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Arts Council England
*Grant-in-aid and Lottery
annual report and accounts*



**Arts Council England Grant-in-Aid and Lottery annual
report and accounts 2012/13**

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Designed by **COG**

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Contents

02	Review
04	The creative economy
10	Chair's report
13	Chief Executive's report
16	Achieving great art for everyone
30	Highlighted information
46	Grant-in-Aid accounts
92	Lottery distribution accounts
130	National Lottery report

- 1 Review
- 2 Highlighted information
- 3 Grant-in-Aid accounts

- 4 Lottery distribution accounts
- 5 National Lottery report

Review

Random International's *Rain Room* became the most popular attraction in the Barbican's history



- 1 Review
- 2 Highlighted information
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

The creative economy
Chair's report
Chief Executive's report
Achieving great art for everyone

Investing in arts and culture

Our investment drives world-class creative innovation and supports the UK economy by generating revenue and creating employment

Our 2012/13 investment supported thousands of arts and cultural projects across England including:

Grants for the Arts funded 2,741 artistic projects across the country including 396 culturally diverse and 212 disabled-focused organisations, and 513 which produce work for or with children and young people.

696 organisations received National Portfolio funding: 158 combined arts, 57 dance, 52 literature, 86 music, 179 theatre and 143 visual arts organisations.

This includes 67 with a programme that has a Black and minority ethnic focus, 39 disabled-focused organisations, and 212 which produce work for or with children and young people.

696

Our £36 million investment in the Cultural Olympiad over four years contributed to the creation of 5,370 new artistic works or commissions involving 40,464 artists, including 6,160 emerging and 806 Deaf or disabled creatives.

£36m

Along with the Department for Education we have invested over £50 million in cultural education including a network of 123 Music Education Hubs and a new National Youth Dance Company.

£50m

Our strategic funding has invested in around 1,000 projects by artists and organisations, helping to support touring, engaging audiences, organisational resilience, creative media and much more.



227 museums were supported through our Renaissance programme.

59 libraries projects received funding through schemes including the Libraries Development Initiative and Grants for the Arts.

227

Economic impact of arts and culture

This year Circus Space in London was awarded a Catalyst Arts grant to help them build fundraising capacity and to incentivise donations through match funding. They have already received a number of donations including a \$1 million pledge from Aileen Getty.

\$1m

In 2011, UK arts and culture businesses contributed an estimated £5.9bn in gross value added to the economy with another £7.6 billion contributed from tourism-related arts and culture expenditure.

An estimated aggregate of 260,300 full time equivalent jobs, or 1.1 per cent of total UK employment are supported by the arts and culture industry.

(Source: *The contribution of the arts and culture to the national economy*, Arts Council England, 2013)

£13.9m

In 2011 Arts Council National Portfolio Organisation Turner Contemporary opened a new landmark gallery situated on Margate's seafront.

In its first year of opening the new Turner Contemporary attracted:

497,000

visitors

20,000

of which were new, and contributed...

£13.9 million

to the local economy, and employed...

130

Full time equivalent staff

(figures from 2011/12)



1 Review

2 Highlighted information

3 Grant-in-Aid accounts

4 Lottery distribution accounts

5 National Lottery report

The creative economy

Chair's report

Chief Executive's report

Achieving great art for everyone

How we funded arts and culture in 2012/13

National Portfolio Organisations

(including Bridge Organisations)

310,371 4,380

Museums

- Major Partner Museums
- Accreditation
- Designation
- Designation Development Fund
- Museum development
- Museums and schools*
- Renaissance Strategic Support Fund
- National security advice
- Subject Specialist Networks
- PRISM
- V&A Purchase Grant
- Kids in Museums
- Museums at Night
- Stories of the World

45,041

Music Education Hubs

50,052

Support costs

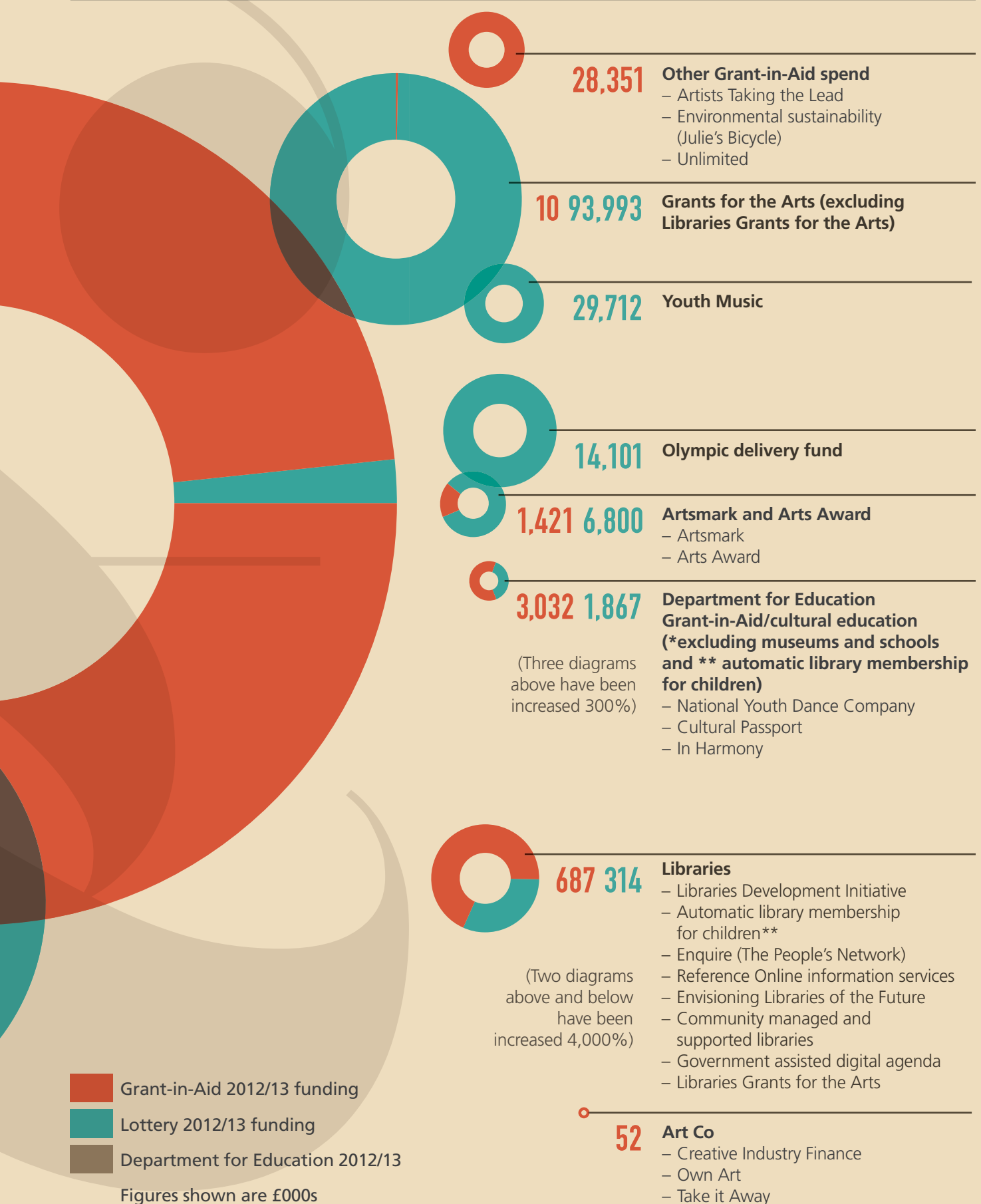
- IT
- Salaries
- Premises

21,895 14,426

Strategic funding programmes/ commissioned grants/solicited applications

6,166 160,156

- Artists International Development Fund
- Audience Focus strategic fund
- Britten Centenary
- Capital large scale
- Capital small scale
- Catalyst endowments
- Catalyst match funding and capacity building
- Catalyst Arts: Building Fundraising Capacity
- Music Industry Development Fund
- Creative Employment Programme
- Creative People and Places
- Developing Resilient Leadership Commissioned Grant
- Digital R&D Fund
- Strategic Touring Programme
- The Space
- Transforming Arts Fundraising Commissioned Grant



- 1 Review
- 2 Highlighted information
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

The creative economy
Chair's report
Chief Executive's report
Achieving great art for everyone

How our investment compares to other sources of income

Figures from our Regularly Funded Organisations in 2011/12

This information is gathered from our Regularly Funded Organisation annual submission data which was published in October 2012. Data from 2012/13 will be available later this year.

29.0%

Arts Council England subsidy

49.0%

Earned income



12%

**Other public subsidy:
local authority funding
and local public grants**

11%

**Contributed income:
donations, philanthropy,
trusts and sponsorship**

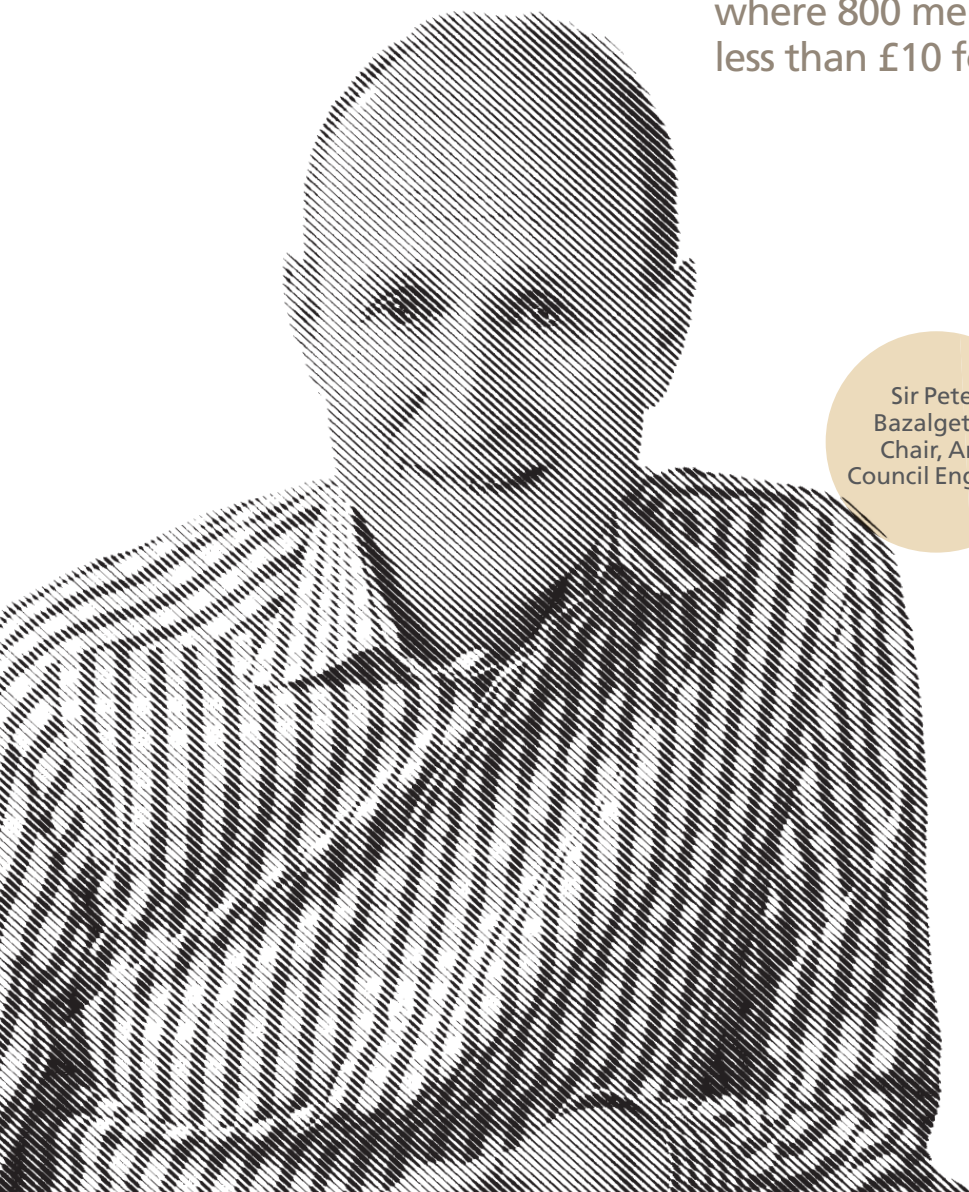
Percentages show actual/
provisional income in 2011/12

- 1 Review
- 2 Highlighted information
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

The creative economy
Chair's report
Chief Executive's report
Achieving great art for everyone

A new beginning

In February this year I became the Chair of the Arts Council. In my first few days, I went to see *Onegin* at the Royal Ballet where 800 members of the audience paid less than £10 for a wonderful show.



