

NATIONAL LOTTERY ETC. ACT 1993

**Account**, of the Arts Council of England Lottery Distribution for the period ended 31 March 1997, together with the Certificate and Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 639 of 1995-96.)

Presented pursuant to Act 1993, c.39, section 35(5)

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# **Arts Council of England Lottery Distribution Account 1996-97**

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 31 JULY 1997

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# Foreword

## Introduction

The Arts Council of England is a registered charity, Charity Registration Number 1036733. It was established by Royal Charter on 1 April 1994, taking over those responsibilities in England previously discharged by the Arts Council of Great Britain.

The address of the principal office is 14 Great Peter Street, London, SW1P 3NQ.

The Council receives grant-in-aid from the Department of National Heritage and is one of the bodies designated to distribute funds from the National Lottery by the National Lottery etc. Act 1993.

Grant-in-aid is distributed by the Council in support of the arts in accordance with the objectives set out in the Royal Charter. Funds from the National Lottery are distributed in accordance with directions issued under the Act by the Secretary of State for National Heritage.

The Council works at arm's length from Government and has the status of a non-departmental public body. As such it is regulated in accordance with Financial Memoranda issued by the Secretary of State and accounts, for grant-in-aid and lottery funded activities, are prepared separately in accordance with accounts directions.

## Review of the year

The Council's principal activity is the support of the arts. To this end it makes lottery grants to arts organisations. The Secretary-General's report and the National Lottery Annual Report provide further details of its policies and activities.

1996/97 saw a number of changes to the Arts Council's lottery programme. Building on experience from the first full year of lottery grant-making, the Arts Council is now able to offer clearer guidance to applicants on what constitutes a successful capital bid. Project monitoring and evaluation was strengthened with the establishment of a Lottery Projects Department.

New Lottery-funded initiatives included, for the first time, schemes providing revenue funding. Arts for Everyone was aimed at a diverse range of amateur and professional groups, and attracted a large number of applications. The pilot stabilisation scheme aims to develop long term solutions for funding problems in professional arts organisations.

A new Film Unit was established in the Lottery Department. Developments included the launch of a film franchise scheme.

A commitment to diversity – geographical and artistic – is a consistent feature of all Arts Council lottery initiatives.

**Financial results**

The accounts for activities funded from the National Lottery Distribution Fund (set out on pages 6 to 15) show a decrease in Accumulated Funds of £96,367,000. The Council considers what level of forward commitments of Lottery Funds is prudent and appropriate in the light of past and projected income flows which has resulted in an Accumulated Funds Deficit of £30,300,000 in the current year. The Arts Council monitors the level of commitments to ensure they are kept within the established benchmarks.

Due to the expansion of activities during the year, the fixed assets have increased by 582% to £484,000.

**Membership of Council**

The Members of the Arts Council during the year were:

Member	Date of Appointment/Renewal	Date of Resignation
Lord Gowrie PC (Chairman)	April 1994	
David Reid (Vice-Chairman)	April 1995	
Richard Cork	April 1995	
Professor Ray Cowell	April 1996	
Professor Brian Cox CBE	April 1996	
	January 1997	
Charles Denton	August 1996	
Professor Christopher Frayling	April 1995	
Maggie Guillebaud	April 1994	
	May 1997	
Sir Ernest Hall OBE DL	April 1994	
	May 1997	
Sir David Harrison CBE	April 1996	
	May 1997	
Gavin Henderson	June 1994	
	May 1997	
Thelma Holt CBE	April 1994	
	May 1997	
Lady MacMillan	December 1996	
Professor Andrew Motion	April 1996	
Stephen Phillips	May 1994	
	May 1997	
Usha Prashar CBE	July 1994	
	May 1997	
Clive Priestley CB	April 1996	
Roger Reed	April 1996	
Stella Robinson	April 1994	
	May 1997	
Prudence Skene	April 1994	
	April 1996	
Robert Southgate	April 1994	
	April 1996	
John Spearman	December 1996	
Lord Rogers	May 1994	December 1996
Trevor Nunn CBE	May 1994	April 1996
Trevor Phillips	May 1997	

**Membership of the Lottery Advisory Panel**

The Members of the Council's National Lottery Advisory Panel during the year were as follows: Prudence Skene (Chairman), David Brierley CBE, Dr Neil Cross, Patty Hopkins, Cleo Laine OBE, Ruth Mackenzie OBE, Paddy Masefield OBE, Tony Pender CBE, Nima Poovaya-Smith, Sir David Puttnam CBE, Lynette Royle and Jon Foulds. The members of the Panel were not remunerated for their services.

