fathom Project		Partner is freelance worker
0	1,856	Graeae Theatre		Advisor/ consultant
46	13	Hatton Gallery		Collaborator
69	0	Live Theatre		Writer/performer
11	0	Monster Productions		Board member
0	1	Northern Disability Arts Forum		Partner is employee
0	22	PEALS Research Institute, University of Newcastle		Employee

Notes to the lottery distribution accounts continued

19 Related parties continued

Grant for the year ended 31 March 2006 £000s	Balance unpaid at 31 March 2006 £000s	Organisation	Council member	Relationship
30	0	Atrix Arts Centre	Dorothy Wilson	Trustee
0	39	Belmont Arts Centre		Board member
0	172	Birmingham Arts Marketing		Board member
53	42	mac (Midlands Arts Centre)		Employee
0	1	Motionhouse Dance Theatre		Board member
25	0	West Midlands Life		Board member
15	0	Nitro	Lady Sue Woodford Hollick	Relative is employee
0	3,023	South Bank Centre		Partner is chair

19b) Directors and senior managers

Executive directors and senior managers in Arts Council England are also required to declare any direct interests in grant applications made to and commercial relationships with the Arts Council. The following interests in grant recipients were declared for the year ended 31 March 2006.

Grant for the year ended 31 March 2006 £000s	Balance unpaid at 31 March 2006 £000s	Organisation	Executive director/ senior manager	Relationship
35	0	Pacitti Company	Mark Allen	Board member
0	11	Norwich School of Art	Marjorie Allthorpe-Guyton	Honorary doctorate
72	103	Fierce Festival	Maria Balshaw	Board member
6,791	0	The pUBLIC		Family member is employee
0	78	Manchester Camerata	Hilary Boulding	Mentor to chief executive
0	38	REM	Michaela Butter	Board member
97	5	Africa Centre	Hilary Carty	Partner is employee
84	0	Kirklees Metropolitan Borough Council	Andy Carver	Partner is director
0	7	Royal National Theatre	Moss Cooper	Partner is employee

Notes to the lottery distribution accounts continued

19 Related parties continued

Grant for the year ended 31 March 2006 £000s	Balance unpaid at 31 March 2006 £000s	Organisation	Executive director/ senior manager	Relationship
140	678	Artangel	Kim Evans	Patron
5	1	Ixia	Caroline Foxhall	Partner is member of executive committee
5	1	Leeds Metropolitan University	Adrian Friedli	Partner is employee
577	20	De La Warr Pavilion	Felicity Harvest	Family member is employee
38	54	Hastings Borough Council		Family member is employee
104	4,220	Kent County Council		Family member is employee
7	29	Nottingham Playhouse	Isobel Hawson	Partner is employee
40	20	Bristol East Side Traders	Chris Humphrey	Partner is employee
17	2	Bow Arts Trust	Emma King	Board member
53	29	University of Central England	Sally Luton	Director
7	5	Théâtre Sans Frontières	Linda Tuttiett	Partner is board member
0	2	University of Teesside		Partner is advisor/ consultant
58	30	InIVA	Sarah Wason	Partner is director
48	35	Refugee Week	Karen Williams	Other

Notes to the lottery distribution accounts continued

19 Related parties continued

19c) Other government bodies

The Department for Culture, Media and Sport is the sponsoring department for Arts Council England and is regarded as a related party. The National Foundation for Youth Music is similarly regarded as a related party by virtue of its funding relationship with the Arts Council. At the year end Arts Council England had the following balances outstanding with other government bodies:

	Creditor 31 March 2006 £000s	Debtor 31 March 2006 £000s
Balances with other central government bodies*	166	153,235
Balances with local authorities	42,608	0
Balances with NHS Trusts	368	0
Balances with public corporations and trading funds	60	0

*The debtor figure relates to our balance in the National Lottery Distribution Fund.

20 Financial instruments

FRS 13, *Derivatives and other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period, in creating or changing the risks Arts Council England faces in undertaking its activities.

Liquidity risk

In 2005/06, 94.9% of Arts Council England's income derived from the National Lottery. The remaining income derived from investment returns from the balance held with the National Lottery Distribution Fund of 4.7%, and from bank interest and other income of 0.4%.

At the balance sheet date, Arts Council England had net liabilities of £46,743,000.

Cash flow projections over the next financial year

We do not believe that we are exposed to significant liquidity risks, and are satisfied that we have sufficient current liquid resources to cover our projected payments over the next financial year.

Liquid assets as at 31 March 2006	£000s
Market value of National Lottery Distribution Fund investments	153,235
Cash	9,578

20 Financial instruments continued

Interest rate risk

In accordance with the National Lottery Act 1998, National Lottery income receivable by Arts Council England is passed by the National Lottery Distribution Fund to the Commissioners for the Reduction of National Debt who invest the income in a narrow band of low risk assets such as government bonds and cash. Arts Council England has no control over the investment of funds on their behalf. The management of the National Lottery Distribution Fund meets with representatives of the Commissioners for the Reduction of National Debt on a regular basis to manage the risks associated with the investment of these monies.

At the balance sheet date, the market value of the Arts Council's shares of the National Lottery Distribution Fund was £153,235,000. In the year, the average return on these investments was 4.65%.

Cash balances which are drawn down by Arts Council England from the National Lottery Distribution Fund to pay grant commitments and operating costs are held in an instant access variable rate bank account, which carried an interest rate of 0.22% below base rate during the year. The cash balance at the year end was £9,578,000. We consider that we are not exposed to significant interest rate risks on our cash balances.

Foreign currency risk

Arts Council England is not exposed to any significant foreign exchange risks.

21 Exceptional items

In March 2006, we announced a major restructuring of our national office, and a provision for the cost of implementing this has been included in the accounts. Costs relating to the restructuring as detailed below have been disclosed separately in the income and expenditure account as an exceptional item. Also included in this figure are the final costs of the merger of the Arts Council of England with the 10 regional arts boards in April 2002.

	2005/06 £000s	2004/05 £000s
Redundancy costs	<u>797</u>	<u>259</u>
	<u>797</u>	<u>259</u>

National Lottery report

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National Lottery report 2005/06

Introduction

In 2005/06, the Arts Council took further significant steps to improve the way we distribute lottery funding, most of which is now delivered through one single funding programme – Grants for the arts.

We completed the transfer of monitoring large scale capital projects from our national office. The regional offices best appreciate the needs of the local communities which the projects are intended to benefit. At the same time, we established a team in our national office to provide support and expertise for the technical aspects of construction and renovation projects.

The development and delivery of our lottery programmes were determined by our priorities for the arts as laid out in our corporate plan. Further details on how we achieved this in 2005/06 can be found in this report on pages 108 to 113.

We continued to improve Grants for the arts, our flagship programme. In autumn 2005, we introduced an improved application pack based on the findings of the evaluation of the programme that we published in March 2005. We carried out further usability and accessibility testing in March 2006. This showed the print and website versions of the application materials are working well and identified some improvements we can make to the website version. We are working on this for the pack published in September 2006.

During the year, we also received the results of a major evaluation of our Stabilisation programmes. The findings are informing Grants for the arts funding for organisations, enabling them to develop their capabilities and strengths and to ensure that they thrive.

Youth Music, which distributes £10 million on our behalf, provided funding for musical provision for children and young people, targeting those who would not otherwise have an opportunity to learn an instrument or to make music. In addition to our £10 million, Youth Music raised £1.2 million from other sources enabling our lottery funds to go further.

We continued to work in partnership with other lottery distributors to provide support and funding to the Awards for All programme. Awards for All provides small scale funding for a range of voluntary and community-based projects through a quick and simple application process. During 2005/06, work was undertaken to redesign the programme to raise the upper limit for grants from £5,000 to £10,000. The new Awards for All programme in England, making grants between £300 and £10,000, was launched in April 2006.