Sir Peter
Bazalgette,
Chair, Arts
Council England

At the Turner Contemporary in Margate, I saw how a shrewd collaboration with Kent County Council has resulted not only in a hugely popular attraction but also a stimulus for employment, new businesses and tourism; witnessed hundreds of school children singing along to a specially written modern piece – *Laika the Spacedog* – created by English Touring Opera; went to Robert Lepage's *Playing Cards 1* at the Roundhouse Theatre, an innovative 360-degree production in collaboration with a worldwide network of circular venues; and saw the international hit movie, *Les Misérables*, which (do not forget) started at the Royal Shakespeare Company all those years ago. One thing unites these projects, apart from the enlightenment, entertainment and education they are giving us: they were all supported by the Arts Council. It is an honour and, indeed, a sacred duty to Chair the body which enables this work.

And in my first month I had completed my personal grand tour, seeing England's new guard of cultural cities and destinations: Bristol, Nottingham, Manchester, Birmingham, Gateshead and Margate. During that time I encountered – and continue to do so – exceptionally talented artists, entrepreneurial arts leaders, some visionary local politicians and, significantly, passionate folk from business and higher education. What I learned from my tour is that the landscape of arts and culture is being shaped by what I call a 'grand partnership'. It contemplates bold new ways of doing things through working together and fighting to create cultural prosperity first and, along with that, comes economic prosperity. Grand partnerships are driving world-class arts and culture across the country – and they can achieve so much more and enact real change by working together.

When times are tough and funding is under constant pressure I'm ashamed to say we do hear the question asked, "Can we afford to fund the arts?" The answer is simple, "We can't afford not to". And the tougher things get the more important our cultural life becomes. The other night I listened to the radio address John Maynard Keynes made in 1945 when he established our predecessor, The Arts Council of Great Britain. He said they started public funding of the arts "to replace what the war had taken away". And he implored his listeners not to think of the new organisation as a schoolmaster: "enjoyment is our first aim," he pledged, observing that there was "an unsatisfied demand for serious and fine entertainment."

In our theatres and concert halls, galleries and museums, that demand is now being satisfied on a scale he would have marvelled at. And it's highly significant that for every pound the Arts Council invests in its core funded organisations (see pages 8–9) those organisations generate a further two pounds via their sales, donations and co-production revenues. In terms of overall government expenditure, a very small amount of money produces a big result, artistically and financially. Arts and culture delivers 0.4 per cent of gross domestic product, a significant return on less than 0.1 per cent of government spending. And, if you'll forgive a bit more economics, the industry has a high gross value added multiplier effect relative to other broad UK sectors: generating more per pound than is invested in the health, wholesale and retail, and professional and business services sectors. Arts and culture are truly of national importance and economic significance.

When times are tough and funding is under constant pressure I'm ashamed to say we do hear the question asked, "Can we afford to fund the arts?" The answer is simple, "We can't afford not to".

One Thursday, I sat in a cinema at noon with 50 others and watched a riveting relay of the National Theatre's extraordinary *The Curious Incident of the Dog in the Night-Time*. Many thousands got to see this production when only hundreds could see it live in the Cottesloe. I sat at home and watched Stockhausen's *Mittwoch aus Licht* in Birmingham live on The Space, the Arts Council's new online and on demand service developed in partnership with the BBC. What a pleasure, too, to see the 1968 film about Lichtenstein re-released to coincide with

The Royal Ballet's *Onegin* sold hundreds of tickets for less than £10



1 Review

- 2 Highlighted information
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

The creative economy

Chair's report

Chief Executive's report

Achieving great art for everyone



the Tate retrospective. What's coming together here, via publicly-funded and private enterprises, is the beginnings of a digital arts network which will prove to be revolutionary. And the technology also allows a new era of sales and marketing where each organisation, consensually, knows who its patrons are and can stay closely in touch with them. The Digital R&D Fund for the Arts which the Arts Council has run jointly with Nesta and the Arts and Humanities Research Council resulted in *Culture Cloud* at the New Art Exchange in Nottingham. Here new art was crowdsourced, resulting in a fantastic array of work that led to their second most popular exhibition ever.

The Arts Council, with the government, is committed to encouraging philanthropy to ensure that arts and cultural organisations thrive. The Catalyst programme has changed mind sets. It has helped organisations think about fundraising differently: Circus Space in east London raised more than 10 times their £5,000 fundraising target in the

first year of their Catalyst award – it gave them confidence and encouraged them to think about how their audiences could also be donors. Britain is a charitable nation, but only around one per cent of regular giving goes to arts and culture. We have to find ways of improving that. Secure public investment remains a prerequisite, though. I know from personal experience how donors favour successful institutions and projects where there is already committed support.

I would like to express my thanks to my predecessor, Dame Liz Forgan. She has successfully led the Arts Council through a period of great change and has generously handed on to me the benefit of her experience. 2013 is the year when we bed down a new organisational model and apply the conclusions of a governance review to our National Council. We have much to do.

Liz is a hard act to follow, but I will do my very best.

Sir Peter Bazalgette,
Chair, Arts Council England

English Touring Opera's *Laika the Spacedog* was written especially for schoolchildren

It's highly significant that for every pound the Arts Council invests in its core funded organisations, those organisations generate a further two pounds via their sales, donations and co-production revenues.

Cultural Highs

It's been said before, but 2012 was a year of incredible achievement for the cultural sector that defied the austere economic outlook (and the weather). It was a year where we showed how culture defines us as a nation and up and down the country we delivered the best cultural celebration of the modern Olympic era.

The ambition and verve shown by artists and our funded organisations was simply huge. Birmingham Opera Company's world premiere of Stockhausen's *Mittwoch aus Licht* was worth many gold medals, achieving what nobody else had in staging the full production of the work, complete with four helicopters and two camels. The Unlimited Festival at the Southbank Centre saw some brilliant, world class artists at the top

of their game. Unlimited was the culmination of many years' work from 29 exceptional artists. We established the programme in 2009 and it was the largest ever commissioning fund for deaf and disabled artists – a fund designed to match ambitions – and we were thrilled to see how it delivered exceptional work across the country and finally to audiences on the South Bank during the Paralympic Games.



Alan Davey,
Chief Executive,
Arts Council
England

the phenomenal spectacle in the summer of 2012 was the result of many years of sustained public investment that developed talent through a world-class cultural infrastructure that could deliver at the highest level when given the world stage.

1 Review

2 Highlighted information

3 Grant-in-Aid accounts

4 Lottery distribution accounts

5 National Lottery report

The creative economy

Chair's report

Chief Executive's report

Achieving great art for everyone

It's too easy to think of the summer of 2012 as just a few euphoric months when our artists did something exceptional. It was much more than this: the phenomenal spectacle was the result of many years of sustained public investment that developed talent through a world-class cultural infrastructure that could deliver at the highest level when given the world stage. We should take pride in Danny Boyle's Opening Ceremony that defined Britishness in a way that nobody else could; it was a definition that could only be reached through artistic expression – one that made us all reflect, take note and say that's it – that is exactly it. It was, of course, created by the best creative talent in Britain today, many of whom had cut their teeth through publicly-funded organisations, including Danny himself.

We know every public budget is under increasing pressure, and every arts and cultural organisation is under pressure and having to apply ingenuity and thriftiness in equal measure. As a sector we are good at finding adaptive ways of getting our work done, driven by a desire to see art realised and for people to benefit from culture.

There are many calls on the public purse, and we need to continue to stand up for arts and culture to ensure we don't endanger future successes and a cultural life that adds richness and depth to our lives, communities and national identity. None of us wants us to become a country, which like Robert Frost's hired man has, "nothing to look backwards on with pride/and forwards to with hope". If we were to lose our culture we would lose everything we are - and also a unique economic advantage.

Birmingham Opera's *Mittwoch aus Licht* was the first full production of the work



That's why it's hugely encouraging to hear that the reduction in the budget for arts and culture will be below average across government departments - five per cent in 2015/16. Together with you and with ministers we were able to argue a strong case for the valuable contribution arts and culture make to our quality of life and the economy, and it was listened to. Thank you to everyone who helped us make that argument. Together with the welcome changes by the government to Lottery legislation in 2010, which increased our funding share by around four percentage points, this puts us in a place where, as a sector, we can continue to do really good things.

We'll still have tough decisions to make, and we'll need to consider our next steps carefully, thinking about how the money is allocated for the maximum benefit of culture in this country. For our part we are also realistic that we have to continue to make sure that we are as lean an organisation as we can be. We are radically reducing our running costs. This will mean

a change in the way we work, while trying to protect what many artists and arts organisations value: relationship managers and a regional presence and understanding. We are projecting that our support costs will reduce to 4.5 per cent of our total income by 2014/15. This will mean that by the time this report comes out we will have said goodbye to a number of talented and dedicated staff, and from 1 July been reborn as a new organisation.

Despite the difficult economic climate of the last year, we can be fortified by the release of Taking Part data in 2012 – an annual survey conducted by the Department for Culture, Media and Sport – that states 78.9 per cent of adults are engaged with the arts. This is the highest percentage since the survey started seven years ago. This is good. But we're still not quite there. That is why this year we launched the Creative People and Places programme, which will lead to new work created for and by communities that traditionally don't engage with the arts.

Acceptance in Lieu – a scheme that enables taxpayers to transfer important works of art and other heritage objects into public ownership in lieu of paying Inheritance Tax – continued to deliver treasures for the nation that can be enjoyed at public galleries and museums across the country. This includes personal items of Captain Scott allocated to the Scott Polar Research Institute in Cambridge, and *L’Italienne ou La Femme a la Manche Jaune* by Jean-Baptiste-Camille Corot at the National Gallery, bequeathed by Lucien Freud’s estate.

2012 was also the year the National Lottery celebrated its 18th year, with BALTIC Centre for Contemporary Art in Gateshead winning best arts project in its annual awards. BALTIC as a major capital project, brings home the immense impact the Lottery has had in developing the physical infrastructure of the arts across England for everyone to enjoy. Recent examples include the Turner Contemporary in Margate, the Hepworth Gallery in Wakefield, as well as those venues now part of the very heartbeat of the sector – Sadler’s Wells in London, the Royal Shakespeare Theatre in Stratford-upon-Avon, the Sage Gateshead and QUAD in Derby to name just some. Our new Capital programme is now focusing on ensuring that

our existing arts infrastructure is robust and sustainable – both the buildings and the arts organisations that inhabit them – so they are there to enrich the lives of current and future generations.

As well as supporting Capital programmes, our National Lottery income, which we can use to support arts activity, also goes towards a host of Strategic funding programmes (see page 6). These range from those which diversify income streams, through Catalyst Arts, to touring and artist development. We are making good use of this money to bring on new talent, increase the reach of what we do and underpin the resilience of the arts sector.

Formal qualifications in arts subjects are important too, in fact crucial if we are going to continue to build a thriving creative industry sector. There is more to do on this front, and we will continue to work with the Department for Education to ensure that arts qualifications are relevant and rigorous in the context of forthcoming reforms to GCSEs. This is important because it is young people who are going to drive the cultural and creative industries forward: they are our future. Liz Forgan’s valedictory lecture made this clear in no uncertain terms. Liz has been an

incredible Chair of the Arts Council for the last four years and an unrelenting champion of the arts. I would like to thank her for what she has done, for her leadership in one of the most challenging times for the Arts Council and the arts sector, for her sage counsel and for the boldness of her beliefs.