**Statement of Council's and Secretary-General's responsibilities in relation to financial statements**

Under section 35 (2) and (3) of the National Lottery etc. Act 1993, the 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 National Heritage, with the consent of the Treasury. The accounts are to be prepared on an accruals basis and to show a true and fair view of the Council's state of affairs at the year end and of its income and expenditure and cash flows for the financial year. The Council is required 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 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 the Council will continue in operation.

The Accounting Officer for the Department of National Heritage has designated the Secretary-General as Accounting Officer for the Council. The relevant responsibilities as Accounting Officer, including the responsibility for the propriety and regularity of the finances for which the Secretary-General is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by H.M. Treasury.

**Other matters**

Coutts & Co of 440 Strand, London, WC2R 0QS are the bankers for the Arts Council of England.

The Solicitors of the Arts Council of England are Bird & Bird of 90 Fetter Lane, London, EC4A 1JP.

The Comptroller and Auditor General of 157-197 Buckingham Palace Road, Victoria, London, SW1W 9SP, acts as auditor to the Arts Council, and his report is presented on page 5.

The Council maintains a register of interests of its Members, which is available for public inspection by appointment at the Council's Great Peter Street address.

The Council attempts to abide by the CBI's "Prompt Payers Code", and in particular to pay bills in accordance with contract. In 1996/97 86% of undisputed invoices were paid within a 30 day period. It is the Council's aim to increase this to 95% in 1997/98.

The Arts Council is committed to a policy of equality of opportunity in its employment practices. In particular the Council aims to ensure that no potential or

actual employee receives more or less favourable treatment on the grounds of race, colour, ethnic or national origin, marital status, age, gender, sexual orientation, disability or religious beliefs.

The Council ensures that there are arrangements to promote effective consultation and communications with all staff. All departments have regular staff meetings at which matters relating to the Council's activities are discussed and staff are regularly briefed on the matters discussed at senior management and Council meetings. Meetings of all staff are held periodically. The Council recognises the trade union MSF, with which it has established a procedural agreement; representatives of management and union meet regularly.

The Secretary-General, Mary Allen, resigned in May 1997. The Deputy Secretary-General, Graham Devlin, is currently acting in this position.

**Statement on  
Corporate Governance**

Although the Arts Council of England is not required to comply with the Code of Best Practice published in December 1992 by the Cadbury Committee on the Financial Aspects of Corporate Governance, nevertheless the Council believes it should meet the highest standards of corporate governance and accordingly complies voluntarily with key aspects of the code.

Members of the Arts Council are appointed by the Secretary of State for National Heritage for specified terms of office, and are unpaid. Council Members work within a Code of Practice (based on a Treasury model for non-departmental public bodies) which has been agreed with the Secretary of State. The Secretary-General and staff also work within such a Code of Practice. The Council meets in formal session about ten times each year, and it monitors the work of the Secretary-General and staff. Overall policy is determined by the Council itself after due consultation with interested parties, and the Council has a schedule of matters reserved for its own decision, including key points of strategy, policy, resourcing, and staffing. All Council Members have access to the Secretary-General and senior staff as they require. The Head of Secretariat ensures that the Council follows its established procedures.

The Annual Report provides information about the Council's overall financial position. Objective and professional relations are maintained with the National Audit Office which acts as auditor of both the Arts Council's grant-in-aid accounts and its lottery distribution accounts.

The Council has established an Audit Committee; its terms of reference are in accordance with the "Code of Best Practice for Board Members of Public Bodies" issued by H.M. Treasury.

*Graham Devlin*  
Acting Secretary-General  
28 July 1997

*Lord Gowrie*  
Chairman of the Arts Council of England  
28 July 1997

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

I certify that I have audited the financial statements on pages 6 to 15 under the National Lottery etc. Act 1993. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

## Respective responsibilities of Council, Secretary-General and Auditors

As described on page 3 the Council and the Secretary-General as the Accounting Officer are responsible for the preparation of financial statements and for ensuring the regularity of financial transactions. It is my responsibility to form an independent opinion, based on my audit, on those statements and on the regularity of the financial transactions included in them and to report my opinion to you.