We continued to work with Sport England, the Big Lottery Fund, the Department for Culture, Media and Sport (DCMS), and the Department for Education and Skills in delivering the Space for Sport and Arts Programme. From 2000 to the end of 2005/06, the programme funded around 270 new or modernised facilities for sport and arts at primary schools.

Policy Directions

In 2005/06, communities across the country began to enjoy the benefits of the £15 million of funding we provided under the Urban Cultural Programme, with the Millennium Commission. Our contribution of £6 million funded activities including Making a Difference – a two-year cultural programme in Brighton and Hove, and in the East Midlands we funded Three Cities Create and Connect, a celebration of the exciting arts activities, festivals and cultural quarters of Derby, Leicester and Nottingham.

In late November, DCMS launched a major public consultation into the future of the National Lottery. We supported this exercise and undertook a range of activities to encourage responses from artists, arts organisations and the wider public on how lottery funding can best support the arts. The outcome of the consultation process will be known in June 2006 when DCMS publishes its plans for the future of the National Lottery.

Policy Directions

Under the National Lottery etc Act 1993, the Secretary of State issued Policy Directions in August 1998, which we must take into account in distributing National Lottery funds. These are set out below, with a short explanation of how the directions have been met.

The references below relate to the National Lottery etc Act 1993 as amended by the National Lottery Act 1998.

A The need to ensure that money is distributed under section 25(1) for projects which promote the public good or charitable purposes and which are not intended primarily for private gain.

All of our application processes, as well as those of our delegates, require applicants for funding to clearly demonstrate the expected public benefit of their proposed activity. We give this careful consideration during our assessment processes.

B The need to ensure that it considers applications which relate to the complete range of activities falling within section 22(3)(a) and in respect of which it has power to distribute money, taking into account:

- i its assessment of the needs of the arts and its priorities for the time being for addressing them
- ii the need to ensure that all parts of England have access to funding
- iii the scope for reducing economic and social deprivation at the same time as creating benefits for the arts

An important principle of Grants for the arts is to provide equality of access to funding regardless of where an applicant lives and the arts activity they want to do. We operate Grants for the arts through our regional offices and applicants apply to the region they are based in. This allows us to provide appropriate advice and support to applicants using regional knowledge.

Policy Directions continued

Demand for our grants remains high and we use priorities to help us make choices about which applications to support. These priorities make a significant contribution to this policy direction. We give priority to applicants who have not received funding from us before, and activities that benefit areas of the country with social deprivation or with limited cultural opportunities. We also consider how the activity contributes to arts development.

Our capital funding plays a major role in addressing the infrastructural imbalances between different regions through the creation of new and enhanced facilities for the arts. All capital projects are assessed against criteria of public benefit that cover both urban regeneration and arts provision.

In 2005/06, awards were made to the Creative Foundation, an artists' workspace project in a derelict area of Folkestone; Greater Manchester Arts Centre (Cornerhouse), a cultural landmark arts and cinema centre that makes a positive, visible contribution to the continuing renaissance of Manchester; and to the City of Wakefield towards the creation of the Hepworth Gallery for creative arts which forms part of its £100 million mixed-use Waterfront Regeneration Scheme.

Lottery funds delivered by Youth Music have now reached 98 per cent of English local authorities. Under the Space for Sport and Arts programme, 254 capital projects have been completed in primary schools in some of the most deprived areas of the country.

C The need to promote access to the arts for people from all sections of society.

Championing cultural diversity, which was one of our six ambitions for the arts, continues to be central to all our activities. Through Grants for the arts, we place importance on broadening access and increasing opportunities for diversity in the arts. We continue to target at least 10 per cent of our Grants for the arts budget to applicants from Black and minority ethnic communities.

We consider access in all its forms – physical, attitudinal and intellectual – to be paramount to every capital project that we fund. An example of this is First Movement, a disability-led organisation based in Derbyshire, which was awarded a grant in the year under review to build a main artists' studio and also a mobile studio that will deliver projects throughout the region.

We also stipulated that each capital project specifically address issues of cultural diversity and made cultural diversity a priority under the Arts Capital Programme and the Grants for the arts – capital programme. Grants from both these programmes have been awarded to the London-based Yaa Asantewaa Carnival Village project, a purpose-built, fully flexible performance and presentation space, cinema, social area and music centre providing a home for the Ebony and Mangrove steel bands and the Association of Black Calypsonians.

Policy Directions continued

D The need to promote knowledge and appreciation of the arts by children and young people.

We recognise the importance the positive influence arts have on the development of children and young people. We promote opportunities for young people and make this a priority in our ambitions for the arts. The provision of arts-related activities and facilities for young people are the primary purpose of both Youth Music and our collaboration in the Space for Sport and Arts programme.

Grants for the arts has funded a wide range of activities for young people including ST-ART, an arts organisation based in Barton upon Humber which will deliver a programme of creative workshops for young people across North Lincolnshire. The sessions, which include circus skills, screen printing and film-making, will take place in village and church halls and community centres, providing work opportunities for artists living in rural areas and for young people to learn new skills.

Under the Arts Capital Programme, we have made an award to the Stephen Lawrence Charitable Trust for their Creative Arts Lab project based in Lewisham, London. This aims to build on the widespread interest in the performing arts among Black Caribbean and African young people (aged 12 and older) by introducing them to technical roles in the creative and digital arts.

E The need to further the objectives of sustainable development.

Arts Council England supports the government's definition of sustainable development and recognises our responsibilities in the three areas of social, economic and environmental sustainability.

We and the other lottery distributors are developing a common approach and shared guidance and information for funded organisations. This will be available to all organisations undertaking new construction-related projects and will raise awareness of sustainable issues by promoting alternative technologies and responsible energy management.

We are also contributing to a new initiative to develop energy efficiency ratings for cultural buildings. This will ensure that the arts sector is able to meet forthcoming changes in legislation, such as the European Energy Performance of Buildings Directive.

As part of the assessment and monitoring process for lottery-funded projects, we review the organisation's environmental strategy to ensure the approach is appropriate and furthers the sustainable agenda.

We recognise that arts and cultural buildings can have high energy consumptions. We know they can encourage participation in raising awareness around sustainable development from within the arts sector. To do this, we support sustainable development activities that demonstrate good practice for the arts sector.

Policy Directions continued

F The needs of projects relating to film and the moving image, and in particular the need to foster the development of sustainable structures in the film industry by, among other things, supporting the development, distribution and promotion of films, as well as their production.

As in previous years, the Film Council continues to act as a delegate body for us, delivering a number of programmes aimed at improving the distribution of film, in particular the funding of digital projection equipment.

The Government continues to review this policy direction with the intention of issuing a new direction that accurately recognises our responsibilities since the establishment of the UK Film Council. In the meantime, we continue to work according to an interim understanding with DCMS about our responsibilities in relation to film.

G The needs of projects relating to crafts.

Grants for the arts continues to fund a wide range of activities relating to crafts. In 2005/06, we made 191 grants totalling £4.2 million from Grants for the arts – organisations and from our national activities budget to projects with a crafts element.

Under Capital Programme One, we have contributed to the Leigh Park Craft Initiative in Hampshire. This project, comprising the construction of workshops, training rooms and office space, is one of the major elements of a larger scheme to establish a centre of excellence for contemporary crafts and a Crafts Development Agency for the South East region.

Established in 1995 when it consisted of only a few artists' studios and a small exhibition space, Waygood Gallery and Studios is now embarking on an ambitious capital project, part of the Grants for the arts – capital portfolio. Waygood intend to redevelop and expand a city centre, artist-led venue to create 40 artists' studios, two gallery spaces and a learning centre, all of which will directly benefit local artists specialising in crafts.

H The need for money distributed under section 25(1) to be distributed to projects only where they are for a specific time-limited purpose.

All lottery awards made by us and our delegates in 2005/06 were for specific and time-limited purposes.