While we are losing one immensely talented Chair, we are also gaining another. I am delighted that Peter Bazalgette became our new Chair in 2013. He is an excellent appointment – a passionate champion for arts and culture and someone whose breadth of imagination and ideas will make sure we are constantly looking for new ways to improve on what’s great about arts and culture in this country. I hope you will join me in giving him a warm welcome.

And I assure you that the Arts Council will never stop thinking about how we can fire ambition using all our money, including the extra Lottery funding we have had since 2010, to help you keep this art interesting for future and current audiences. That’s our job – and now it’s more important than ever.

**Alan Davey,
Chief Executive,
Arts Council England**

The Hepworth in Wakefield is thriving after being built with Lottery capital funding



- 1 Review
- 2 Highlighted information
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

The creative economy
Chair's report
Chief Executive's report
Achieving great art for everyone

Achieving great art for everyone

London 2012 Cultural Olympiad

As a principal funder of the London 2012 Cultural Olympiad, Arts Council England invested £36 million over four years into activities celebrating the London 2012 Olympic and Paralympic Games.

Last summer, the London 2012 Festival saw the culmination of many of these activities which led to an increased profile for the arts, increased engagement across the county, formed new partnerships and changed perceptions of work by deaf and disabled artists.

We managed three major programmes as part of the Cultural Olympiad:

• Artists Taking the Lead

was a series of extraordinary public art commissions created across the country to engage audiences and inspire local communities. Projects included *Godiva Awakes*, which saw a 6-meter high marionette of Lady Godiva rise in her hometown of Coventry to a spectacular outdoor celebration involving performers and 220 local young people, before travelling to London, powered by 100 cyclists

Sacrilege by
Jeremy Deller
toured the
nation for the
London 2012
Festival



• **Unlimited** celebrated work by deaf and disabled artists on an unprecedented scale. £2.4 million was invested in 29 commissioned pieces brought together in an 11-day celebration at London's Southbank Centre. The high-quality, ambitious projects included Sue Austin's *Creating the Spectacle!* which defied expectations with the world's first underwater wheelchair

• **Stories of the World** was the largest youth participation project ever undertaken by museums in the UK. It recruited more than 2,500 young people to select objects that resonate with their interests and experiences, showcasing the innovation and excellence of our museums to a worldwide audience. London's Geffrye Museum saw young people shape the content and design of their *At Home with the World* exhibition and its surrounding activities and events

We also supported a number of large scale events which engaged millions of people across the country, for example: approximately 5 million people were involved in 3,500 Big

Candoco Dance Company were commissioned for Unlimited festival



Dance events in locations from shopping centres to schools and high-streets; Crying Out Loud's *Piccadilly Circus Circus* brought spectacular aerial performers to the busy streets of London; Jeremy Deller's *Sacrilege*, a bouncy castle Stonehenge, gave people of all ages a fun view of England's heritage as it toured to parks across the UK; and the Southbank Centre brought together 102 poets from around in the world in a spectacular celebration of poetry in *Poetry Parnassus*.

Lone Twin used donated wooden objects to build *The Boat Project, Collective Spirit* as part of Artists Taking the Lead



In addition, our National Portfolio Organisations and Grants for the Arts recipients were fundamental to the cultural activity which spread beyond the Cultural Olympiad, from the Torch Relay which kick-started the celebrations to the opening and closing ceremonies.

The Cultural Olympiad involved:

- 177,717 activities
- 40,464 artists, of which 6,160 are emerging and 806 are deaf or disabled
- 5,370 new artistic works or commissions
- 10,940 new partnerships formed with cultural organisations, businesses, educational organisations, local authorities and sport organisations
- 43 million public engagement experiences

(Source: *Reflections on the Cultural Olympiad and the 2012 Festival*, Arts Council England, 2013)

- | | |
|---------------------------------|---|
| 1 Review | The creative economy |
| 2 Highlighted information | Chair's report |
| 3 Grant-in-Aid accounts | Chief Executive's report |
| 4 Lottery distribution accounts | Achieving great art for everyone |
| 5 National Lottery report | |



The Space

Developed by Arts Council England in partnership with the BBC, thespace.org.uk digital media service aimed to change the way people connect with and experience arts and culture. It has provided live, free and on-demand access to the work of some of the UK's greatest artists and arts organisations – including full performances and premieres, original commissions and rare archive material. Access is through computers, tablets, smartphones and connected TV (Freeview and Freesat).

Piloted from May 2012 until October 2012, The Space was designed to build the digital skills of the arts and culture sector, support creativity and experimentation, and connect arts organisations with a wider audience. £3.5 million of Lottery funding was given to 51 new art commissions. In addition the service hosted commissions and submissions through partnerships with the Arts Council of Wales, Creative Scotland and the Arts Council of Northern Ireland. Artists and arts organisations were given room to experiment, supported by mentoring and training from the BBC. Lessons

from the comprehensive evaluation of The Space will be used to improve, develop and shape a future service. Though the pilot phase has now ended, a slimmed-down and curated version of The Space remains available to view.

Building audiences

During the pilot, The Space attracted over 820,000 unique visits, at times increasing access to sold-out productions and events. For example, Tracey Emin in conversation with Stephen Fry had 74 times more viewers on The Space than in the physical audience.

Over a quarter of visitors surveyed discovered new artists or arts organisations through the service. The Space also opened rich national arts and cultural archives which would otherwise remain hidden, with projects including John Peel's online Record Collection, and Faber & Faber's *60 years in 60 poems*. It also captured some of the treasures of the Cultural Olympiad for a global, and a future, audience including Globe Theatre's ambitious Globe to Globe season which presented 36 full Shakespeare plays in 36 languages. Reaching a new

global audience for UK arts, 43 per cent of the overall audience for The Space was international.

"we found that lots of people were watching the films of the Globe to Globe shows in Istanbul and Lahore and Mexico City. The Space meant that even if you weren't able to get to Bankside you might be able to watch on a smartphone or on a computer in an internet cafe anywhere in the world. That's huge for us and we didn't have that before."

Tom Bird, Creative Director, Globe Theatre

King Lear
performed in
Belarusian

Part of The
Globe Theatre's
international
interpretation of
36 Shakespeare
plays, streamed
on The Space

Developing skills and changing culture

For many arts organisations not previously involved in producing digital projects, working with The Space has been transformative. Change was greatest around developing skills and capabilities, partnership working, and culture and values – with 80 per cent of participating organisations saying that they had either 'met' or 'strongly met' their objectives in these areas, and 60 per cent reporting changes in their roles which now give greater prominence to digital work. Over 100 independent suppliers were contracted by arts organisations, injecting money into regional and local creative and technical media sectors.

"Every single day was a learning experience, which I very much enjoyed, and loved, and ate up and grabbed hold of, and just got as much as I could, and I hoped improved throughout the whole process and I feel very confident about approaching film now, which I didn't before The Space..."

Dawn Walton, Creative Director, Eclipse Theatre



Yardstick Festival used Grants for the Arts Libraries funding to bring African Diaspora authors, including Lorna Goodison, to libraries across the South West

Working towards our five goals

Our 10-year strategic framework, *Achieving great art for everyone*, and the accompanying *Culture, knowledge and understanding: great museums and libraries* for everyone set out five goals for our work to attain:

Goal 1:

Talent and excellence are thriving and celebrated

Goal 2:

More people experience and are inspired by the arts, museums and libraries

Goal 3:

The arts, museums and libraries are sustainable, resilient and innovative

Goal 4:

The arts and cultural leadership and workforce is diverse and highly skilled

Goal 5:

Every child and young person has the opportunity to experience the richness of the arts, museums and libraries

- 1 Review
- 2 Highlighted information
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

The creative economy
Chair's report
Chief Executive's report
Achieving great art for everyone

Launching our National Portfolio and Major Partner Museums

On 1 April 2012, a new National Portfolio of 695 funded organisations replaced our 831 Regularly Funded Organisations. This investment was shaped by an open application process based on our five goals. The portfolio includes a diverse range of arts bodies which work across the goals, from theatres and multi-arts centres to dance companies, festivals and support organisations.

This year we also began funding 16 Major Partner Museums through our Renaissance programme using a similar open application programme, against the goals set out in *Culture, knowledge and understanding: achieving great museums for everyone*.

What follows is a summary of how we have worked towards our five goals in the past year.

Goal 1:

Talent and excellence are thriving and celebrated

Goal 1 champions excellence across England, celebrating the diversity and creativity of our artists and cultural organisations. We want people to have excellent experiences of art and culture through performances, exhibitions and publications as well as through broadcast and new media.

Making excellent art happen

Our National Portfolio Organisations produced a host of exceptionally high-quality work this year. The Cultural Olympiad provided a platform for this but great work also continued to flourish outside of the limelight of the Olympics. The Liverpool Biennial saw audiences of 700,000 people over 10 weeks, and focused on bringing existing and newly commissioned art to diverse locations, including unusual and unexpected public spaces as well as the city's galleries and cultural venues.

To build critical debate around the quality of funded projects, we commission artistic assessments to give

us expert opinions on work commissioned, made and presented by our National Portfolio Organisations. This year we included pilots to explore how we could extend assessments to programming organisations and to include young people's voices.

Celebrating artistic achievement

Among the host of awards received by our funded organisations this year the Oliver Awards saw a record-breaking seven prizes presented to the Royal Shakespeare Company's *Matilda the Musical*, with Akram Kahn's *DESH* at Sadler's Wells and the English National Opera also being recognised. Another highlight saw the public vote National Portfolio Organisation BALTIC Centre for Contemporary Art in Gateshead as best arts project in the National Lottery Awards.

Grants for the Arts funding helps artists make ground-breaking work and to develop their practice. This year composer Ray Lee was awarded British Composer of the Year for his Grants for the Arts funded collection of sonic machines, *Ethometric Museum*, commissioned by our National

BALTIC Centre for Contemporary Art was named best arts project at the National Lottery Awards





The Royal Shakespeare Company's *Matilda the Musical* received a record-breaking seven Olivier Awards

Portfolio Organisation Oxford Contemporary Music; and Kate Tempest received a Ted Hughes award for her 'spoken story', *Brand New Ancients*.

Showcasing arts and culture through major events

Large-scale events such as the London 2012 Cultural Olympiad demonstrated our creativity and cultural achievements to an international audience. During 2012/13 we also invested in artists making work for the City of Culture in Derry/Londonderry, and in creating new work and activities for the centenary of Benjamin Britten's birth – for which Aldeburgh Music has been chosen to lead and co-ordinate a programme of events in partnership with national and local organisations.

Developing talent

In January 2013 we selected PRS for Music Foundation to deliver the Momentum Music Fund, designed to enable the development of a diverse range of artists at critical stages in their career. The fund, which signals the first time we have supported musicians in this way, responds

to changing conditions in the market to make sure artists get the support they need at an early stage in their careers. Working with the British Council, we have also supported artists to take their first steps working internationally through the Artists' International Development Fund. In 2012/13 50 artists working in over 30 countries were awarded just under £200,000 through the fund.

Talent development projects are also funded through Grants for the Arts. For example, up to 100 early-career artists are being supported through Shoreditch Town Hall's Evolving Artists Programme that will provide seed funding, commissioning, rehearsal space and development.

Supporting excellence in museums and libraries

Our Designation Scheme identifies the pre-eminent collections of national and international importance held in England's non-national museums, libraries and archives, based on their quality and significance. This year the

Hunterian Museum, Archive and Library collections at the Royal College of Surgeons were added to the scheme. Our Designation Development Fund is also investing £1.7 million in 25 projects which ensure the long term sustainability of Designated museum collections, and maximise their public value and the sharing of best practice across the sector.

Our Renaissance Strategic Support Fund supports and recognises the potential for excellence in museums of any size. This year Tatton Park in Cheshire was awarded £63,000 to undertake research and work with artists, performers and digital technology to bring the stories of the kitchens and servants' quarters to life. Excellence in our funded museums has been recognised through major awards with Major Partner Museum the Royal Albert Memorial Museum being crowned Museum of the Year in the Art Fund Prize 2012, and National Portfolio Organisation The Whitworth Art Gallery being a joint winner of the Clore Award for Museum Learning 2012.