## Basis of opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Arts Council of England Lottery distribution activities at 31 March 1997 and of the decrease in funds available, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Lottery etc. Act 1993 and directions made thereunder by the Secretary of State for National Heritage;
- 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  
30 July 1997

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

## Income and Expenditure Account for the period 1 April 1996 – 31 March 1997

	Notes	£000s	1997 £000s	£000s	1996 £000s
Share of proceeds from the National Lottery	2	240,880		244,194	
Investment returns on the Distribution Fund		21,229		10,910	
Commitments Written Back		107		–	
Interest Receivable		541		248	
Other income	3	<u>45</u>		<u>8</u>	
			<u>262,802</u>		<u>255,360</u>
Grants		<u>344,450</u>		<u>229,918</u>	
<b>Total grants</b>	9		<b>344,450</b>		<b>229,918</b>
General Expenditure:					
Staff costs	4	1,036		568	
Other operating costs	5	9,593		3,215	
Depreciation	6	176		29	
Costs apportioned by grant-in-aid	1	<u>3,914</u>		<u>3,052</u>	
<b>Total operating costs</b>			<u>14,719</u>		<u>6,864</u>
<b>Total expenditure</b>			<u>359,169</u>		<u>236,782</u>
<b>Net resources expended before notional costs</b>			<b>(96,367)</b>		<b>18,578</b>
<b>Notional costs</b>	8				
Cost of Capital		258		66	
Insurance		<u>10</u>	<u>(268)</u>	<u>9</u>	<u>(75)</u>
<b>Net resources expended after notional costs</b>			<u>(96,635)</u>		<u>18,503</u>
Reversal of notional costs			268		75
<b>Increase/(Decrease) in Lottery Funds</b>	10		<u>(96,367)</u>		<u>18,578</u>
Accumulated Funds brought forward			66,067		47,489
<b>Accumulated Funds carried forward</b>			<u>(30,300)</u>		<u>66,067</u>

The Council has no recognised gains or losses other than those shown on the income and expenditure statement for the period. There are no discontinued activities.



## Balance Sheet as at 31 March 1997

	Notes	£000s	1997 £000s	£000s	1996 £000s
<b>Fixed assets</b>					
Tangible assets	6		<u>484</u>		<u>71</u>
			484		71
<b>Current assets</b>					
Debtors and prepayments		248		155	
Investments: Balance in					
Distribution Fund	7	391,266		263,304	
Cash at bank and in hand		<u>9,770</u>		<u>4,602</u>	
		401,284		268,061	
<b>Current liabilities</b>					
Hard Commitments					
falling due within one year	9	214,000		104,726	
Accruals		598		1,244	
Due to Grant-in-aid		992		1,990	
Sundry Creditors		<u>1,217</u>		<u>494</u>	
		216,807		108,454	
<b>Net current assets</b>			<u>184,477</u>		<u>159,607</u>
<b>Total assets less liabilities</b>			<u>184,961</u>		<u>159,678</u>
<b>Represented by:</b>					
Grant Commitments over one year			215,261		93,611
Reserves			<u>(30,300)</u>		<u>66,067</u>
			<u>184,961</u>		<u>159,678</u>

*Graham Devlin*  
Acting Secretary-General

*Lord Gowrie*  
Chairman of the Arts Council of England

28 July 1997

## Cash Flow Statement for the year ended 31 March 1997

	Notes	£000s	1997 £000s	1996 £000s
<b>Operating activities</b>				
Funds received from the National Lottery Distribution Fund		134,147		39,828
Other cash receipts		4		6
Grants Paid		(113,387)		(31,614)
Cash paid to and on behalf of employees		(948)		(568)
Other cash payments		<u>(14,496)</u>		<u>(3,210)</u>
<b>Net cash inflow from operating activities</b>	12		<u>5,320</u>	<u>4,442</u>
<b>Returns on investments and servicing of finance:</b>				
Interest received		<u>437</u>		<u>131</u>
<b>Net cash inflow from returns on investments &amp; servicing of finance</b>			<u>437</u>	<u>131</u>
<b>Capital expenditure &amp; financial investments</b>				
Purchase of tangible fixed assets		<u>(589)</u>		<u>(53)</u>
<b>Net cash outflow from capital expenditure</b>			<u>(589)</u>	<u>(53)</u>
<b>Management of liquid resources and financing</b>				
			<u>0</u>	<u>0</u>
<b>Increase in cash</b>	13		<u>5,168</u>	<u>4,520</u>

## Notes to the Accounts

### Accounting policies 1a)

#### **Basis of accounts**

These financial statements are prepared under the historical cost convention. The accounts have been prepared in accordance with the Accounts Direction issued by the Secretary of State for National Heritage, and 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.

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

#### **b) Accruals convention**

All income and expenditure is taken into account in the financial year to which it relates.

As required by the Secretary of State, a distinction is made in respect of lottery grants between "hard commitments", where the Council has made a firm offer of grant which (together with appropriate conditions) has been accepted by the recipient, and "soft commitments" where the Council has 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 in the income and expenditure account, whereas soft commitments are recognised by way of note.

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.