- I** The need:
- i** in all cases, for applicants to demonstrate the financial viability of the project for the period of the grant
 - ii** where capital funding or setting up costs are sought, for a clear business plan beyond the period of the grant incorporating provision for associated running and maintenance costs
 - iii** in other cases, for consideration to be given to likely availability of other funding to meet any continuing costs for a reasonable period after completion of the period of the lottery award, taking into account the size and nature of the project, and for lottery funding to be used to assist progress towards viability beyond the period of the grant wherever possible

All eligible applications to our Grants for the arts programme are assessed for the activity's

Policy Directions continued

financial practicality, and its future impact on the applicant. Applicants for funding for capital projects are asked to supply a robust business plan including five-year income and expenditure projections. These plans are carefully assessed to see how realistic and achievable they are and are monitored over the lifetime of the project.

Youth Music has adopted a similar approach, requiring all applicants to demonstrate that they have a well-developed *What Next* plan. Recent research conducted among previously funded organisations has shown that 93 per cent of them continue to offer music-making services for children and young people beyond the life of the project and that 94 per cent continue to work in at least one of Youth Music's five priority areas.

J The desirability of supporting the development of long-term financial and managerial viability of organisations in the arts. In taking this into account the Arts Council shall have regard to Direction H.

As with our stabilisation programmes, Grants for the arts provides funding for organisations to develop their financial and managerial capabilities. Funding has been used for audience and market research which has the positive impact of increasing participation in the arts, and the benefit of improving the revenue generation of funded organisations.

K The need to require an element of partnership funding and/or contributions in kind from other sources, commensurate with the reasonable ability of different kinds of applicants, or applicants in particular areas to obtain such support.

We want to make our lottery funding go further. We encourage applicants to make the most of other sources of funding where they are available. The amount raised from other sources is taken into account during the assessment of each proposal.

For applications to our Grants for the arts programme, we normally require applicants to have raised at least 10 per cent of the total costs of their activity. However, we recognise that for some applicants or particular activities this target is very difficult to achieve and in certain cases we will consider funding the total cost of a project. This flexible approach has helped us to reach new applicants to the programme and communities where the opportunities for other funding are limited.

Under the Arts Capital Programme and Grants for the arts – capital, we did not specify a partnership–funding ratio for projects. However, in most circumstances we aim to be the minority funder. A successful example of this is the Whitechapel Art Gallery in East London. The project comprises the freehold purchase, restoration and conversion of a Grade II listed library adjacent to the existing gallery and our award of £500,000 represents only five per cent of the overall project cost. Other partnership funding includes a major contribution from the Heritage Lottery Fund.

A further example is Hull Truck Theatre Company; a purpose-designed Centre for Time Based Arts situated in the city's emergent cultural quarter, with facilities for flexible performance/exhibitions, media and live art production, education/training, research and start-up units. Our capital grant amounts to just over one quarter of the total

Monitoring and evaluation

project cost and the organisation has secured significant awards from Hull City Council, the European Regional Development Fund and Yorkshire Forward.

L The desirability of working with other organisations, including other distributors, where this is an effective means of delivering elements of its strategy.

Our role as the national development agency for the arts means we enjoy long-standing partnerships with a wide range of agencies – government departments, regional development agencies, local authorities, and other public and private bodies.

We actively work in partnership with the other lottery distributors to review and improve access to lottery funding. In the spring of 2006, the Lottery Funding website and helpline was publicly launched with the aim of providing information for individuals and organisations who have not applied for lottery funding before.

In addition to the various formal relationships detailed elsewhere in this report, we frequently work with others on a project-by-project basis to ensure that all stakeholders contribute both financially and by other means to a successful outcome. In particular, such collaborations have been crucial to the success of many of the large scale capital projects that we funded.

The extensive redevelopment of the Roundhouse in Camden has resulted in an all-new, large scale adaptable venue for live performance and a training resource for young people in music, theatre, TV, film and new media which opened in June 2006.

The Arts Council's capital investment under the Arts Capital Programme represents only 12 per cent of the total project cost. We have worked alongside other lottery distributors (Heritage Lottery Fund, New Opportunities Fund – now the Big Lottery Fund) and stakeholders (London Development Agency, London Borough of Camden, English Heritage) to ensure its success.

M The need to ensure that its powers of solicitation under section 25(2A) are used in conjunction with the pursuit of strategic objectives.

During 2005/06, we and our delegate bodies only used our powers to solicit applications when pursuing objectives set out in our corporate plan.

N Such information as it considers necessary to make decisions on each application, including expert independent advice when required.

We continually review and evaluate our application packs and other materials to ensure that we receive sufficient information to be able to make a careful and fully considered assessment of each proposal for funding. Where a proposal involves particular complex or technical aspects, such as in major construction or renovation projects, we seek the advice of appropriate external experts.

Monitoring and evaluation

As reported in 2004/05, we have adopted a single set of principles to inform the level of monitoring we carry out for each of our funding programmes. The level is based on an analysis of risk that takes into consideration:

Monitoring and evaluation continued

- the amount of money involved
- the strategic importance of the activity
- any other risk factors

We do not necessarily avoid risk; it is often a central aspect of the creative process. Our approach is to manage risk by carefully assessing all applications we receive and tailoring our monitoring requirements on a project-by-project basis. Where the risks associated with a project are considered to be low, a 'light touch' approach is adopted enabling us to concentrate our resources on monitoring and supporting projects where the risks may be higher.

We evaluate our funding programmes regularly to assess whether they are delivering the benefits that we expected for artists, arts organisations and the wider public. We use the findings of such evaluations to refine existing programmes and inform the development of future ones.

Below, we describe how we approached this for each of our programmes.

Awards for All

Awards for All in England is a joint-distributor lottery scheme funded by Arts Council England, Big Lottery Fund, Heritage Lottery Fund and Sport England. In 2005/06, it made 12,743 grants of between £500 and £5,000 across England worth a total of £52.6 million to small local groups, mainly in the voluntary and community sector.

Awards for All is managed by a joint programme board with representation from the four participating distributors. The scheme is operated by Big Lottery Fund

and assessment is undertaken by their staff. In 2005/06, these staff were located in nine regional offices but during 2006/07 these functions will move to two operations centres in Newcastle and Birmingham. Monitoring and evaluation of the scheme at the operational level remains the responsibility of Big Lottery Fund, with the high level overview being taken by the programme board.

Following a major investigation by Big Lottery Fund during the year into suspected multiple application fraud in Awards for All and other lottery programmes, assessment and monitoring procedures were thoroughly reviewed and more robust systems to guard against multi-application fraud were implemented.

Capital

During the period under review, we approved 19 projects within the portfolios of Capital Programme One, the Arts Capital Programme and Grants for the arts – capital. We work closely with each organisation throughout the project – minimising risk by monitoring, evaluating and assessing each stage of the proposed work and helping them fulfil their plans and deliver the intended benefits.

We continue to monitor projects whose main awards had previously been approved to ensure that they are completed on time, within budget and to the highest possible quality.

The responsibility for the monitoring of capital projects in progress and those in a period of post-completion has now been delegated to our regional offices. The monitoring process uses a number of tools including:

Monitoring and evaluation continued

- regular progress reports from the organisations
- independent expert project monitors – receiving updates on all areas of the project and undertaking regular visits
- a robust system of scrutiny of payment claims
- careful monitoring of partnership funding and cash flow control
- a series of key stages and key stage reviews with a comprehensive framework of deliverables identified for the life of the project
- regular risk assessment analysis followed by consideration and implementation of risk management strategies
- regular expert reviews of the design progress of the project
- control of the grant through an allocation into parts with key stages having to be successfully completed before the next part is confirmed
- regular reviews of the forward revenue projections looking beyond completion of the capital project

All organisations with a capital project in post-completion monitoring must complete an annual return to ensure their continued compliance with conditions and to verify ownership of the assets.