Goal 2:

More people experience and are inspired by the arts, museums and libraries

Goal 2 increases engagement in the arts and culture by supporting those artists and organisations which present and promote them in new and inspiring ways, including through the use of touring and digital technologies. We also encourage people to run or get involved in shaping artistic and cultural activities in their communities. New funding programmes allow us to ensure larger and more diverse audiences benefit from the work we fund and organisations are more skilled at attracting new audiences.

Touring great work

Our Strategic Touring Programme encourages collaboration between organisations, so that more people across England experience and are inspired by the arts, particularly in places which rely on touring for much of their arts provision. Since April 2012 almost £15 million has

been awarded to 55 projects which work across a wide range of venues, including galleries, theatres, libraries, museums, pubs, schools and village halls. Orchestras Live reach new audiences in under-served places and communities with few opportunities to experience orchestral music. In 2012/13 595 events, including educational workshops, community projects and concerts, were experienced by 45,000 people in 79 locations across the UK.

Understanding audiences

In 2012/13 work began on three large-scale, exciting and ambitious programmes which aim to disseminate knowledge to arts organisations, museums and libraries, local authorities and the wider cultural sector through the Audience Focus fund:

- The Audience Agency was awarded £3.3 million to give organisations new tools, resources and one-to-one support to help them understand their audiences
- A consortium of arts membership organisations from across the visual and performing arts sectors were awarded £1.1 million to run

Family Friendly Arts, a large scale national programme which aims to increase levels of engagement by families and young people. The consortium is led by the Association of British Orchestras and other lead partners include Theatrical Management Association, Society of London Theatre, Independent Theatre Council, Visual Arts and Galleries Association and Dance UK

- The Arts Marketing Association were awarded £900,000 to develop a new national service to collate, share and implement efficient and effective arts marketing and audience development techniques: CultureHive, an online resource, launched in April 2013

Increasing engagement

Our Creative People and Places fund is supporting radical new approaches to developing excellent, inspiring and sustainable arts experiences for communities not currently engaging with the arts. The fund assists seven consortia, made up of arts organisations, museums, libraries, local authorities and commercial organisations, to work in collaboration with the local community, grass roots organisations and the amateur sector. Woodhorn Charitable Trust has been awarded nearly £2.5 million from the fund to lead a consortium to bring new and engaging art to south east Northumberland, working with stage and screen writer Lee Hall.



Orchestras Live took the Royal Philharmonic Orchestra to Scunthorpe



Suited and Booted worked with young people not in education, employment or training in Bath to create *Transient Graffiti*

Bringing art into libraries

We are now supporting ambitious and innovative partnerships between libraries, artists and arts organisations, encouraging communities to participate in cultural activities. The £6 million Grants for the Arts Libraries fund gives libraries the opportunity to find new ways of working with communities. Try Reading is already programming high-quality reading, writing and drama events in Yorkshire and the North West, and an interactive digital portal built around the Rugby League World Cup, Yardstick, is delivering 10 author events across the south west.

Changing expectations

Around 5,000 people entered an arts or heritage museum for the first time during last year's Renaissance-funded Museums at Night. Around 200 unusual activities took place over the weekend, from contemporary artists Bompas and Parr floating the ss Great Britain on a sea of lime-flavoured jelly to artists Bob and Roberta Smith transforming the Towner museum in Eastbourne into a nightclub.

Working in partnership

This year we signed a Memorandum of Understanding with both the Canal & River Trust and the Forestry Commission England to make contemporary arts integral to their daily activity. This confirmed our jointly held belief that high quality arts activity has an inspirational and transformative effect and can change lives and communities for the better, including people and places with the least engagement.

Addressing isolation

Our National Portfolio Organisations are working to address isolation by increasing access to the arts. The Courtyard's Arts and Older People project, for example, involved over 450 elderly people in creative activities including a choir, a film project and a dementia poetry project; while Suited and Booted received £23,290 from Grants for the Arts to enable groups of vulnerable and disadvantaged young people and adults to work with professional animators. The collaboration resulted in experimental animations which were projected onto the facade of historical buildings in Bath, bringing these iconic buildings to life.

Saving artworks for the nation

Impressive works of art and items of cultural and historical importance are now on public display to be enjoyed by audiences across the country, thanks to the work of the Reviewing Committee. Following fundraising attempts by the Ashmolean Museum and the British Library, Edouard Manet's *Portrait of Mademoiselle Claus* and Benjamin Britten's draft score of *The Young Person's Guide to the Orchestra* remain in the country. Numerous other pieces have also come into public ownership and are on display, many for the first time, through the Acceptance in Lieu scheme. Corot's *L'Italienne* from the estate of Lucien Freud is now on permanent display at the National Gallery, and items belonging to Captain Scott are now at the Scott Polar Research Institute in Cambridge.

Bompas and Parr floated the ss Great Britain on 55,000 litres of jelly for Museums at Night



- 1 Review
- 2 Highlighted information
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

The creative economy
Chair's report
Chief Executive's report
Achieving great art for everyone

Goal 3:

The arts, museums and libraries are sustainable, resilient and innovative

Goal 3 aims for more sustainable business models in arts and culture, by increasing the diversity of income streams, investing in arts and cultural infrastructure and encouraging greater collaboration. It also supports new and innovative practices that reduce carbon emissions and support efficiencies.

Financing buildings and equipment

This year we awarded £94 million through our Capital Investment Programme to support organisations develop resilience by giving them the right buildings and equipment to deliver their work, and to become more sustainable and effective businesses. This includes the redevelopment of Chichester Festival Theatre to extend front of house and backstage areas, improve access and increase capacity. Small scale capital grants totalling nearly £12 million have been awarded to 35 organisations including BalletBoyz, for the provision of specialist dance and digital media equipment for their new studio base.

Diversifying income streams

Catalyst Arts helps cultural organisations diversify their income streams and access more funding from private sources. Several Catalyst schemes have taken place this year:

- A £30 million match funding and capacity building scheme has invested in 173 organisations which have shown a commitment to making a step-change in their approach to fundraising. These grants are already delivering significant change – for example Punch Records in the West Midlands have received a £30,000 donation from a local business, Latif's Stores, and Circus Space in London have received a \$1 million donation from the Getty family
- With the support from the Department for Culture, Media and Sport, 18 awards totalling £30.5 million were awarded as challenge funding to help arts organisations build endowments
- In October 2012 we launched a £7 million capacity-building scheme for a consortium of organisations with limited or no fundraising experience

Circus Space
have used
Catalyst funding
to secure a \$1
million donation
from Aileen
Getty



Supporting development

Through Grants for the Arts we invested £15.9 million in organisational and arts and cultural sector development. The new Open Eye Gallery on the Liverpool Waterfront was given an organisational development award of £135,000 to embed planning and evaluation processes, and prototype new approaches to audience development and income generation.

Supporting museums

Nine museum development providers have been funded to support sustainability, resilience and innovation in England's regional museums.

In addition, we have invested in a number of projects to develop the resilience of museums, including supporting the Association of Independent Museums to create a practical guide for resilience through mentoring, sharing good practice, information and resources. We are working with the Local Government Association to offer peer support for local authority managed museums.

The Accreditation Scheme for museums and galleries also helps to develop and identify resilient organisations, setting nationally agreed standards for museums in the UK. This year several National Portfolio Organisations have been awarded the standard, including Seven Stories, National Centre for Children's Books in Newcastle and Hepworth Wakefield.

Developing libraries

Envisioning the Library of the Future was a year-long programme of research and debate to help us develop a long-term vision for public libraries in England. Intended

to stimulate more strategic debate on what libraries ought and need to be in the light of current trends, and to gain a deep understanding of the public value of libraries, we spoke with approximately 800 people, engaged over 10,000 in an online conversation and conducted an online public survey which received 1,400 responses. The findings have enabled us to develop a strategy to support the libraries sector, helping it remain a vibrant and resilient 21st century public service.

In partnership with the Local Government Association we also published *Community libraries – Learning from experience: guiding principles for local authorities*, new research into the different ways communities are involved in library service delivery and management.

New approaches to library services

Last year we funded 13 projects through the Libraries Development Initiative which tested new approaches to library service delivery in order



Top:
The Open Eye
Gallery in Liverpool
was given a Grants
for the Arts Award
for organisational
development

Above:
Ballet Boyz used
capital funding
for specialist dance
and digital equipment
for their new
studio base

1 Review

- 2 Highlighted information
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

The creative economy
Chair's report
Chief Executive's report
Achieving great art for everyone

to build vibrant, sustainable 21st century library services. These projects are currently drawing to a close and we have already seen some inspiring and successful work including the award-winning Digital Skills Sharing project, a partnership between The Reading Agency and the Publishers Association to support public libraries to enhance reader development strategies.

Encouraging environmental sustainability

This year we became the first cultural funding body in the world to embed environmental sustainability into funding agreements. In partnership with Julie's Bicycle, we are helping arts and cultural organisations get tailored, expert support in making changes in this area. There has been considerable interest in our approach from other funding bodies and partners across the UK and internationally.

The business benefits of environmental sustainability have already been recognised



Seven Stories, National Centre for Children's Books has become an Accredited museum

by some organisations. For example, the development of partnerships in Manchester, London, Newcastle and Devon has resulted in collaborations on bundled discounting of energy procurement, goods and services and supported knowledge transfer. There are also indications of significant shifts in behaviour within organisations and by audiences. Sage Gateshead, Manchester International Festival and Artichoke have recognised that a public commitment to sustainability can bring reputational benefits and increased stakeholder engagement.

Financing the creative industries

In May 2012 we launched the Creative Industry Finance pilot programme which provides practical advice and support for creative entrepreneurs wishing to develop and grow their business, along with the opportunity to apply for a business development loan of up to £25,000. The pilot is the first time the Arts Council has delivered loans of this kind. Over 250 businesses received support during the first year of the pilot programme and it has now been extended for a further 12 months, to end in 2013/14.

Sage Gateshead has recognised that a public commitment to sustainability can bring reputational benefits



Goal 4:

Goal 4: The arts and cultural leadership and workforce are diverse and highly skilled

Goal 4 promotes the importance of professional development as essential to the continuing strength of the arts sector, museums and libraries. It also encourages the workforce in arts and culture to reflect the diversity in society and supports the development of world-class leaders.

Enabling a new generation to enter the workforce

This year we launched the Creative Employment Programme, a £15 million investment which will enable young people to gain access to on the job training and skills in the arts and cultural sector. The programme, running from 2013–15 will provide 6,500 opportunities through new pre-apprenticeships, apprenticeships and paid internships to unemployed people aged 16–24. It will be delivered by the National Skills Academy and work through active local partnerships between further education colleges, job centres, arts and cultural organisations and young people.

Developing the workforce and leadership

We are maintaining our long standing commitment to professional development with our Developing Resilient Leadership Commissioned Grant. Over the next three years we will be working with the Clore Leadership Programme to support the personal and professional development of arts, museum and library

professionals at different stages of their careers. This £1.8 million investment has a particular focus on developing diverse leadership talent. We have also invested in leadership development for boards to support continued improvement in governance. The Renaissance Strategic Support Fund invests in workforce development in museums. The Museums Association have been funded to produce *Working Wonders: an action plan for the museum workforce* which sets workforce development in a strategic context for funders and organisations. The Association of Independent Museums has been supported to deliver a mentoring scheme and develop a trustee bank.

Building networks

Subject specialist networks are groups of experts who support skills development and collaborative working in museums. We have awarded £174,600 to support 22 networks to share knowledge and expertise associated with specialist collections. Training and events are run through the networks, enabling the development and improvement of skills collections such as dress

and textiles, portraits and army and military materials.

Building digital capacity

This year, through Building Digital Capacity for the Arts, our partnership with BBC Academy, we continued to offer training and guidance to the arts sector on how to maximize the creation and distribution of high quality arts content for audiences on digital platforms. Through our £7 million Digital R&D Fund for the Arts we are also encouraging collaboration between the arts, digital technology providers and the research community in order to undertake experiments from which the wider arts and cultural sector can learn. The fund, which launched this year, is a strategic partnership between the Arts Council, Nesta and the Arts and Humanities Research Council.