Grant Commitments for future years have been entered into taking account of income forecasts provided by the Department of National Heritage. These forecasts have been discounted aggressively and the Council believes that it has taken a very conservative view of future income. Nevertheless, it assumes, as matters of public policy, the continued operation of the National Lottery and the maintenance of the Arts Council's percentage of the National Lottery Distribution Fund as set out in sections 22 and 23 of the Act.

#### **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	- over the life of the lease
Equipment, fixtures and fittings	- over 4 years

A full year's depreciation is provided in the year of an asset's acquisition, and none in the year of its disposal.

**d) National Lottery Distribution Fund**

Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for National Heritage. However, the share of these balances attributable to the Arts Council of England is as shown in the accounts and, at the balance sheet date, has been notified by the Secretary of State for National Heritage as being available for distribution by the Arts Council of England in respect of current and future commitments (note 7). The amount attributable to the Arts Council has been treated as income within these accounts.

**e) Taxation**

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

**f) Pensions**

The Arts Council provides a defined benefit pension scheme for its employees, the costs of which are charged to the income and expenditure account.

**g) Apportioned costs**

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

**h) Notional costs**

In accordance with Treasury guidance, notional costs are charged in the Distribution Account in arriving at a net incoming/(outgoing) resources figure. These are reversed so that no provision is included on the balance sheet. Last year's figures have been restated to ensure comparability.

		1997	1996
		£000s	£000s
<b>Share from the National Lottery</b>	<b>2</b>		
		240,880	244,382
		0	(188)
		<u>240,880</u>	<u>244,194</u>
<hr/>			
<b>Other income</b>	<b>3</b>		
		37	2
		8	6
		<u>45</u>	<u>8</u>

Staff costs	4	1997	1996
		£000s	£000s
Salaries and wages		918	463
Employer's National Insurance		75	36
Arts Council Retirement Plan (1994)		43	69
Total		<u>1,036</u>	<u>568</u>

These costs relate to the lottery function and its operation for the year.

The Chairman, Council and Lottery Advisory Panel Members are not paid for their services.

An Actuarial Valuation of the Pension Fund takes place every three years. The last valuation was at 1 April 1996. On advice of the actuary, the employer's contribution was set at 8.8%.

The Scheme is financed by payments by the Council and employees into a trustee-administered fund independent of the Council's finances. These contributions are invested by a leading fund management company. The net market value of Scheme assets at 31 March 1997 was £21,701,277.

The average weekly number of employees engaged directly on lottery activities during the year was made up as follows:

	1997	1996
Lottery management	6	3
Operational	21	9
Administration	13	6
	<u>40</u>	<u>18</u>

Other operating costs	5	1997	1996
		£000s	£000s
Travelling, subsistence and entertainment		94	30
Publicity and promotions		436	123
Postage and telephone		110	47
Agency staff costs		323	61
Professional fees		1,626	557
Value Added Tax		1,108	533
Office and sundry		392	191
External assessment costs		5,504	1,673
		<u>9,593</u>	<u>3,215</u>

These costs relate to the lottery function and its operation during the year.

**Tangible fixed assets 6**

	<b>Short Leasehold Improvements £000s</b>	<b>Equipment Fixtures and Fittings £000s</b>	<b>1997 TOTAL £000s</b>
Cost at 1 April 1996	0	116	116
Additions	71	518	589
<b>Cost at 31 March 1997</b>	<b>71</b>	<b>634</b>	<b>705</b>
Depreciation at 1 April 1996	0	45	45
Provided for 1996/97	18	158	176
<b>Depreciation at 31 March 1997</b>	<b>18</b>	<b>203</b>	<b>221</b>
Net book value at 1 April 1996	0	71	71
<b>Net book value at 31 March 1997</b>	<b>53</b>	<b>431</b>	<b>484</b>

**Investments**

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

The funds are invested on behalf of the National Lottery Distribution Fund by the National Debt Commissioners. The Arts Council's distribution is in accordance with Sections 22 and 23 of the National Lottery etc Act 1993.

**Notional costs**

- 8 Notional cost of capital is calculated as 6% of the average net assets employed by the Arts Council in the year, excluding the Balance in the Distribution Fund and hard grant commitments.

Notional cost of insurance is calculated using quotes obtained from an expert adviser.

This being the first year such costs have been included, prior year figures have been restated.