All projects receiving over £250,000 are subject to a one-off evaluation against the intended benefits of the projects to be completed as soon as possible after a project has been operational for 12 months. In addition, we undertake random review visits to provide assurance on the continued benefits arising from the investment.

Finally, we sometimes carry out ad hoc targeted evaluations of completed projects, for example:

- financial viability of projects in a particular region or artform
- increased accessibility
- effectiveness of box office installations

Grants for the arts – organisations and Grants for the arts – national touring

Grants for the arts for individuals and organisations is our open application programme. Grants normally range from £200 up to £200,000 and can cover activities lasting up to three years. 2005/06 was the third full year of operation. Grants for individuals are not funded by the lottery.

Demand for Grants for the arts remained high. During 2005/06, we considered 4,951 applications and made 2,727 grants to organisations totalling £59 million. The average grant to organisations was £21,634 which is 21 per cent higher than in 2004/05. The average success rate for grants to organisations remained consistent from last year at 55 per cent.

We considered 504 applications for national activities and made 327 grants totalling £13.5 million. The average grant for national activities was £41,152 and the average success rate was 65 per cent.

During 2005/06, 700 applications were considered from organisations that are Black or minority ethnic-led requesting £13 million in funding. Of these, 300 were successful, receiving £5.4 million in total.

Monitoring and evaluation continued

An appropriate level of monitoring for each project is determined during the assessment stage of each application. Our assessors consider what likely risks a project may face and if thought necessary, additional conditions are attached to our offer of funding. These conditions require projects to demonstrate either before or during their activities that they have taken appropriate steps to mitigate the risks that we have identified.

On completing their activity, all applicants who receive an award of £1,000 or more are required to complete a standard activity report form. This report captures details of what they have achieved and enables us to monitor whether the lottery funds have been used appropriately for the agreed activity. The information from these reports also makes a vital contribution to our evaluations of the overall success of the programme.

Applicants receiving less than £1,000 do not complete a standard form but write to us describing what they have achieved.

National Foundation for Youth Music (Youth Music)

All projects funded by Youth Music are required to complete a monitoring report every time a payment is requested. Expenditure is closely monitored by the submission of certified invoice summaries and, in the case of substantial purchases, copies of the actual invoices. These reports are used to track the progress of each project and whether it is meeting the objectives set by Youth Music and the project itself. In addition, experienced people are appointed as independent monitors to visit projects.

External evaluators are used to determine the effectiveness and quality of Youth Music's funding programmes. Summaries of the evaluations and, in some cases, the full evaluation are at www.youthmusic.org.uk

National Touring Programme

The National Touring Programme (NTP) closed at the end of March 2003, having distributed over £35 million across the main touring art forms of combined arts, dance, literature, music, theatre and visual arts to 497 projects. Some of these projects involved complex preparation and span a number of years. Around 40 projects are still active in 2006/07 but we anticipate they will all be closed by August 2006.

We are maintaining regular contact with the remaining live projects to ensure that they are successfully drawn to a close and final payments are released by August 2006. Where grant recipients are unlikely to deliver the original project, either in full or in part, the grant is reduced accordingly. Relevant final report information is being assessed and recorded as necessary to inform future planning of touring distribution.

Regional Arts Lottery Programme

The last awards under the Regional Arts Lottery Programme were made in the early months of 2003/04. Funding was available for activity spanning up to three years and at this stage only a handful of the more complex projects remain active. Monitoring of these projects is continuing as described in previous lottery reports. We anticipate that all projects will be completed and closed by September 2006.

Space for Sport and Arts

Sport England undertakes the monitoring of all awards made under the Space for Sport and Arts programme on behalf of the Arts Council.

The Space for Sport and Arts Lottery Programme is being nationally evaluated by the Centre for Physical Education Research at Canterbury Christ Church University. The evaluation has been designed to test the scheme's effectiveness in meeting its objectives. It measures:

- the extent to which the new facilities have impacted on levels of provision of sport and arts in schools
- levels of engagement in sport and arts by pupils
- children's personal development, including motivation and self-esteem
- the perceived impact on the local community

The evaluation also examines the new facilities to ensure they have created environments in which pupils and the wider community feel safe and comfortable participating in sports and/or arts activities, and what the perceptions of both pupils in the schools and those from surrounding schools are of the new facilities. The evaluation report is due for completion by summer 2006.

Stabilisation and recovery

By the end of 2005/06, 11 of the 20 organisations admitted to the stabilisation programme had implemented their stabilisation strategies and exited from the programme. The remaining nine continue to implement their stabilisation plans.

By the end of 2005/06, 65 organisations had been admitted to the recovery programme of which 31 had implemented their recovery plans and exited from the programme. Of the remaining, one is currently developing its recovery plan and 33 are in the process of implementing their plans.

We use the same approach to monitoring for both programmes:

- monitoring continues throughout the implementation of each organisation's plan including regular meetings between us, the organisation, and other stakeholders
- we review a wide range of evidence submitted by each organisation such as board papers, financial and marketing plans, and other documents to assess how well the implementation plan is progressing
- when an organisation is identified as being 'high risk', we adopt a more intensive approach, meeting with the organisation on a more frequent basis and reviewing the implementation plan in more detail
- on completion of the implementation plan, each organisation is required to prepare and adopt a three-year business plan. We regularly undertake follow up meetings up to a year after an organisation has left the programme

During 2005/06, we received the evaluation of the two programmes based on a sample of nine organisations from the stabilisation programme and 10 organisations from the recovery programme. The evaluation has confirmed that the objectives of the two programmes are being achieved.

Financial Directions

Urban Cultural Programme

The Millennium Commission has delegated its responsibility for monitoring the awards under this programme to the four Arts Councils in England, Wales, Scotland and Northern Ireland. All Urban Cultural Programme awards in England are being monitored by Arts Council England.

Due to the value of the grants issued under the Urban Cultural Programme, we have put in place a detailed monitoring process involving the submission of a quarterly return setting out the activity that has taken place and details of expenditure and partnership income. These are compared to the original agreed programme to assess progress and identify any issues that have arisen.

At the end of the programme each recipient is required to submit final accounts and an activity report form that includes a self-evaluation section. This information allows us to confirm what activity took place and who benefited. The findings will contribute to the overall evaluation of the programme. When all the activities funded under Urban Cultural Programme are concluded, we will evaluate them as a whole to assess how each activity met its own objectives and the objectives of the Urban Cultural Programme.

Financial Directions

Under the National Lottery etc Act 1993, the Secretary of State issued Financial Directions to the Arts Council, as set out below. We confirm that, to the best of our knowledge, we complied fully with these in 2005/06. A copy of the Statement of Financial Requirements is available from us.

(I) The Arts Council of England ('the Body') shall comply with the requirements contained within the Statement of Financial Requirements attached as an Annex to these directions when carrying out its functions under Section 25 of the National Lottery etc Act 1993 ('the Act') as amended by the National Lottery Act 1998 ('the 1998 Act'). Wherever specified in that Annex, the Arts Council of England must obtain the consent of the Secretary of State before carrying out certain activities.

We confirm that, to the best of our knowledge, we complied fully with the financial requirements in 2005/06. We revisited and updated our previous reviews to ensure that we were complying with the requirements.

(II) The Arts Council of England shall devise and abide by a procedure for handling potential conflicts of interest which may arise in the evaluation of applications by the Body or individual members of the Body. This procedure, together with a statement confirming the arrangements that have been applied, should be provided to the Secretary of State for Culture, Media and Sport ('the Secretary of State') before the distribution of any funds under Section 25 of the Act, and thereafter at the beginning of each financial year.

We have written procedures for dealing with conflicts of interest. Note 19 in the lottery distribution accounts gives information on related parties in 2005/06.

Performance against targets for administrative efficiency

Performance against targets for administrative efficiency

In accordance with the Financial Directions issued by the Secretary of State, we operate a system of performance measures and targets for analysing our administrative efficiency. For 2005/06 there were two such formal measures in operation, relating to the average processing time for applications and the cost of processing applications.