The Creative Employment programme will build young peoples' skills in the arts and cultural sector



1	Review	The creative economy
2	Highlighted information	Chair's report
3	Grant-in-Aid accounts	Chief Executive's report
4	Lottery distribution accounts	Achieving great art for everyone
5	National Lottery report	

Humpty Dumpty was performed for children at Ewell Library as part of Big Dance



Goal 5:

Goal 5: Every child and young person has the opportunity to experience the richness of the arts, museums and libraries

Goal 5 concentrates on providing a national approach to the development of children and young people's engagement with arts and culture in and out of schools. This includes increasing access to excellent art and culture, shaping their future as creators and consumers, and working towards England becoming a world leader in artistic and cultural programming for children and young people.

Delivering cultural education

The national plan for music education and Darren Henley's review of cultural education identified the Arts Council as a key partner in the investment and delivery of cultural education across England. In response, in addition to our established programmes Artsmark and Arts Award, we developed and launched a number of significant national initiatives this year:

- Our Music Education Hubs work to provide significantly improved musical opportunities for all young people. The government has committed £171 million for the 122 hubs until March 2015 to ensure that every child aged 5–18 has the opportunity to sing and learn a musical instrument, and to perform as part of an ensemble or choir, regardless of where they live
- This year we came together with English Heritage, British Film Institute and Heritage Lottery Fund to form the Cultural Education Partnership Group. The group is working together in the City of Bristol, Barking and Dagenham, and Great Yarmouth to test how collaborative working can create more high quality cultural experiences for children and young people
- In July 2012 we selected Sadler's Wells to run the new flagship National Youth Dance Company, which is jointly funded by the Arts Council and the Department for Education. The company promotes opportunities for young people to work with a range of inspirational teachers and choreographers and access dance across all of its forms including contemporary, hip hop, ballet and South Asian dance
- In Harmony, also jointly funded by the Arts Council and the Department for Education, is a national programme that aims to inspire and transform the lives of children through community-based orchestral music-making. Using the principles of Venezuela's El Sistema, it raises expectations and improves the life chances of children through high quality musical education

Connecting schools and arts organisations

Last year was the first year of operation for our 10 Bridge organisations and four associate Bridge organisations, which connect schools and arts and cultural organisations in new ways. Bridge organisations have been hard at work connecting schools and arts and cultural organisations in new ways. In London, Bristol, Derby, Leicester, Nottingham, Manchester and other cities across the country the Bridge organisations are driving local curricula with culture at the heart.

Increasing visits to museums

Our Museums and Schools Programme is increasing high quality educational visits by schools in areas which currently have lower than average cultural engagement. We awarded £3.6 million to 10 regional museums to partner with clusters of up to 100 local schools, national museums and local Bridge organisations to spark young people's curiosity and help encourage a lifelong passion for culture and learning. A wide range of specialisms and collections are taking part, including Great Yarmouth Museum's Stories of the Sea programme, which works with Royal Museums Greenwich and aims to use nationally important maritime collections to develop literacy skills.

Encouraging library membership

We funded 22 projects approximately £55,000 to test approaches to automatic library membership for children and young people including partnerships with birth registration services, nurseries, children's centres, schools and school library services. It is hoped these projects will lead to more

children, young people and families using their local libraries and reading for pleasure. These projects are supported by the Department for Education and the Department for Culture, Media and Sport and the results will be collected in September 2013.

Funding tailored work

Many of our National Portfolio Organisations also work to create great arts and culture for, by and with children and young people. November to January saw immersive theatre masters Punchdrunk Enrichment combine forces with Discover Children's Story Centre for *The House Where Winter Lives*, an interactive storytelling adventure for children aged 3–6 and their families.

This year Grants for the Arts awarded over £13.3 million to arts projects specifically aimed at children and young people. Gobble De Gook received funding for their project, *In A Deep Dark Wood*, a new concept of combining interactive video and dance for young children, and Staffordshire County Council received funding to engage with young people during and



Children from In Harmony Liverpool performed their Fourth Birthday Concert at Liverpool Philharmonic Hall

after the construction of the Chesterton Vision Centre.

More information about how our investment through National Lottery funding helps us to achieve this goal can be found in the National Lottery report on pages 132–146.



Breakin' Convention at Sadlers Wells showcased dance by children and young people alongside world-class hip hop artists

Highlighted information



National Theatre's award-winning production of
The Curious Incident of the Dog in the Night-Time



- 1 Review
- 2 Highlighted information
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

Reporting our commitments
Remuneration report (audited information)
Environmental sustainability

Reporting our commitments

The following indicators are included in our management agreement with the DCMS for 2012–15.

Our regular funding programme ended on 31 March 2012. It has been replaced by the National Portfolio funding programme, which launched on 1 April 2012. The composition of the National Portfolio funding programme differs in size and type from the regular funding programme, meaning that comparators shown do not represent like for like. In 2012/13 a new baseline, comprising data collected from National Portfolio Organisations alone, will be set for these indicators.

An increase in contributed income¹ in National Portfolio Organisations and Major Partner Museums between 2012–15²

Baseline 2010/11: £117,389,000
(N = 829 Regularly Funded Organisations responding to annual submission)

2011/12: £136,544,867
(N=796 Regularly Funded Organisations responding to annual submission)

Source: annual submission of Regularly Funded Organisations 2010/11, 2011/12

Ratio of charitable giving to Arts Council grant

Baseline 2010/11: 33.6%
(N = 829 Regularly Funded Organisations responding to annual submission)

2011/12: 42.6%
(N = 796 Regularly Funded Organisations responding to annual submission)

Source: annual submission of Regularly Funded Organisations 2010/11, 2011/12

An increase in the amount of activity made available to audiences digitally through National Portfolio Organisations and Major Partner Museums

Baseline 2012/13: Available 2013

Source: annual reviews of National Portfolio Organisations 2012/13

Sustained attendance/visitor numbers in National Portfolio Organisations and Major Partner Museums over the period 2012–15

Baseline 2010/11: 95,992,352 known plus estimated attendances to Regularly Funded Organisations
(N = 829 Regularly Funded Organisations responding to annual submission)

2011/12: 89,415,012 known plus estimated attendances to Regularly Funded Organisations
(N = 796 Regularly Funded Organisations responding to annual submission)

Source: annual submission of Regularly Funded Organisations 2010/11, 2011/12

¹ Contributed income is the same as 'charitable giving' and includes sponsorship, donations, private giving, and trusts and foundations

² This indicator was included in our interim funding agreement with Department for Culture, Media and Sport for 2011/12, under the measure 'Total amount of charitable giving (donations and sponsorship)'

Remuneration report (audited information) 1 April 2012–31 March 2013

The Remuneration Committee

The Council has appointed a Remuneration Committee 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 Dame Liz Forgan (until 31 January 2013), Sir Peter Bazalgette (from 1 February 2013), Rosemary Squire, Peter Phillips, Sheila Healy and Anil Ruia (Chair). 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 (DCMS) and agreed by the Charity Commission.

We paid the nine members of National Council who are also chairs of regional councils remuneration of £6,400 each during 2012/13 (2011/12: £6,400). The Chair's remuneration was agreed at £40,000 per annum (2011/12: £40,000).

Executive Board members' remuneration

Salary progression through the executive director salary band is dependent on individuals' performance. Non-consolidated, one-off variable performance payments are also awarded to some executive directors each year for exceptional performance. Due to the Government's public sector pay restraint, executive directors received a consolidated salary increase of 1 per cent in 2012/13 alongside all other staff and the variable performance payment 'pot' is currently frozen at 2008/09 levels. This is pro-rated to £10,000. Increases in salary and other performance related payments to executive directors are not under the control of management. Whilst the Chief Executive makes reward recommendations in respect of his direct reports on Executive Board, any salary increases and other payments must be approved by the Remuneration Committee.

In addition to his annual salary, the Chief Executive is entitled to a performance related payment of up to 20 per cent of his annual salary each year. Remuneration Committee can decide to consolidate a small percentage of this payment into the Chief Executive's annual salary or pay the full amount as a one-off, non-consolidated sum. The Chief Executive was awarded a non-consolidated performance payment by the Remuneration Committee of 10 per cent of his salary in accordance with his contractual entitlement as a reflection of his outstanding performance in the year 2012/13. This constitutes a payment of £15,608 of which he requested half of the money was used for a fund for Arts Council staff team building activities and the remaining half is given as a grant to the Momentum Music Fund managed by PRS for Music Foundation.

All performance payments are earned on the basis of exceeding performance objectives and overall contribution to the effective leadership of Arts Council England, assessed formally through an annual appraisal process.

The Arts Council's variable performance pay system is an integral part of our total remuneration package. The Remuneration Committee is keen to emphasise that one-off, variable performance awards are only made to individuals, throughout the organisation as a whole, for levels of achievement which contribute to the overall success of the organisation and which go beyond even the usual high standards expected of individuals in their roles. It notes that the financial amount of these awards is relatively modest. The Remuneration Committee decided to make payments to a number of individual members of Executive Board; these are set out in the first table in this report. These payments were determined by the Remuneration Committee in May and are usually paid in July each year.

- 1 Review
- 2 **Highlighted information**
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

Reporting our commitments
Remuneration report (audited information)
 Environmental sustainability

Remuneration report (audited information) 1 April 2012–31 March 2013

The remuneration of our executive directors for the year ended 31 March 2013 was:

Member ¹	Total remuneration 2011/12 £000s	Total remuneration 2012/13 £000s	Employers' pension contributions £000s	Variable performance payment £000s	Buy out of contractual benefits £000s	Car allowance £000s	Salary £000s
Alan Davey ² Chief Executive	213	187	32	0	0	0	155
Elizabeth Bushell ³ Chief Finance Officer	0	18	3	0	0	0	15
Alison Cole ⁴ Executive Director, Advocacy and Communications	115	10	2	0	0	0	8
Laura Dyer Executive Director	121	120	22	2	0	1	95
Lesley de Courcy ³ Director, Finance	0	18	3	0	0	0	15
Althea Efunshile Deputy Chief Executive	160	159	27	2	0	0	130
Anupam Ganguli ³ Executive Director, Resources	114	73	12	0	0	0	61
Sarah Maxfield Interim Area Executive Director, North	9	107	18	2	0	1	86
Simon Mellor Executive Director	0	127	22	2	0	0	103
Mags Patten Interim Executive Director, Advocacy and Communications	0	73	0	0	0	0	73
Moira Sinclair Executive Director	120	131	24	2	0	0	105
Andrea Stark ⁵ Area Executive Director, East and South East	157	123	22	0	2	1	98

	2011/12 £	2012/13 £
Hutton review disclosure		
Highest paid director's remuneration	153,000	154,530
Median remuneration	30,000	29,390
Ratio	5.10	5.26

¹ From December 2012 the new Executive Board was recruited resulting in the following changes:

- Elizabeth Bushell, Director Finance and Corporate Services, became Chief Finance Officer
- Althea Efunshile, Chief Operating Officer, became the Deputy Chief Executive
- Laura Dyer, Area Director, Midlands and South West, became Executive Director
- Simon Mellor, Executive Director, Arts, became Executive Director
- Moira Sinclair, Area Executive Director, London, became Executive Director

² Alan Davey's pension contributions were adjusted in 2011/12 to correct the application of a cap to the amount of contributions. This gives the appearance of a salary decrease in 2012/13 when compared to the previous year.

Alan Davey's total remuneration for 2011/12 has been adjusted down as the performance payment of £10,000 he received that year was paid into a fund for staff team building activities.

³ Anupam Ganguli left the Arts Council on 9 November 2012, his place on the Executive Board was assumed by Lesley de Courcy until 20 January 2013 and Elizabeth Bushell thereafter. Their respective full time equivalent salaries would have been £92,000, £78,000 and £80,000.

⁴ Alison Cole was seconded to 'The Space' from 30 November 2011 with Paul Leather and then Mags Patten appointed to lead the Advocacy and Communications team in the interim. Alison Cole remained a member of Executive

Board until the end of April 2012. Her full time equivalent salary would have been £91,000.