<b>Soft and hard commitments</b>	<b>9</b>		<b>1997</b>	<b>1996</b>
			<b>£000s</b>	<b>£000s</b>
		Soft Commitments Brought Forward	110,072	0
		Soft Commitments Transferred to Hard Commitments	(344,450)	(229,918)
		Soft De-Commitments	0	(60)
		Soft Commitments Made	347,750	340,050
		Balance of Soft Commitments		
		Outstanding Carried Forward	<u>113,372</u>	<u>110,072</u>
		Hard Commitments Brought Forward	198,337	0
		Hard Commitments met in the last year	(113,419)	(31,581)
		Hard De-Commitments	(107)	0
		Hard Commitments Made	344,450	229,918
		Balance of Hard Commitments		
		Outstanding Carried Forward	<u>429,261</u>	<u>198,337</u>
		Ageing of Hard Commitments:		
		1996/97	0	104,726
		1997/98	214,000	77,812
		1998/99	188,897	7,521
		1999/2000	16,426	1,200
		2000/2001	2,738	7,078
		Over 5 years	7,200	0
		Total Hard Commitments	<u>429,261</u>	<u>198,337</u>

<b>Increase in Lottery Funds</b>	<b>10</b>		<b>1997</b>	<b>1996</b>
			<b>£000s</b>	<b>£000s</b>
		Stated after charging:		
		(a) Auditors' remuneration	29	25
		(b) Staff travel, subsistence and hospitality	53	20

(c) The remuneration of senior employees attributable to the National Lottery was as follows:

			<b>1997</b>	
	<b>Number</b>	<b>Total Salaries £000s</b>	<b>Lottery Charge £000s</b>	<b>Lottery Proportion</b>
Director of National Lottery	1	48	48	100%
Director of Lottery Film	1	43	43	100%
ACE employees earning between £40,000 – £49,999	2	94	47	50%
ACE employees earning between £50,000 – £59,999	1	53	27	50%
ACE employees earning between £60,000 – £69,999	1	63	32	50%

<b>Capital commitments</b>	<b>11</b>		<b>1997</b>	<b>1996</b>	
			<b>£000s</b>	<b>£000s</b>	
		Authorised but not contracted	5	0	
		Contracted	0	0	
			<u>5</u>	<u>0</u>	
<hr/>					
<b>Cash Flow</b>	<b>12</b>		<b>1997</b>	<b>1996</b>	
			<b>£000s</b>	<b>£000s</b>	
		Reconciliation of net resources expended to net operating cashflows:			
		Operating surplus/(deficit)	(96,367)	18,578	
		Interest receivable	(541)	(248)	
		Depreciation charges	176	29	
		(Increase) in debtors and prepayments	(127,951)	(215,310)	
		Increase in creditors	230,003	201,393	
		Net cash inflow from operating cashflows	<u>5,320</u>	<u>4,442</u>	
<hr/>					
<b>Reconciliation to net cash flow to movement in funds</b>	<b>13</b>		<b>1997</b>	<b>1996</b>	
			<b>£000s</b>	<b>£000s</b>	
		Increase in cash in the year	5,168	4,520	
		Cash flow from management of liquid resources and financing	0	0	
		<b>Change in funds resulting from cash flows</b>	5,168	4,520	
		Funds at 1 April 1996	4,602	82	
		<b>Funds at 31 March 1997</b>	<u>9,770</u>	<u>4,602</u>	
<hr/>					
<b>Analysis of net cash</b>	<b>14</b>		<b>1 April 1996</b>	<b>Cash Flow</b>	<b>31 March 1997</b>
			<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
		Cash	4,602	5,168	9,770
		Overdraft	0	0	0
			<u>4,602</u>	<u>5,168</u>	<u>9,770</u>
		Debt	0	0	0
		Current asset investments	0	0	0
		<b>Total</b>	<u>4,602</u>	<u>5,168</u>	<u>9,770</u>
<hr/>					
<b>Movement in Lottery Funds</b>	<b>15</b>		<b>1997</b>	<b>1996</b>	
			<b>£000s</b>	<b>£000s</b>	
		Lottery Reserve at 1 April 1996	66,067	47,489	
		Transferred from the Income and Expenditure Account	(96,367)	18,578	
		<b>Lottery Reserve at 31 March 1997</b>	<u>(30,300)</u>	<u>66,067</u>	



**Related parties** 16 The Department of National Heritage is the sponsoring department for the Arts Council of England and is regarded as a related party. Regional Arts Boards are similarly regarded as related parties by virtue of the funding relationship with the Arts Council and by virtue of common membership of the Council and Boards. During the year the Arts Council of England had various material transactions with the Regional Arts Boards, the British Film Institute, the Crafts Council and the Museums and Galleries Commission for who the Department of National Heritage is also considered the sponsoring Department.

As a matter of policy and procedure, Council members, Lottery Panel members and staff maintain publicly available registers of interests and declare any direct interests in grant applications made to the Council and commercial relationships with the Council. They exclude themselves from the relevant grant appraisal, discussion and decision processes within the Council.