As noted in previous years, a number of recent programmes provide a relatively light-touch approach, with a simplified application procedure and a reduced processing time. The number of applications can be unpredictable and vary from year to year, but the costs of administration and processing are not subject to the same fluctuations. For these reasons, year-on-year comparisons have limitations and must be viewed with caution. Our lottery programmes are responsive to needs and changes in patterns of activity, and therefore our portfolio of activity has changed considerably in recent years.

Performance measure	2003/04 actual	2004/05 actual	2005/06 target	2005/06 actual
Average cost of processing each application*	£3,625	£3,108	£3,250	£3,222
Average time to process each application (work days)	44	39	39	38
For reference: number of applications processed	5,398	5,966	6,000	6,139

*Following our decision with other lottery distributors to publish additional information about the costs of administering the distribution of lottery funds, we have changed how we calculate the average cost of processing each application. For consistency, the performance measure above is based on our actual administration costs excluding exceptional items and one-off IT development costs.

Lottery administration costs

The Lottery Forum, which is made up of representatives from all of the lottery distributors, has agreed, in conjunction with DCMS, to publish annually the following information about the costs of administering the distribution of lottery funds.

Performance against strategic objectives

	Year 1 2001/02 £m	Year 2 2002/03 £m	Year 3 2003/04 £m	Year 4 2004/05 £m	Year 5 2005/06 £m
Lottery administration costs					
Adjusted administration costs*	21.67	22.81	18.48	17.14	17.91
Actual administration costs**	21.67	23.54	19.57	18.54	19.78
Actual admin costs as % of lottery income	10.32%	13.24%	12.15%	10.96%	11.5%

* Figures have been adjusted for inflation using 2001/02 as the base year

** Excludes exceptional items and one-off IT development costs

Performance against strategic objectives

2005/06 was the last of the three years covered by our corporate plan 2003–6. This plan laid out our six strategic objectives – our ambitions for the arts. These ambitions have been central to all of our lottery-funded activities.

Supporting the artist

Ongoing support for the artist is vital for the arts to flourish. We have used lottery funds in a variety of ways to do this. Our capital programmes have provided funding for artists' workspaces. In 2005/06, awards were made to The Creative Foundation, Waygood Gallery, and Lancaster City Council (Storey Gallery).

Our capital programmes have also confirmed awards to organisations that promote training for artists such as the Stephen Lawrence Charitable Trust, the Roundhouse and Rich Mix. Our continued support of disabled artists is illustrated by an award of £750,000 to First Movement, whose disabled artists' workspace project will use live video/audio technology to link up disabled artists living many miles apart in combined arts projects.

Grants for the arts – individuals is funded from our grant-in-aid, but all strands of the programme provide significant benefit

to artists. During 2005/06, 32 per cent of all grants made were identified as making a specific contribution to the delivery of this ambition. From all activity funded in 2005/06, it is anticipated that over 320,000 artists will benefit and over 332,000 days of employment will be provided for artists.

Within the last year, Youth Music launched a new scheme called MusicLeader to provide information, advice and guidance, and professional development opportunities to music leaders. In June 2005, Youth Music published *Singbook*, a new resource for singing leaders consisting of 12 specially commissioned songs, teaching guidance and a professionally produced CD. A website was also developed providing other supporting information.

Enabling organisations to thrive, not just survive

Grants for the arts has funded a wide range of activities to enable organisations to build upon their strengths so that they may thrive. Of all the awards made during the year, 14 per cent were identified as making a specific contribution to the delivery of this ambition.

Our first Capital Programme highlighted the need to strengthen the skills of staff and boards of organisations to help them meet the large

Performance against strategic objectives continued

number of challenges posed by capital projects. As a result, projects included in the portfolios of both the Arts Capital Programme and the Grants for the arts – capital automatically receive funding specifically to build the organisation's capacity to run the capital development once it is complete. In addition, culturally diverse projects also receive up to £100,000 revenue grant as many of these are younger, smaller organisations that often require 'bridging' finance until the capital project is up and running and their ongoing financial viability is secured.

Championing cultural diversity

Championing cultural diversity is central to all of our activities. We continue to monitor all applications for lottery funding to ensure that we are reaching all sections of society. During 2005/06, Grants for the arts provided £5.4 million to organisations which defined themselves as Black and minority ethnic led, which represented 10 per cent of the entire grant offers made under the programme.

Diversity – encompassing cultural diversity and disability – was a priority for both the Arts Capital Programme and Grants for the arts – capital. Awards made to diverse projects during 2005/06 include First Movement, Carnival Village, Mind the Gap and Art Asia.

Offering opportunities for young people

As stated in previous reports, this aim is central to the existence of Youth Music and the purpose of the Space for Sport and Arts programme. Grants for the arts has also made a major contribution to offering opportunities for young people, making over 800 grants.

Our capital programmes provide opportunities for young people as participants and spectators by funding specific organisations that have a role in developing lifelong learning opportunities. Examples of such organisations, all of which were awarded grants in 2005/2006, include the Roundhouse, the Stephen Lawrence Charitable Trust and the Rich Mix Cultural Foundation in London, and FACT (Foundation for Art and Creative Technology) in Liverpool.

Encouraging growth

We promote growth through our programmes in a number of ways such as encouraging organisations to develop relationships with other funders in order to attract additional partnership funding.

If previously successful applicants apply to us to fund their activity again, we expect them to demonstrate how they have grown and developed since we first gave them funding. Youth Music has adopted a similar approach, requiring all second time applicants to demonstrate that they have developed artistically by including new and additional work in their proposed programme of activity.

Our own collaborative ventures with government departments, such as the Space for Sport and Arts with the Department for Education and Skills, have helped lever additional funds for the arts. Our work with the other lottery distributors, such as the Urban Cultural Programme in collaboration with the Millennium Commission, has reaped similar benefits.

Progress report on major lottery awards over £5 million

Living up to our values

Our corporate plan lists five values that the Arts Council and staff have chosen to sum up what is fundamental to Arts Council England. The values are creativity, diversity, trust, collaboration and quality.

The open application process for Grants for the arts funding enables us to support the widest range of creativity by artists and arts organisations from all backgrounds – celebrating the rich cultural diversity of England.

Our risk-based approach to monitoring allows us to trust artists and arts organisations to get on with their jobs and only step in when our help is needed.

We continue to work in collaboration with the other lottery distributors to simplify and streamline access to lottery funding and improve public awareness of what the lottery has achieved.

To improve quality, we regularly review our work to see what has succeeded and what we could do better. These evaluations inform the development of new and existing programmes and bring improvements to the way we work.

Customer service charter

In April 2005, we agreed with the other lottery distributors and with DCMS to adopt a common customer service charter. This includes 11 standards to make sure we provide the best possible service and maintain high standards of customer care. The charter is available from our website. For more information on how we improved our customer service, please refer to page 30.

Progress report on major lottery awards over £5 million

This section reports on projects which have received awards totalling over £5 million, even if involving a number of separate awards. It includes any projects which were active at 1 April 2005 but fully paid during 2005/06 and those with outstanding balances at 31 March 2006. The totals reflect any changes made to awards since the original decisions.

The projects are divided into three sections:

- A** projects still to be completed at 31 March 2006
- B** projects completed and opened during 2005/06
- C** projects completed and opened in previous years but with final payments still outstanding at 1 April 2005

The awards are all for capital projects except for four awards made under the recovery or stabilisation programmes – one of the awards to English National Opera, and the awards to the Royal Liverpool Philharmonic, the Bournemouth Symphony Orchestra and the Chichester Festival Theatre.

A Projects still to be completed at 31 March 2006

Bournemouth Symphony Orchestra
Award: £6,937,000

Stabilisation award to eliminate accumulated deficit and to fund the costs of restructuring the company to reduce operating costs to levels which can be covered by earned income and revenue grants. The company will complete its recovery plan and the balance of the award will be paid during 2006/07.