⁵ Andrea Stark went on sabbatical on 1 January 2013 for a period of six months to another organisation (High House Production Park). Her sabbatical exceeds the period covered by this report (1 April 2012 to 31 March 2013) as it finished on 30 June 2013. On 30 June 2013, Andrea was made redundant and was paid compensation for the loss of office of £118,900 in line with the Arts Council redundancy policy. During the period of her sabbatical, Andrea continued to be an Arts Council employee, ie she was paid her salary by the Arts Council and received all benefits. Her salary for the period 1 January to 31 March 2013 (included in the table above) was £24,000.

The Hutton review disclosure includes the annualised salaries of all staff, both directly employed and agency. Salaries include basic pay, benefits in kind and performance related pay in the year in which it was paid.

- 1 Review
- 2 **Highlighted information**
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

Reporting our commitments
Remuneration report (audited information)
 Environmental sustainability

Remuneration report (audited information) 1 April 2012–31 March 2013

Details of the pension entitlements for our executive directors for the year ended 31 March 2013 were:

Member	Accrued pension and lumps sum at 31 March 2013 £000s	Increase in total in year net of inflation 2012/13 £000s	Transfer value at 31 March 2013 £000s	Increase in transfer value (net of inflation) 2012/13 £000s	Transfer value at 31 March 2012 £000s
Alan Davey	40	7	149	36	110
Elizabeth Bushell Chief Finance Officer	49	7	128	29	97
Alison Cole Executive Director, Advocacy and Communications	58	11	231	55	171
Laura Dyer Executive Director	117	3	388	44	335
Lesley de Courcy Director, Finance	9	4	39	19	19
Althea Efunshile Deputy Chief Executive	39	6	161	35	122
Anupam Ganguli Executive Director, Resources	19	2	62	14	47
Sarah Maxfield Interim Area Executive Director, North	128	42	473	177	287
Simon Mellor Executive Director	5	5	20	20	0
Mags Patten Interim Executive Director, Advocacy and Communications	0	0	0	0	0
Moira Sinclair Executive Director	40	8	134	36	95
Andrea Stark Area Executive Director, East and South East	100	0	359	30	320

Elizabeth Bushell is the only member that worked part-time during the past year and Anupam Ganguli left the scheme on 9 November 2012.

Transfer Values (TV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A TV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The calculation of the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Arts Council Retirement Plan. They also include any additional pension benefit accrued to the member as a result of buying additional pension benefits at their own cost. TV's are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction resulting from Lifetime Allowance Tax which may be due when the pension benefits are taken.

Increase in transfer value (net of inflation) in TV

This reflects the increase in TV that is funded by the employer net of the increase in accrued pension due to inflation. This increase includes contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement or purchased via an Additional Voluntary Contribution contract) and uses common market valuation factors for the start and end of the period.

Alan Davey
Chief Executive
28 June 2013

Sir Peter Bazalgette
Chair
28 June 2013

Environmental sustainability

The Arts Council remains committed to embedding sustainable practices across its operational estate of nine offices, whilst advocating our approach to sustainability to the arts and culture sectors and organisations we fund. Page 26 provides further information on what we do to promote a commitment to sustainable practice and policy within the sector.

This report summarises our activities during 2012/13 and highlights changes implemented, with a commentary that compares data for financial years 2011/12 and 2012/13.

Summary

The analysis of our data evidences that steps taken to improve our sustainable practices are achieving the desired outcomes.

Estate achievements 2012/13

- Relocation of the Cambridge (East region) office to a fit for purpose shared government building resulting in a reduction in office space of approximately 42 per cent. The parking allocation for staff has also been reduced from 28 to seven spaces. This reduction has been supported through increased staff awareness of policies such as bike purchase loans, rail season ticket loans and car-share schemes. Whilst the size of the our property in Cambridge has reduced, overall financial expenditure has increased. This is a result of being in a large, shared building where whole building costs/emissions, including common entrances/stairways, etc, are apportioned to all occupants
- In Newcastle (North East region) we reduced our holding in July 2012 by approximately 37 per cent
- We continue to embed flexible working practices with additional home working and mobile working within the Arts Council, offering hot desk arrangements throughout all offices

Estate data comparison

The Arts Council's estate data for the financial years 2011/12 and 2012/13 is detailed below for comparison. The information provided follows Treasury guidance and reports on the following:

- Waste management
- Greenhouse gas emissions
 - scope 1 – gas
 - scope 2 – electricity
- Scope 3 – travel (rail, air, car)
- Finite resource consumption – water

Estate locations

Office location	Exclusive or shared use	Square metres	Serviced/ managed
South East Brighton	Shared	461	managed
South West Exeter	Shared	770	managed
London	Exclusive	2,909	n/a
East Cambridge	Shared	503	managed
West Midlands Birmingham	Exclusive	791	n/a
East Midlands Nottingham	Shared	804	managed
Yorkshire Dewsbury	Exclusive	1,034	n/a
North West Manchester	Shared	1,669	managed
North East Newcastle	Shared	530	managed
Total		9,471	

Those locations detailed as 'shared' in the above table are within a shared premises where running costs of utilities and usage are re-charged to the Arts Council on a percentage apportionment of space occupied within the building. The data for these offices therefore may not be accurate reflections of use, but an estimation based on the Landlord Service Charge schedule and lease obligations. The Arts Council is working with its landlords and managing agents to improve our reporting for these offices for the future.

Performance commentary

Waste management data

The following table includes all Arts Council offices recycling data and associated cost.

Waste		2011/12	2012/13
Non-financial indicators (tonnes)	Total	319.32	394.64
	Landfill	197.92	228.42
	Reused/recycled	121.40	166.22
Financial indicators (£)	Total disposal cost	24,882	23,229
	Landfill	13,290	9,840
	Reused/recycled	11,592	13,389

The increase in volume recycled is due to the impact of increased awareness of recycling throughout our estate and continued commitment and dedication from staff. Since our 2011/12 annual report we have worked closely with our facilities management contractor and landlords to provide performance data on a quarterly basis.

Greenhouse gas emissions		2011/12	2012/13
CO2	Total gross emissions (CO2)	690,441	933,795
	Total net emissions (CO2)	690,441	933,795
	Gross emissions Scope 1 (direct)	226,798	309,695
	Gross emissions Scope 2 (indirect)	463,643	624,100
Energy consumption (kwh)	Electricity (non-renewable)	856,062	1,246,305
	Electricity (renewable)	0	0
	Gas	1,226,930	1,675,386
Financial indicators	Expenditure – energy	147,394	124,111

The increase in emissions during 2012/13 is a direct impact of the East office relocation. The East office is now located within a shared government private finance initiative (PFI) scheme totalling 12,000 square metres and accommodating six government departments with multiple sublease agreements in place. The approximate number of staff working in Eastbrook is 550 across all departments. The Arts Council staff makes up just 5 per cent of the total headcount with 30 employees on site. Whilst The Arts Council has a small presence within the building we remain liable for 4.07 per cent of the overall building emissions/financial outgoings.

The relocation of the East regional office was part of the wider Government Estate Rationalisation project to co-locate numerous departments within existing spare capacity in government buildings. The impact of the relocation has led to an increase in emissions for The Arts Council, however this must be seen in the wider context of improvements in the efficiency of the Civil Estate as a whole.

- 1 Review
- 2 **Highlighted information**
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

Reporting our commitments
Remuneration report (audited information)
Environmental sustainability

Environmental sustainability

Finite resource consumption		2011/12	2012/13
Non-financial (m3)	Supplied	5,708.23	5,933.20
	Abstracted	0	0
	Per full time equivalent employee (FTE)	10.20	10.70
Financial indicators (£)	Water supply costs (office estate)	15,437	15,692
	Water supply costs (non-office estate)	0	0
Travel		2011/12	2012/13
Co2	Rail	202,622	192,268
	Air	32,029	32,543
	Car	121.26	120.97
	Total	234,772	224,931
Cost (£)	Rail	734,514	636,192
	Air	20,943	27,395
	Petrol	142,420	141,735
	Total	897,877	805,323
Miles	Rail	2,061,433	2,105,900
	Air	154,429	157,335
	Car	350,695	354,339
	Total	2,566,557	2,671,574

Notes

Adjustment to Co2 for air (financial year 2011/12). Full dataset unavailable at time of publishing last year's report. Data amended to reflect accurate figures.

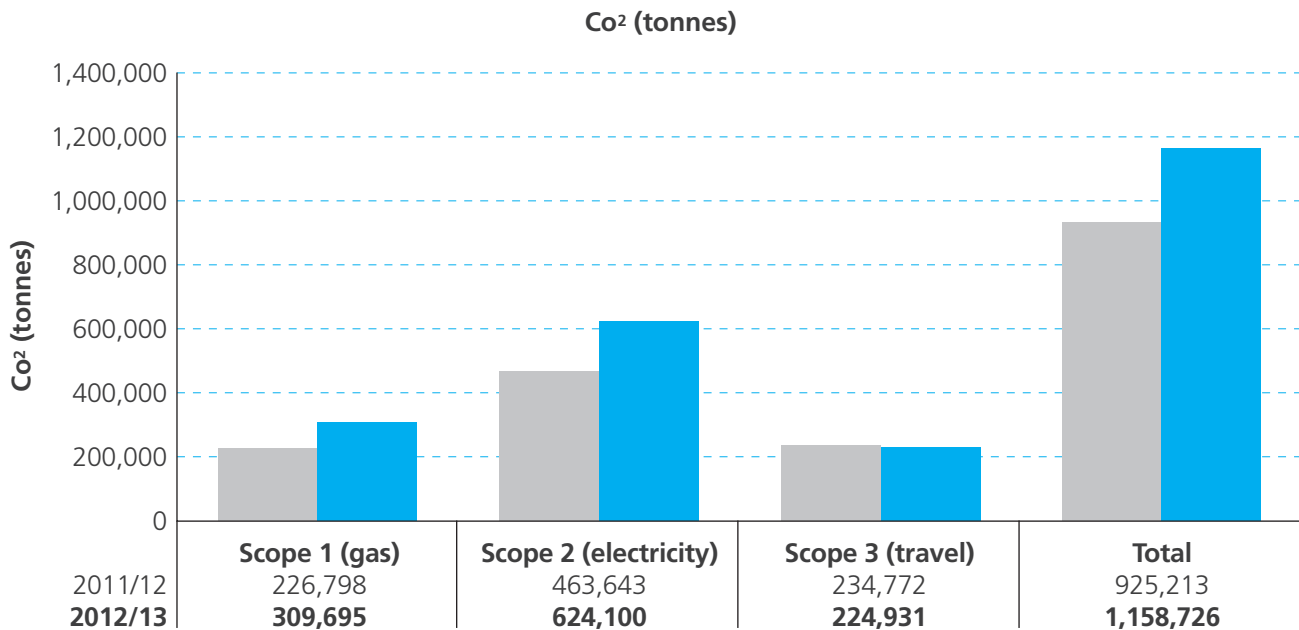
The Arts Council's on-going budget saving and internal restructuring has seen an increased regional coverage of all regional offices. This has resulted in increased travel for those staff classed as internally and externally mobile.

Whilst travel has increased we continue to work closely with our travel provider to embed a consistent approach to Arts Council travel policies. All staff are required to book travel through our dedicated provider to find preferential bookings to suit meeting requirements.

The Arts Council financial saving in staff travel in 2012/13 was approximately 11 per cent.