Council members also hold the position of Chair within the Regional Arts Boards. 24 Council members are also Trustees/Governors/Board Members of other bodies to which grants have been made by the Arts Council in 1996-97. In no such case was there any possibility of personal financial gain for Council members.

The following transactions are considered to be disclosable Related Party Transactions:

Grant	Organisation	Council Member/Relation	Relationship
15,282,843	British Film Institute	Charles Denton	Governor
45,000	Parochial Church Council of St Barnabas Church	Clive Priestley	Anglican & Glazier
412,500	Brighton Festival	Gavin Henderson	Vice-President – no longer acting
57,093	Free Form Arts Trust	Martin Goodrich	Artistic Director
1,296,217	South Bank	Richard Cork	Committee Member
		Lord Rogers	Consultant
45,000	Actors Workshop Youth Theatre	Jeremy Hall	Board Member
93,338	University of Huddersfield HEC	Sir Ernest Hall	Chancellor
22,500	Northern Ballet Theatre	Sir Ernest Hall	Director – resigned June 1997
22,752,283	Royal Academy of Dramatic Art	Sir Ernest Hall	Patron of the Appeal Body
		Thelma Holt CBE	Council Member
584,000	Gateshead Metropolitan Borough Council	Stella Robinson	Member of Arts Lottery Bid Steering Group
2,054,891	Tricycle Theatre	Stephen Phillips	Board Member
86,283	Adventures in Motion Pictures	Thelma Holt CBE	Director
31,590,000	Royal National Theatre	Trevor Nunn CBE	Director
347,500	The Royal Shakespeare Theatre	Trevor Nunn CBE	Director Emeritus
127,366	Hampstead Theatre	Trevor Phillips	Chairman
1,049,041	Clean Break Theatre Company	Usha Prashar	Patron
66,000	Tara Arts Group Ltd	Usha Prashar	Advisor to the Board
		Rekha Prashar	Board Member

## National Lottery Fund Accounts Direction

**Direction given by the Secretary of State for National Heritage to the Arts Council of England**

The Secretary of State for National Heritage, with the approval of Treasury, in pursuance of section 35 of the National Lottery etc. Act 1993, hereby gives the following Direction:

- 1 The statement of accounts which it is the duty of the Arts Council of England to prepare in respect of its National Lottery distribution activities for the financial year ended 31 March 1995 and any subsequent financial year shall comprise:
  - 1.1 a foreword;
  - 1.2 an income and expenditure account;
  - 1.3 a balance sheet;
  - 1.4 a cash flow statement;
  - 1.5 a statement of total recognised gains and losses; and

including in each case such notes as may be necessary for the purpose referred to in paragraphs 2 and 3 below. This statement, and all the elements thereof, must be prepared separately from, and must not be consolidated with any other accounts produced by the Arts Council of England.
- 2 The Accounting Officer for the Arts Council of England National Lottery Fund shall observe all relevant accounting and disclosure requirements given in "Government Accounting", in the Treasury booklet "Trading Accounts: A Guide for Government Departments and Non-Departmental Public Bodies" and any other guidance issued by the sponsoring Department, as amended and augmented from time to time.
- 3 The statement of accounts referred to above shall give a true and fair view of the income and expenditure, state of affairs and cash flow of the Arts Council of England in respect of its National Lottery distribution activities. Subject to the foregoing requirement, the statement of accounts shall also, without limiting the information given, and as described in Schedule 1 of this Direction, meet in so far as they are appropriate to the Arts Council of England's National Lottery Fund business:
  - 3.1 the accounting and disclosure requirements of the Companies Act 1985;
  - 3.2 best accounting practice including accounting standards issued or adopted by the Accounting Standards Board currently in force, with the exception of the requirement contained in FRS 3 for inclusion of a note showing historical cost profit and losses;
  - 3.3 any disclosure and accounting requirements which the Treasury or sponsoring Department may issue from time to time in respect of the accounts which are required to show a true and fair view; and
  - 3.4 any additional disclosure requirements contained in "The Fees and Charges Guide" in particular those relating to the need for appropriate segmental information for services or forms of service provided for which a charge is made.
- 4 The statement of accounts mentioned in paragraph 1 shall also include the supplementary information set out in Schedule 2 to this Direction.