£6,643,961 paid (95.7% of the total award).

Progress report on major lottery awards over £5 million

continued

Colchester Borough Council

Award: £5,120,000

Colchester Borough Council is working in partnership with the firstsite art gallery towards the development of a new visual arts facility that will showcase established artists and emerging talent and meet a regional need for a large scale, contemporary visual arts venue. It is proposed the spaces will also act as a focus for the University of Essex's Latin American art collection.

£398,422 paid (7.8% of the total award).

English National Opera (ENO)

Award: £10,200,000

Stabilisation award to allow the new management team to implement a business model to place the company on a more stable footing. The award is being used to eliminate the accumulated deficit, enhance the development and marketing capacity, and to meet the costs of restructuring the company. ENO's recovery plan is now completed and the balance of the award will be paid during 2007/08.

£9,972,950 paid (97.8% of the total award).

Leeds City Council

Award: £13,600,000

The project is a partnership between Leeds City Council, Leeds Grand Theatre and Opera North. It proposes a new base and rehearsal centre for Opera North and refurbishment and modernisation of the Leeds Grand Theatre. It comprises a mix of new building development, operational improvements and heritage investment.

£7,067,244 paid (52% of the total award).

Leicester City Council

Award: £12,220,000

The project is a partnership between Leicester City Council, Leicester Theatre Trust (Haymarket Theatre) and the Leicester Arts Centre Trust (Phoenix). The project proposes building a new performing arts centre, a replacement venue for the old Haymarket Theatre and the performing arts elements of the Phoenix Arts Centre. It will be the first phase of a new cultural quarter in the St George's regeneration area of Leicester city centre.

£3,397,604 paid (27.8% of the total award).

Northampton Theatres Trust

Award: £7,548,725

This project is the refurbishment and reconfiguration of the Northampton Derngate and Royal Theatres. The two organisations merged in 1999 to form the Northampton Theatres Trust. The redevelopment will provide an extended and renovated foyer, improved disabled access, improved air circulation, a new creativity centre (a home for the theatre's education and outreach activities), and a new rehearsal space bringing in-house produced shows into the heart of the building.

£4,481,735 paid (58.6% of the total award).

The Public (previously c/PLEX)

Award: £29,960,703

Development of a major landmark building to house innovative, community-focused arts practice, with an emphasis on digital technologies, with the aim of being a central element of the regeneration strategy for West Bromwich. The operating company went into administration in March 2005.

Progress report on major lottery awards over £5 million continued

The Public continued

We are working with the administrators and other stakeholders to produce a viable operating plan for the business.

£28,350,923 paid (94.6% of the total award).

Rich Mix

Award: £5,890,000

Rich Mix will be a venue of international significance for a variety of arts events including local community work, concerts, conferences, film and touring exhibitions. It will also provide space for educational activities and skills development relating to information technology. Two cinemas will be built into the venue, one adaptable as a studio theatre/performance space. Programming will combine mainstream with world cinema/Bollywood. The top floor will be a performance club/bar space.

£5,380,000 paid (91.3% of the total award).

Rivington Place

Award: £5,120,000

The project is a new building to house two culturally diverse visual arts agencies (InIVA and Autograph ABP) with a gallery, project spaces for small to medium enterprises, expanded multimedia, a library and research facilities. Rivington Place will be situated in the heart of the diverse communities of East London, characterised by a dynamic city fringe economy and considerable deprivation.

£2,200,543 paid (43% of the total award).

Royal Liverpool Philharmonic Society

Award: £10,793,702

Stabilisation award to eliminate the accumulated deficit, to reach agreement with Liverpool City Council on the future funding of Philharmonia Hall, to recruit a new chief executive and other senior management posts, and to cover transitional operational costs.

£9,121,430 paid (87.9% of the total award).

Royal Shakespeare Company

Award: £50,806,539

The Royal Shakespeare Company is one of the most significant theatre production companies in the UK, with a strong international reputation. The work focuses on the plays of Shakespeare, and the company also develops and produces new work. This project is the redevelopment of the Royal Shakespeare Theatre, Stratford upon Avon to provide better facilities for audiences, performers and staff.

£12,564,052 paid (24.7% of the total award).

South Bank Centre

Award: £36,711,307

Development of the Royal Festival Hall, London, through improvement to existing foyers and renovation of auditorium, access improvements, improved natural acoustic and improved box office facilities. Also, extension to frontage of the Hayward Gallery including improved foyer, education, conference and outreach facilities (completed in October 2003) and improvements to external landscaping on the South Bank.

£36,688,286 paid (99.9% of the total award).

Progress report on major lottery awards over £5 million

continued

Wakefield City Council

Award: £5,080,000

The local authority is creating a new cultural amenity for the city, as part of a comprehensive regeneration plan. The development of the Hepworth, a major new art gallery, comes from the offer of 30 sculptures by Barbara Hepworth's estate as well as a desire to rehouse Wakefield Gallery's own large art collection. The project will vastly improve accommodation for collections, exhibitions and education activity.

£0 paid (0% of the total award).

Young Vic Company Limited

Award: £6,324,972

The project comprises the rebuilding of the original theatre to provide an upgraded auditorium, new foyer and catering spaces, two studios, and improved backstage and office spaces. There will be full access for disabled people. The new design will extend the area of the original building and use the increased space to improve all facilities.

£4,999,738 paid (79.0% of the total award).

B Projects completed and opened during 2005/06

After a project has been completed and opened, the Arts Council retains a percentage of the award for payment until a full account for the project has been received and/or final certificates have been issued.

Arnolfini

Award: £8,167,371

The purchase of the freehold of Bush House in Bristol (listed Grade II*) and refurbishment of an otherwise inaccessible and cramped space. The project provides the Arnolfini Gallery with a fully accessible building with new spaces, including education facilities and galleries. The Arnolfini reopened in September 2005.

£8,167,371 paid (100% of the total award).

De La Warr Charitable Trust Limited

Award: £5,219,943

The De La Warr Pavilion, Bexhill-on-Sea, built in 1935, is recognised as one of the finest examples of a Modern Movement building in Britain. It includes an auditorium, gallery space, bars, restaurant and multi-purpose rooms. The Grade I listed building has been restored to create a centre for the visual arts and architecture which opened in October 2005.

£5,139,835 paid (98.5% of the total award).

Unicorn Theatre

Award: £5,415,000

A project to create a theatre for children in Southwark and form an administrative base for the Unicorn. The building will also receive touring shows. Accommodation includes a 500-seat performance space, a second 100-seat space, an education studio, a workshop studio, a rehearsal studio, open and accessible front-of-house spaces, back-of-house accommodation and a meeting room. The Unicorn Theatre opened in December 2005.

£5,375,000 paid (99.3% of the total award).

Progress report on major lottery awards over £5 million

continued

C Projects completed and opened in previous years but with final payments still outstanding at 1 April 2005

After a project has been completed and opened, the Arts Council retains a percentage of the award for payment until a full account for the project has been received and/or final certificates have been issued.

Almeida Theatre Company

Award: £5,607,161

Refurbishment of the Almeida Theatre, London to repair the fabric of the theatre and foyer to make it safer and more congenial, keep it licensable, and remedy significant features of discomfort and inaccessibility. Part of the award was also for the purchase of the Almeida's rehearsal and office facilities. The theatre reopened in May 2003.

£5,607,161 paid (100% of the total award). The final payment was made during 2005/06.

BALTIC Centre for Contemporary Art (Gateshead Metropolitan Borough Council)

Award: £41,485,000

Conversion of the Baltic Flour Mills into a contemporary visual arts centre. The main construction work started in September 1999 and BALTIC opened to the general public in July 2002. Significant partnership funding came from the Single Regeneration Budget and Gateshead Metropolitan Borough Council.

£41,485,000 paid (100% of the total award). The final payment was made in 2005/06.