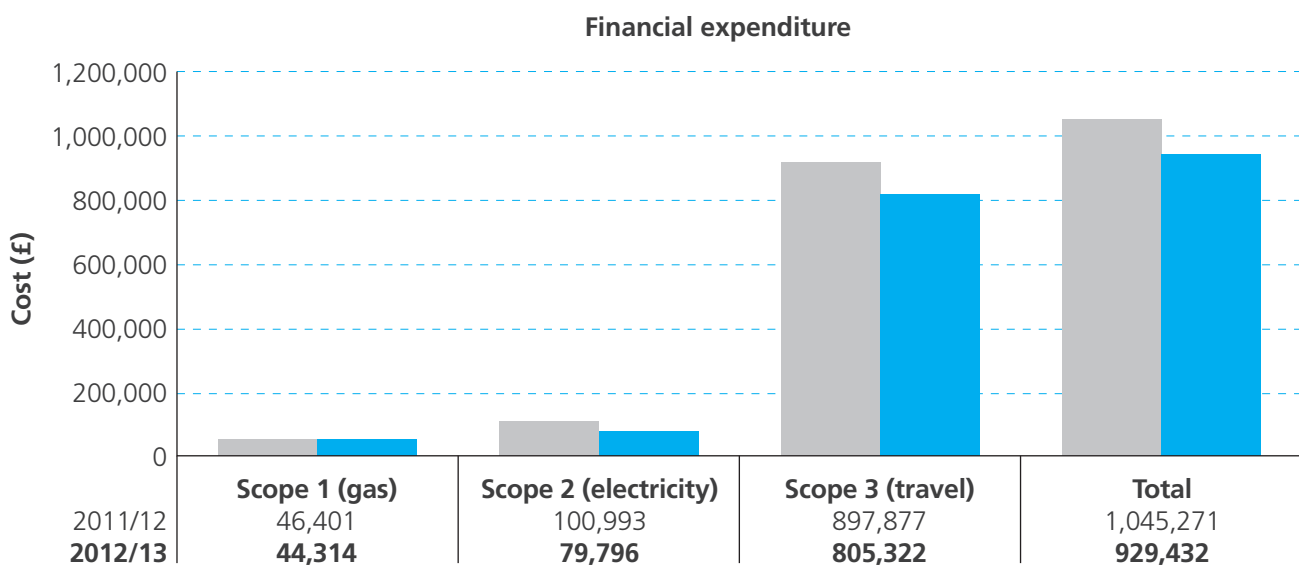
Arts Council England – sustainability graphs

Graph 1: Co², whole estate



The above table shows an increased Co₂ output for the Arts Council in 2012/13 due to the relocation of our East office to a shared government building. The Arts Council is liable for a percentage apportionment of space within this new office. The data provided therefore does not reflect the organisation's sole emissions. Other occupiers within the building have more staff and therefore an increased usage.

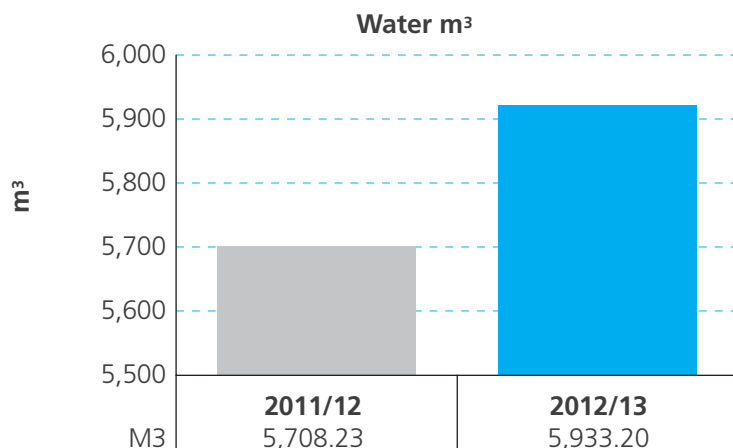
Graph 2: Financial indicators, whole estate



The Arts Council has achieved a reduction in overall financial expenditure in 2012/13 of approximately 12 per cent.

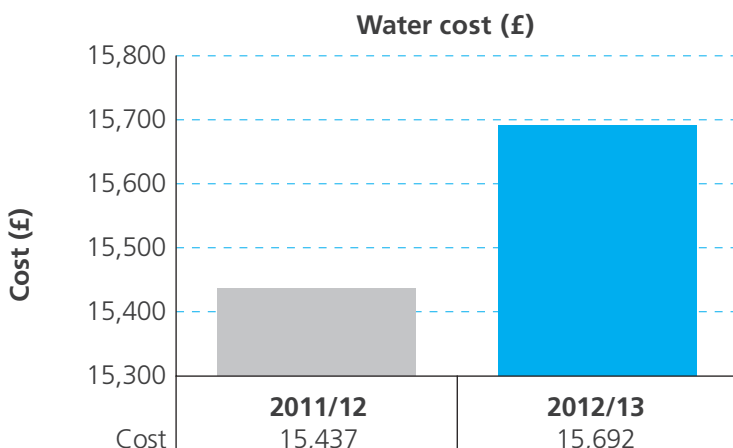
Environmental sustainability

Graph 3: Water usage, whole estate

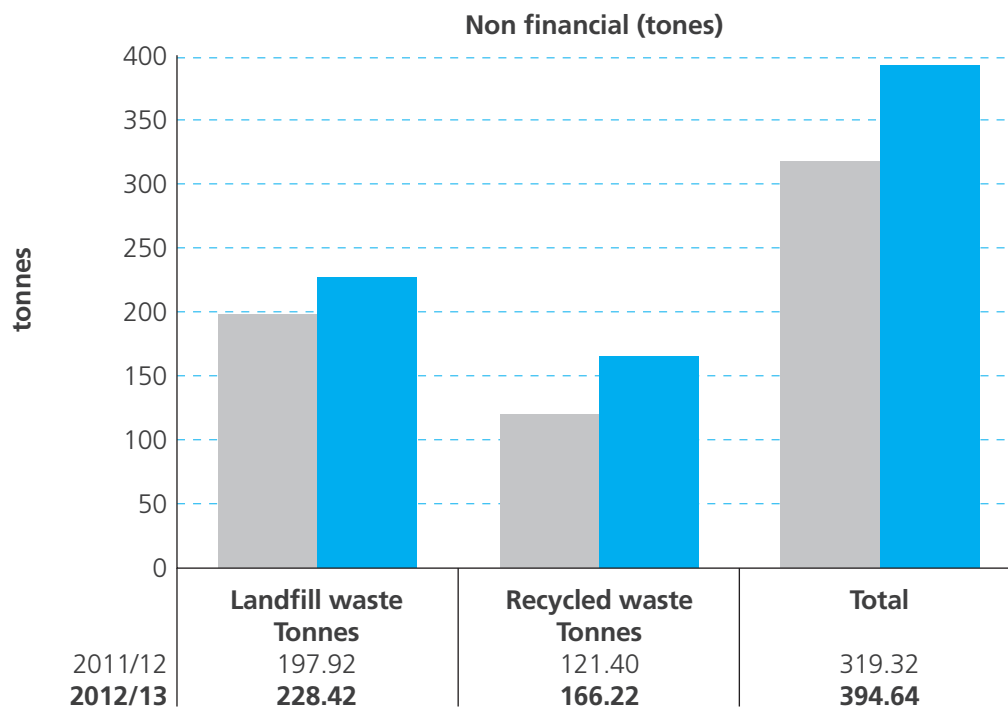


The above graph reflects increased water consumption as a result of more accurate information. In the financial year 2011/12 our East regional office data had been based on assumption due to relocation to a new space where a full dataset was not available.

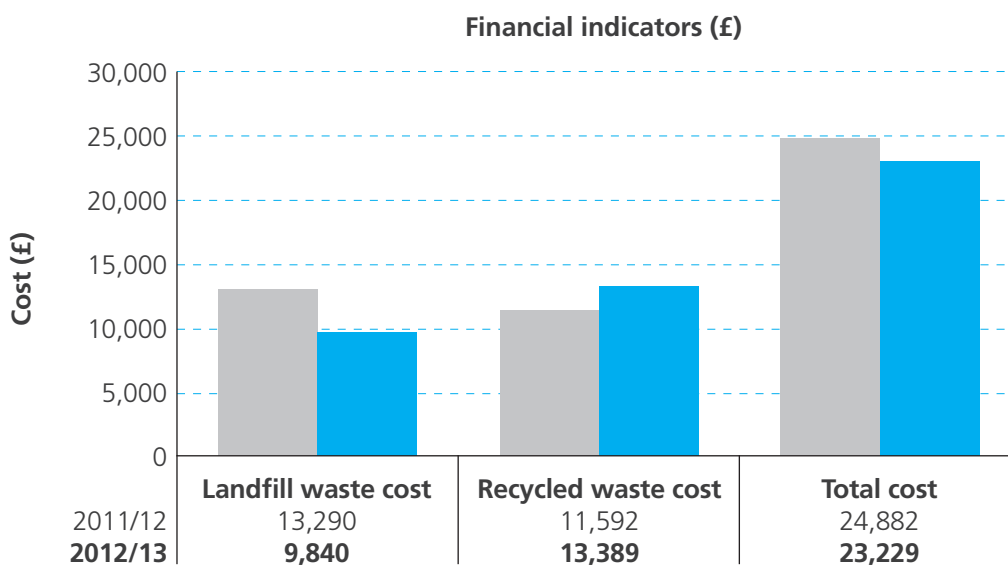
Graph 4: Water cost, whole estate



The Arts Council’s expenditure for water (m3) has increased in 2012/13, prompted by the East office relocation to a shared government building where we are responsible for 4.07 per cent of space and charges. The new premises equates to 12,000 square metres with 550 staff working from the premises for a number of government departments.

Graph 5: Waste, whole estate

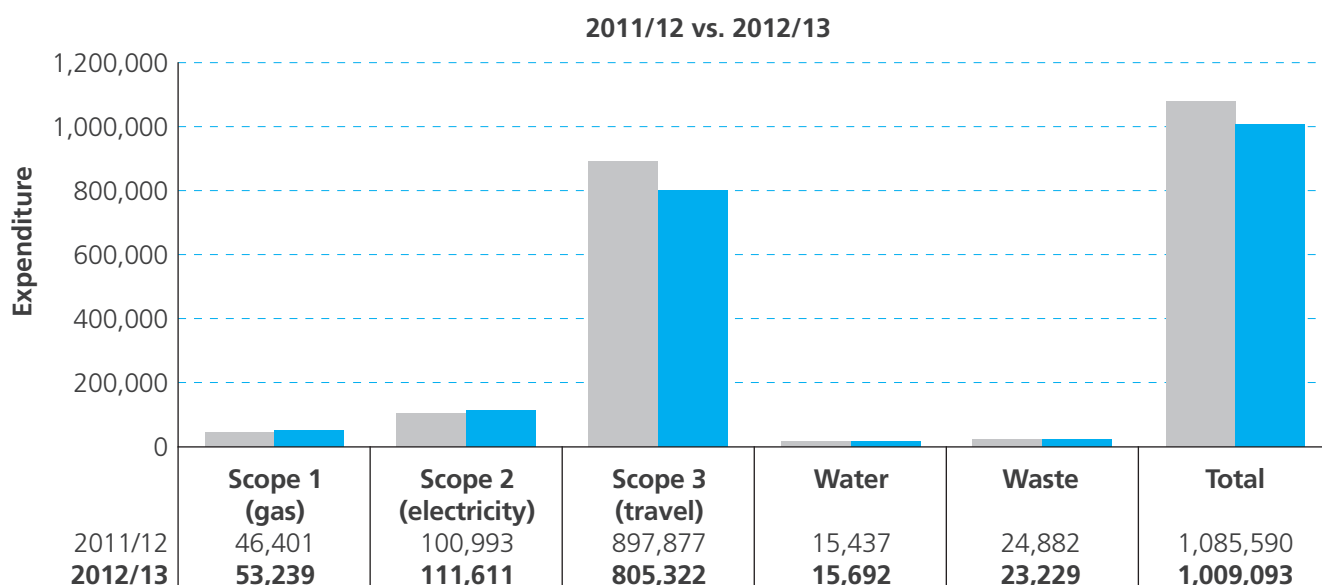
The Arts Council offices continue to ensure our waste is disposed of in a sustainable way through credible sources. Our commitment has been established through dedicated recycling stations within all offices. Our commitment to this practice is reflected in our increased recycling shown in the above graph.

Graph 6: Whole estate, cost to recycle

Whilst recycling tonnage has increased the annual expenditure has reduced. The Arts Council continue to work closely with our suppliers through a dedicated facilities management company to ensure preferential market rates.