- 5 The income and expenditure account and the balance sheet shall be prepared under the historical cost convention modified by the inclusion of:
- (a) fixed assets at their value to the business by reference to current costs; and
  - (b) stocks valued at the lower of cost, or net current replacement cost if materially different, and net realisable value
- where these are materially different to their value under the historical cost convention.
- 6 Fundamental or material changes in accounting policies, such that they do not conform with UK generally accepted accounting practice shall be discussed and agreed with the sponsoring Department and the Treasury before implementation.
- 7 The accounts shall be signed in respect of the Arts Council of England National Lottery Fund activities by the Arts Council of England's Accounting Officer and be sent in accordance with section 35 of the National Lottery etc. Act 1993 to the Secretary of State for National Heritage and Comptroller and Auditor General before 31 July each year.

Dated: 25 April 1995

Signed by Authority of the Secretary of State

*Stuart J. MacDonald*

An Assistant Secretary in the Department of National Heritage

# Schedule 1

## APPLICATION OF THE COMPANIES ACTS REQUIREMENTS

- 1 The disclosure exemptions permitted by the Companies Act 1985 shall not apply to the Arts Council of England unless specifically approved by the sponsoring Department with the consent of the Treasury.
- 2 The Foreword shall contain the information required by the Companies Act, 1985 to be disclosed in the Directors' Report, to the extent that such requirements are appropriate to the National Lottery distribution activities of the Arts Council of England. In particular:
  - 2.1 brief history of the body;
  - 2.2 statutory background and framework to the body and the National Lottery;
  - 2.3 principal functions related to National Lottery distribution activities;
  - 2.4 financial results;
  - 2.5 review of National Lottery distribution activities;
  - 2.6 significant changes in fixed assets;
  - 2.7 any amount retained and carried to reserves;
  - 2.8 future developments in National Lottery distribution activities;
  - 2.9 names of the members of the body and any National Lottery sub-committees of the body;
  - 2.10 appointment of auditors;
  - 2.11 policy on disabled persons; and
  - 2.12 employee consultation.
- 3 In preparing its income and expenditure account the Arts Council of England shall adopt format 2 prescribed in Schedule 4 to the Companies Act 1985 to the extent that such requirements are appropriate to the Arts Council of England and taking account of the requirements of Schedule 2 to this Direction. This analysis should enable the user of the accounts to gain a proper appreciation of the principal elements of the income and expenditure of the Arts Council of England.
- 4 In preparing its balance sheet the Arts Council of England shall adopt format 1 prescribed in Schedule 4 to the Companies Act 1985 to the extent that such requirements are appropriate to the Arts Council of England and taking account of the requirements of Schedule 2 to this Direction. The balance sheet totals shall be struck at total assets less current liabilities.

## Schedule 2

### ADDITIONAL DISCLOSURE REQUIREMENTS

- 1 This Schedule details the non standard accounting policies, any special treatment needed, and any disclosure requirements as agreed by the Treasury, the sponsoring Department and the Arts Council of England in respect of their National Lottery Fund activities.
  
- 2 The Income and Expenditure Accounts shall show, *inter alia*:
  - 2.1 the total amount of Lottery proceeds receivable;
  - 2.2 any other income (detailed between bank interest, recoveries of grant and other income);
  - 2.3 the total amount of new lottery grants paid in the period (ie. amounts paid in respect of projects which have been approved during the year);
  - 2.4 change in the provision for net grant commitments; and
  - 2.5 the total expenses incurred by the Arts Council of England in respect of its National Lottery distribution activities, separately identifying direct costs and costs initially incurred elsewhere in the organisation and apportioned to the National Lottery distribution activity. The calculation of costs to the Arts Council of England National Lottery activities will be on a full cost recovery basis as described in the Treasury "Fees and Charges Guide" and should cover all costs that are directly and demonstrably related to Lottery distribution activities.
  
- 3 The Balance Sheet shall show, *inter alia*:
  - 3.1 under the heading "Current assets": shown as an investment the balance held on behalf of the Arts Council of England at the National Lottery Distribution Fund;
  - 3.2 under the heading "Represented by":
    - (a) the provision for grants committed on a hard basis and falling due for payment after more than one year (see note 5 below on commitments); and
    - (b) the balance on the Income and Expenditure Account.
  