Brighton Festival Society

Award: £19,589,040

Refurbishment and restoration of the Dome Concert Hall and Corn Exchange performance venue, and the addition of new facilities such as a cafe and foyer area. Work on the Corn Exchange was completed and the first performance took place in May 2000. The Dome Concert Hall opened in March 2002. Significant partnership funding came from the Single Regeneration Budget and Brighton & Hove Council.

£19,589,040 paid (100% of total award). The final payment was made during 2005/06.

Chichester Festival Theatre

Award: £6,325,000

Stabilisation award to eliminate accumulated deficit, to cover the costs of making changes to the theatre's operational model and to assist with the purchase of a new box office system. The company's recovery plan was completed during 2005/06 and it has now left the recovery programme.

£6,325,000 paid (100% of the total award). The final payment was made during 2005/06.

English National Opera

Award: £20,167,011

Capital award towards the development of the London Coliseum master plan and towards the costs of the programme of restoration and development works, including closure costs during the construction period 2000–04. The work programme ensured that the Coliseum satisfies licensing requirements and meets essential environmental and technical specifications which include fire detection and safety measures, interim ventilation for

Progress report on major lottery awards over £5 million

continued

the auditorium and improvements to public foyers, auditorium stage, backstage facilities and the exterior of the building. The Coliseum successfully reopened in February 2004.

£20,167,011 paid (100% of the total award). The final payment was made during 2005/06.

Gateshead Metropolitan Borough Council Award: £6,000,000

The Gateshead Quays development includes both BALTIC and The Sage Gateshead, which are high profile, flagship regional lottery projects. The regeneration scheme was developed with the support and cooperation of major regional and national stakeholders and part-funded from European funding sources.

£6,000,000 paid (100% of the total award). The full payment was made during 2005/06.

Hackney Empire Award: £8,801,337

The restoration and upgrade of a Grade II* listed Matcham theatre and its facilities, and the demolition and rebuild of an adjacent building into the complex. The Hackney Empire reopened in January 2004.

£8,701,337 paid (98.9% of the total award).

Hampstead Theatre Award: £12,730,960

Development of the new theatre with a flexible 300-seat auditorium, education and workshop space, and cafe. This is a key element of the development of the Swiss Cottage site in north London. Opened in February 2003.

£12,368,915 paid (97.2% of the total award).

The Junction Cambridge Drama Centre Award: £5,779,608

Amalgamation of The Junction music venue with Cambridge Drama Centre to create a single multi-art form facility including a new 200-seat flexible arts auditorium, second auditorium, entrance foyer, rehearsal and digital studios, box office and administration offices. The Junction Cambridge Drama Centre opened in March 2005.

£5,779,608 paid (100% of the total award). The final payment was made during 2005/06.

Laban Centre for Movement and Dance Award: £14,701,538

Development of a landmark building as part of the Creekside area in Deptford, south London. It includes dedicated community facilities, a 300-seat theatre, studios and movement therapy areas, a cafe and information resource centre. The centre opened in February 2003.

£14,701,538 paid (100% of the total award). The final payment was made during 2005/06.

Liverpool Empire Theatre (Empire Theatre (Merseyside) Trust Ltd) Award: £7,630,000

Major refurbishment of auditorium, front-of-house and backstage areas, with development of adjoining building to improve access. The theatre reopened after the completion of Phases I and II at the end of May 2002. Significant partnership funding from Apollo Leisure, the European Regional Development Fund, and the Foundation for Sport and the Arts.

Progress report on major lottery awards over £5 million

continued

Liverpool Empire Theatre continued
£7,630,000 paid (100% of the total award).
The final payment was made during 2005/06.

London Borough of Newham Cultural Quarter

Award: £13,828,599

Towards the final phase of the project including the Stratford Circus Arts Centre and the refurbishment and expansion of the Theatre Royal Stratford East, which was completed in 2001. Significant partnership funding from the borough itself, English Partnerships and City Challenge.

£13,828,599 paid (100% of the total award).
The final payment was made during 2005/06.

London Symphony Orchestra (LSO)

Award: £5,643,080

Rebuilding and conversion of the 18th century St Luke's Church in the City of London, to provide a long-term base close to LSO's Barbican home venue for its rehearsal needs and Discovery education programme. Significant partnership funding from the Heritage Lottery Fund, Jerwood Foundation and commercial banking group UBS. The building opened in March 2003.

£5,643,080 paid (100% of the total award).
The final payment was made during 2005/06.

National Centre for Popular Music (Music Heritage Ltd)

Award: £11,350,689

The National Centre for Popular Music opened in March 1999. Due to operational difficulties, it undertook a period of redevelopment and the ownership was subsequently transferred to

Yorkshire Forward (the regional development agency). It continues to be used for broadly cultural purposes.

£11,350,689 paid (100% of the total award).
The final payment was made during 2005/06.

Ocean (Ocean Music Trust Ltd)

Award: £14,943,567

Conversion of two landmark buildings in Hackney, London, to house three performance spaces, a music training and resource centre, rehearsal rooms and cafe/bar. Significant partnership funding from the Single Regeneration Budget, the London Borough of Hackney and the European Regional Development Fund. Opened in March 2001.

Unfortunately, due to adverse trading conditions, in October 2004 the directors placed the company into administration. We are working closely with the administrator and other stakeholders to secure a positive future.

£14,943,567 paid (100% of the total award).
The final payment was made during 2005/06.

The Place (Contemporary Dance Trust)

Award: £5,673,257

Expansion and refurbishment of the central London building. This included new facilities for the school, new studio spaces and improved access throughout, enabling The Place to develop its work as a choreographic and performance centre. The project was completed in October 2001. Significant partnership funding from the Single Regeneration Budget.

£5,673,257 paid (100% of the total award).
The final payment was made during 2005/06.

Progress report on major lottery awards over £5 million continued

Royal Academy of Dramatic Art (RADA)

Award: £26,146,851

Renovation and refurbishment of existing facilities, and purchase of adjoining premises to provide a modern, well-equipped teaching and learning facility. The award also included provision for the temporary relocation of RADA during the construction period. The building reopened in November 2000.

£26,146,851 paid (100% of the total award). The final payment was made during 2005/06.

Royal Albert Hall

Award: £20,200,000

Improvements for audience and performers, including better accessibility. This is a joint award with the Heritage Lottery Fund (£20.18 million). Significant self-generated income has been put towards the project by the Royal Albert Hall. A reopening of the completed works took place in March 2004.

£20,200,000 paid (100% of the total award). The final payment was made during 2005/06.

Royal Court Theatre

(English Stage Company)

Award: £21,159,031

Redevelopment and upgrading of the Grade II listed 395-seat theatre and 60-seat Theatre Upstairs, with additional foyer, bar/restaurant facilities. The award covered relocation costs incurred during the construction phase. The theatre reopened in January 2000.

Significant partnership funding from Jerwood Foundation and Cadogan Estates Partnerships.

£21,159,031 paid (100% of the total award). The final payment was made during 2005/06.

Royal Opera House

Award: £78,500,000

Redevelopment, restoration and refurbishment of Grade I listed building to provide improved facilities for audience and performers, including a base for the Royal Ballet. The award included some funds for relocation costs during the construction period. The development appeal and private funders provided two-thirds of the estimated total costs of £241 million. The Royal Opera House reopened in December 1999.

£78,500,000 paid (100% of the total award). The final payment was made during 2005/06.

Watford Palace Theatre

Award: £5,272,568

A major refurbishment of the Watford Palace Theatre which comprised modifications to the foyers, auditorium, stage and backstage areas to provide better access, including a lift to all floors and a deeper stage house, together with a new flying and lighting system and new seating. The theatre reopened in October 2004.