- 4 The Notes to the Accounts shall include, *inter alia*:
  - 4.1 a statement of accounting policies. This must include a statement explaining the nature of the balances held on the Arts Council of England's behalf in the National Lottery Distribution Fund as follows:
 

"Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for National Heritage. However, the share of these balances attributable to the Arts Council of England is as shown in the accounts and, at the balance sheet date, has been certified by the Secretary of State for National Heritage as being available for distribution by the Arts Council of England in respect of current and future commitments."
  - 4.2 an analysis of income and expenditure relating to the Lottery;
  - 4.3 an analysis of "other operating charges" over appropriate subject headings (to include write-offs, audit fee, leasing charges, travel, subsistence and

- hospitality. Travel, subsistence and hospitality costs for staff and members should be separately identified);
- 4.4 any remuneration paid to the members of the Arts Council of England Lottery Fund;
  - 4.5 the remuneration of the Director (or equivalent) of the Lottery Fund to be shown separately (or total remuneration and share accruing to the Lottery Fund of the individual chiefly responsible for Lottery matters if their duties are split between Lottery and non-Lottery functions);
  - 4.6 the remuneration of the senior employees to be shown in bands of £10,000 starting from £40,000 upwards. Where staff are involved in Lottery and non-Lottery functions, their total salaries and the Lottery proportion (in cost and percentage terms) should both be identified;
  - 4.7 the amounts “committed in respect of capital expenditure for administrative purposes”, and “amounts authorised in respect of capital expenditure for administrative purposes but not contracted”;
  - 4.8 the amounts committed in respect of National Lottery grants split between hard and soft commitments identifying the amount falling due (see note 5 below). Where these commitments exceed available resources shown on the Balance Sheet, there should also be a note explaining the rationale for the over-commitment in terms of the benchmark being applied and the assumptions behind it, taking into account any advice received from the sponsoring Department as appropriate.
- 5 The nature of the distributing bodies' lottery activities means that they will be making commitments for future expenditure which will need to be shown in the annual financial statements. Commitments should be categorised and shown as follows:
- 5.1 Soft Commitments
 

These will occur when there is agreement in principle by the Arts Council of England to fund a scheme and an offer made. Once a formal offer and acceptance of the terms and conditions of the grant has been concluded this will become a hard commitment. The total of soft commitments will be shown in a note to the balance sheet. Changes in soft to hard commitments which arise after the accounting year end and before publication of the accounts will not be adjusting events in terms of SSAP 17. A tabulation should accompany the notes to the account and show:

    - (a) Soft commitments brought forward;
    - (b) Soft commitments transferred to hard commitments;
    - (c) Soft de-commitments;
    - (d) Soft commitments made; and
    - (e) Balance of soft commitments outstanding carried forward [e=a-(b+c)+d].
  - 5.2 Hard Commitments
 

A hard commitment is analogous to a commitment arising from a legally binding contract, carrying with it an obligation on the distributor to pay the agreed Lottery grant provided only that all the conditions of grant are met, and that the National Lottery continues to operate. For the purposes of recording a charge in the Income and Expenditure Account, a hard commitment arises when a firm offer of a grant from National Lottery proceeds has been made by

the Arts Council of England and accepted in writing by the recipient. A firm offer will only be made if there is a reasonable expectation that conditions attached to the offer will be met. A provision for grant commitments should be shown on the Balance Sheet and would be written down as the commitments mature. As part of the notes to the Balance Sheet a tabulation illustrating the changes in hard commitments should be shown as follows:

- (a) Hard commitments brought forward;
- (b) Hard commitments met in the last year;
- (c) Hard de-commitments [withdrawal of an offer];
- (d) Hard commitments made;
- (e) Balance of hard commitments outstanding carried forward [ $e=a-(b+c)+d$ ];  
and
- (f) A breakdown of the provision for grant commitments should be reported separately for each year up to and including 5 years, and for over 5 years.

### 5.3 De-commitments

#### 5.3.1 Soft commitments

If a soft commitment fails to become hard for any reason and there is no prospect of a formal offer letter being issued and accepted then the soft commitment should be deleted from the Arts Council of England's records. It will be shown in the table accompanying the notes to the Balance Sheet in the soft de-commitments line.

#### 5.3.2 Hard commitments [withdrawal of a commitment]

Should a hard commitment fail to become a cash payment within the expected timeframe, and there is little possibility of it crystallising, the Arts Council of England may withdraw the offer formally in writing. A reverse entry to the commitment should then be made in the Income and Expenditure account. The table in the notes to the accounts will correspondingly be reduced.

### 5.4 Repayments

The circumstances of a grant repayment are as described in the Statements of Financial Requirements. A repayment will not affect commitment unless the payment is part of a phased scheme for which commitments for later phases have been included in the balance sheet. A repayment will be reflected as an adjustment in the Income and Expenditure account. If a repayment occurs after the year end but before the accounts have been signed by the Arts Council of England accounting officer and is material (5% of the total grants paid in the year or £1m whichever is the lower) it will be necessary to treat the repayment as an adjusting event in terms of SSAP 17.

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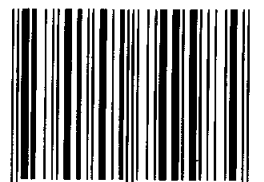
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