£5,272,568 paid (100% of the total award). The final payment was made during 2005/06.

annually updated information

- 131 Council and regional council members
- 133 taking part in the arts

Council and regional council members

April 2005 to March 2006

Council

Sir Christopher Frayling (Chair)	Professor Alan Livingston Stephen Lowe***	Professor Stuart Timperley Dorothy Wilson
Diran Adebayo	Sir Brian McMaster CBE	Lady Sue Woodford Hollick
Janet Barnes	François Matarasso****	* Retired June 2005
Tom Bloxham MBE	Elsie Owusu OBE	** Appointed September 2005
Deborah Bull CBE*	Dr Tom Shakespeare	*** Retired July 2005
Kentaké Chinyelu-Hope**	William Sieghart	**** Appointed October 2005
Deborah Grubb***		

East Regional Arts Council

Professor Stuart Timperley (Chair)	Susan Gunn	Kari O’Nions
Gillian Beer	Barbara Hacker	Penny Otton
Graham Creelman	Paul Kirkman	Rachel Parslew
Nicholas Daniel	Anne Lavery	Yasmin Sharif
Tony Dodd	David Morrall	Sue Wigglesworth

East Midlands Regional Arts Council

Stephen Lowe (Chair)*	Mir Juma	Cllr Paul West
François Matarasso (Chair)**	Cllr John Knight	Cllr Nick Worth
Abby Johnson Brennan	Cllr Dr Jill Vincent	Cllr Mick Young
Cllr Pat Fawcett	Morcea Walker	* Retired July 2005
Tina Glover MBE	Cllr Alan Wells	** Chair from October 2005
David Johnston		

London Regional Arts Council

Lady Sue Woodford Hollick (Chair)	Jenny Harris	Kate O’Rourke
Jeanette Arnold	Elizabeth Howlett	Cllr Joyce Ryan
Emmanuel Cooper	Ian Jentle	Dr Maggie Semple
Anupam Ganguli	Cllr Denise Jones	Graham Sheffield
	Nicolas Kent	Cllr Peter Truesdale

North East Regional Arts Council

Dr Tom Shakespeare (Chair)	Tina Gharavi	William Pym
Victoria Andrew MBE	Sarah Kemp	Mark Scrimshaw
Cllr Alex Cunningham	Farah Khan	Sajjad Shah
Cllr Fiona Davison	Helen Pickering	Cllr Robert Symonds
Cllr Mick Henry		

Council and regional council members *continued*

North West Regional Arts Council

Tom Bloxham MBE (Chair)	Ruth Gould	Howard Raynor
Conrad Atkinson	Professor Lubaina Himid	Cllr Edmund Sheehy
Deborah Barnard MBE	Cheryl Martin	Cllr Andy Shine
Cllr Warren Bradley	Peter Mearns	Cllr Jean Yates
Cllr Ann Farrell	Cllr Paula Pearson	

South East Regional Arts Council

Deborah Grubb (Chair)*	Euan Henderson	Mary Stuart
Kentaké Chinyelu-Hope (Chair)**	Sarah Hohler	Katie Tearle
Jeremy Birch	Schweta Kapadia	Elaine Thomas
Morel D'Souza	Penelope Marcus	Stephen Turner
Mike Fairclough	Vuyu Naidu-Banfield	Adrian Vinson
Simon Fanshawe	Andrew Nairne	Michael Woodhall
Judy Panesar Harrison	Mike Roger	* Retired July 2005
	Gavin Stride	** Chair from September 2005

South West Regional Arts Council

Professor Alan Livingston (Chair)	Cllr Robert Chapman	Thrisha Halder
Cllr Doris Ansari OBE	Sir Chris Clarke	Jill Low
Olalekan Babalola	Ruth Eastwood	Cllr Karla Sudbury
Tim Brinkman	Emily Flatley	Cllr Ian Ward
	Cllr Stephen Friar	Pippa Warrin

West Midlands Regional Arts Council

Dorothy Wilson (Chair)	Clare Edwards	Cllr Sheila Pittaway
Cllr Colin Ablitt	Deirdre Figueiredo	Paul Sutton
Professor Susan Bassnett	Tyrone Huggins	Ammo Talwar
Cllr Martin Bennett	Cllr Terry James	Cllr Ian Ward
Cllr Richard Chattaway	Alan McLean	

Yorkshire Regional Arts Council

Janet Barnes (Chair)	Cllr Jane Evison	Susan Latter
Cllr Peter Box	Cllr David Gemmell	David Nixon
Cllr Georgina Boyes	Lynne Green	Cllr James Preston
Margaret Coleman	Elaine Hirst	Dharambir Singh
Geraldine Connor	Sohail Khan	William Weston

taking part in the arts

The following information comes from *Taking Part*, a major new survey of culture, leisure and sport in England, commissioned by the Department for Culture, Media and Sport with Arts Council England and other cultural agencies. Each year it will ask around 29,000 adults about their attendance at a wide variety of arts and other cultural events, and their participation in creative activities and sport.¹

Overall engagement with the arts

Seventy-six per cent of adults in England had attended or participated in the arts in the last year and 42% had done both.²

Attendance at arts events

Taking Part respondents were asked which, if any, of a range of events they had been to in the 12 months before interview.

Table 1: Percentage of adults attending arts events during the last 12 months

Event	%
Play, drama or other theatre performance	35
Art or craft exhibition, or electronic art event	31
Street arts, carnival or culturally specific festival	31
Classical music concert	8
Jazz performance	6
Opera or operetta	4
Other live music event	24
Ballet	4
Other live dance event	7
Event connected with books or writing	5

More than a third of adults attended a theatre performance in the last year (35%), while just under a third had been to an art or craft exhibition, or electronic art event (31%). The same proportion attended either street arts, carnival or a culturally specific festival (31%).

¹ Figures reported here are from the first six months of the survey, based on the responses of 11,204 people. Findings from *Taking Part* remain provisional until 12 months of data have been collected.

² Based on the events and activities outlined in tables 1 and 2.

KISS



SPECIAL
SWEET.....KISS
TATTOO.....KISS
GOOD LUCK.KISS
CHRISTMAS.KISS
BUTTERFLY.KISS
SECRET....KISS
ALIEN....KISS
NEW!!
TEST YOUR
PUCKER



taking part in the arts continued

Participation in arts activities

In addition to arts attendance, respondents were also asked whether they had taken part in any of a range of arts activities during the last 12 months.

Table 2: Percentage of adults participating in arts activities during the last 12 months

Activity	%
Buying original art or craft	20
Crafts	20
Singing or playing a musical instrument	14
Painting, drawing, printmaking or sculpture	13
Creating original artworks using a computer	11
Photography, film or video as an artistic activity	10
Any dance, including ballet (not for fitness)	8
Writing stories, plays or poetry	7
Writing any music	3
Rehearsing or performing in a play, drama or opera	2

A fifth of adults (20%) took part in crafts activities, including wood and textile crafts and the same proportion bought an original piece of art or craft. 14% of respondents either sang or played a musical instrument in the last year, and more than one in 10 people used a computer to create an original work of art (11%).

Literature

In addition to the activities and events described above, almost two-thirds of adults read for pleasure in the last 12 months (63%), with 45% having bought a novel or book of stories, poetry or plays for themselves.

The research department will be publishing an in-depth analysis of arts engagement using data from *Taking Part* in spring 2007. Further information on the *Taking Part* survey can be found in the research section of the Arts Council website.

Left: Kiss Therapy performed by Sandy Beech at Streets of Brighton 2005 (produced by Zap Art). Photo: Matthew Andrews

Note: In previous years, Target Group Index (TGI) data has been quoted in the annual review to report arts attendance figures. Due to differences between questions asked in each survey, the two sets of figures are not comparable. Topline attendance figures for each of the eight artforms used by TGI will continue to be available on the Arts Council website and will be updated annually.

Arts Council England



Front cover: The studio image for *Under Scan* – a new video art installation by Rafael Lozano-Hemmer, commissioned by emda for the East Midlands November 05–March 06, produced by ArtReach.
Photo: Antimodular Ltd

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