Environmental sustainability

Graph 6: Financial indicators (£) yearly comparison



The above graph shows comparative cost information for the last two previous financial years. The Arts Council has achieved an 8 per cent reduction in annual expenditure.

The Arts Council's continued commitment

We continue to encourage sustainability throughout business operation through:

- A sustainability forum/group – to include both internal and external stakeholders
- Encouraging video conferencing
- Using 'one-stop shop' travel provider
- Improving procurement
- Facilitating home working, mobile working and hot desking
- Installing low-energy lamps
- Recycling all IT equipment
- Installing filtered water and removing bottled water in all offices
- Using sustainable and eco-friendly cleaning products
- Using biodegradable products
- Using recycled paper in all offices
- Adding flow reducers fitted to taps and showers
- Monitoring and recording energy usage throughout the financial year
- Setting two-sided printing and Ecofont printing as standard on all printers
- Participating in green initiatives such as Climate Change Week
- Managing spaces to meet government standards for occupancy: having eight workstations to every 10 office staff

Future plans

- Through continued rationalisation of our oversupply of premises, working towards a sustainable and efficient operational estate, we aim to achieve a further 10 per cent reduction in space throughout 2013/14
- We will continue to build 'green' into our capital projects, implementing sustainable operations where appropriate

Detailed information on how the Arts Council is working towards building resilience in the arts and culture sector through environmental sustainability can be found on page 26.

Grant-in-Aid accounts



Sadler's Wells and Akram Khan Company's *DESH* won
best new dance production at this year's Olivier Awards



3

1	Review
2	Highlighted information
3	Grant-in-Aid accounts
4	Lottery distribution accounts
5	National Lottery report

Trustees' report and management commentary
Independent auditor's report
Statement of financial activities
Balance sheet
Cash flow statement
Notes to the Grant-in-Aid accounts

Trustees' report and management commentary

Governance statement

Reference and administrative details of the charity

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

Scope of responsibilities

The current objects of the Arts Council as stated in its Royal Charter are to:

- Develop and improve the knowledge, understanding and practice of the arts
- Increase accessibility of the arts to the public in England
- Advance the education of the public and to further any other charitable purpose which relates to the establishment, maintenance and operation of museums and libraries (which are either public or from which the public may benefit) or to the protection of cultural property
- Advise and co-operate, where it is appropriate to do so, with departments of our government, our Scottish administration, the Northern Ireland Executive and the Welsh ministers, local authorities, the arts councils and equivalent organisations in the museums and libraries sector for Scotland, Wales, and Northern Ireland (or their successors) and other bodies on any matter related to the objects.

The Governance framework

Arts Council England 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 a Management Agreement agreed with the Secretary of State. As a registered charity and a chartered body, Arts Council England is subject to a range of obligations and accountabilities set out in regulations and law. We prepare our accounts for Grant-in-Aid and Lottery separately to comply with accounts directions issued by the Secretary of State and Charity Commission regulations.

National Council is the non-executive board of Arts Council England. Council members, as charity trustees, retain overall responsibility for the work and conduct of the organisation. This includes responsibility for ensuring the achievement of Arts Council England's objectives, as set out in the Royal Charter. National Council's role and responsibilities are clearly outlined in Arts Council England's governance handbook. The handbook is routinely reviewed with the next review planned for 2013/14.

National Council consists of 17 members with a broad range of artform and culture experience and expertise³, nine of whom also chair a regional council. Members of our National Council are appointed by the Secretary of State for Culture, Media and Sport, except for the London regional council chair who is appointed by the Mayor of London. National Council members are usually appointed for four years, and may be reappointed for a further term of four years.

All members of National Council are required to act in accordance with the Code of Practice for National and Regional Council Members which is contained in the governance handbook. The code reflects the Nolan principles, which are also contained in the handbook, and both documents are brought to the clear attention of all members during their induction.

Sir Peter Bazalgette succeeded Dame Liz Forgan as Chair of the Arts Council on 1 February 2013.

³ There was one unfilled vacancy during 2012/13

The membership of National Council during 2012/13 is set out below.



Name	Member	Appointment	End of appointment
1 Dame Liz Forgan	Chair of the Arts Council		31 January 2013
2 Sir Peter Bazalgette	Chair of the Arts Council	1 February 2013	
3 Janet Barnes	Member Yorkshire Regional Council Chair		31 January 2013
4 Caroline Collier	Member South East Regional Council Chair		
5 Jon Cook	Member East Regional Council Chair		
6 Lee Corner	Member Yorkshire Regional Council Chair	1 February 2013	
7 Joe Docherty	Member North East Regional Council Chair		
8 Ekow Eshun	Member		
9 Sheila Healy	Member South West Regional Council Chair		
10 Sir Nicholas Kenyon	Member		
11 Keith Khan	Member		
12 François Matarasso	Member East Midlands Regional Council Chair		
13 Peter Phillips	Member West Midlands Regional Council Chair		
14 Alice Rawsthorn	Member		
15 Anil Ruia	Member North West Regional Council Chair		
16 Alistair Spalding	Member		
17 Rosemary Squire OBE	Member		
18 Veronica Wadley	Member London Regional Council Chair		

1	Review
2	Highlighted information
3	Grant-in-Aid accounts
4	Lottery distribution accounts
5	National Lottery report

Trustees' report and management commentary
Independent auditor's report
Statement of financial activities
Balance sheet
Cash flow statement
Notes to the Grant-in-Aid accounts

Trustees' report and management commentary

National Council has established and delegated responsibility to regional councils, committees, panels and other bodies. Details are set out below.

- Nine regional councils, one covering each English region, to assist it in developing, championing and investing in the arts and culture⁴
- Arts policy committee to advise it on policy for the arts, museums and libraries
- Arts investment committee to advise on its approach to investment and to make decisions on investments above a certain threshold
- Performance and Audit Committee to review and report on the systems of internal control and to undertake a performance review and scrutiny function on behalf of National Council
- Remuneration Committee to oversee the pay, performance and conditions of senior staff (a report from the Remuneration Committee is set out on pages 33 to 37)
- Museums Accreditation committee to decide on applications from museums for Accredited status and to oversee the museums Accreditation Scheme
- Museums, libraries and archives designation panel to oversee the Arts Council's Designation Scheme which identifies the pre-eminent collections of national and international importance held in England's non-national museums, libraries and archives, based on their quality and significance
- Acceptance in lieu panel to provide advice to ministers and to HM Revenue and Customs on the suitability of items offered in lieu of Inheritance Tax and under the cultural gifts scheme

Written terms of reference for the regional councils, and the committee and panels are set out in the Arts Council's governance handbook.

Following an independent review of its governance carried out in 2012 by David Norgrove, the Arts Council is in the process of making significant changes to its governance structure. It is reducing the number of members from 17 to 14. The nine regional councils are being replaced by five area councils. It has also decided to abolish its arts investment and arts policy committees, with the business

of these committees being undertaken by the full Council instead which will meet more frequently, about 10 times a year. These changes are being phased in from 1 April 2013. Further details are available from the Arts Council website at www.artscouncil.org.uk/advice-and-guidance/browse-advice-and-guidance/review-governance-arts-council-england

National Council has not established a nominations committee; instead decisions on appointing members to regional councils, committees and panels are made by National Council.

National Council has approved a scheme of financial delegations and authorities, which sets out the required level of approval or authorisation for financial commitments.

National Council has also delegated responsibilities for implementation and operational matters to the Chief Executive and Executive Board.

The Chief Executive has been authorised by National Council to undertake the day-to-day administration and management of the business and staff of the organisation. The Chief Executive is responsible to National Council for those matters. The Chief Executive, as the Accounting Officer, is responsible for the Arts Council's overall efficiency and effectiveness and has responsibility for reviewing the effectiveness of the system of internal control. This review is informed by the internal auditors, the Deputy Chief Executive, executive directors within the Arts Council and comments from the external auditors in their management letter and other reports. The Accounting Officer may, on occasion, be required to give evidence to Parliament's House of Commons Public Accounts Committee.

Written terms of reference and procedures for the Executive Board have been agreed by National Council. The National Council has approved the further delegation of operational responsibility to a Management Committee which is made up of a mix of Executive Board members and other senior managers. Management Committee is responsible for: organisation-wide financial management; taking an overview of HR issues; operational risk management; and a range of other operational decisions.

⁴ In April 2013 the Arts Council announced its intention to reduce the number of regional councils to five.

The membership of Executive Board during 2012/13 is set out below.



	Name	Job title
1	Alan Davey	Chief Executive
2	Elizabeth Bushell	Chief Finance Officer (from 21 January 2013)
3	Alison Cole	Executive Director, Advocacy and Communications (until end of April 2012) (on secondment to The Space during 2012/13)
4	Laura Dyer	Area Executive Director, Midlands and South West (Executive Director from 12 December 2012)
5	Lesley de Courcy	Director, Finance (from 10 November 2012 to 20 January 2013)
6	Althea Efunshile	Chief Operating Officer, Deputy Chief Executive from 12 December 2012
7	Anupam Ganguli	Executive Director, Resources (until 9 November 2012)
8	Paul Leather	Interim Executive Director, Advocacy and Communications (until 31 May 2012)
9	Sarah Maxfield	Interim Executive Director, North
10	Simon Mellor	Executive Director, Arts (Executive Director from 12 December 2012)
11	Mags Patten	Interim Executive Director, Advocacy and Communications (from 1 June 2012)
12	Moira Sinclair	Area Executive Director, London (Executive Director from 12 December 2012)
13	Andrea Stark	Area Executive Director, East and South East (on full-time sabbatical to High House Production Park from 1 January 2013)

1	Review
2	Highlighted information
3	Grant-in-Aid accounts
4	Lottery distribution accounts
5	National Lottery report

Trustees' report and management commentary
Independent auditor's report
Statement of financial activities
Balance sheet
Cash flow statement
Notes to the Grant-in-Aid accounts

Trustees' report and management commentary

Alison Cole was seconded to The Space from 30 November 2011, remaining a member of Executive Board until the end of April 2012. Paul Leather and then Mags Patten were appointed to lead the Advocacy and Communications team in the interim. Anupam Ganguli left the Arts Council on 9 November 2012; his place on Executive Board was assumed by Lesley de Courcy until 20 January 2013 and Elizabeth Bushell thereafter.

Risk management

National Council ensures there are effective arrangements for internal control including risk management at Arts Council England.

The system of internal control is based on an ongoing process designed to identify and prioritise 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 yet economically. 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. National Council takes the view that the absolute mitigation of all risks would be undesirable. It believes that it is important that the Arts Council is innovative and can take managed risks in pursuit of its overarching goal of great art, museums and libraries for everyone.

The system of internal control has been in place in Arts Council England for the year ended 31 March 2013 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

System for managing risk

The Department for Culture, Media and Sport (DCMS) has designated the Chief Executive of Arts Council England as Accounting Officer, with clear responsibility and accountability for maintaining a sound system of internal control within the organisation.

Internal audit provides the Accounting Officer with an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

Risk management forms part of the organisation's ongoing activity and is addressed as a matter of standard practice in its corporate programme and project plans. It continues to be a key element of how Arts Council England monitors its corporate policies and initiatives and is integrated into business planning across the organisation.

Arts Council England has in place a wide range of policies dealing with control issues for corporate governance, financial management (including fraud), project management, health and safety, training and development, information technology and risk management, all of which are reviewed and updated periodically as part of the organisation's business planning process.

During 2012/13, Arts Council England continued to manage risk at the strategic, operational, and individual project, programme and activity levels; and revise and update its risk management policies and procedures.

The Arts Council defines risk as an event or activity which affects the achievement of the Arts Council's objectives. Risks arise from threats to business activity and from the failure to realise opportunities. Our approach to managing risks differs slightly depending on whether the risk identified is strategic or operational.

Strategic risks

Strategic risks are defined as those that adversely affect the Arts Council's ability to achieve its strategy, *Achieving great art for everyone* and *Culture, knowledge and understanding: great museums and libraries for everyone*. They also often have an adverse effect on the reputation of the organisation externally.

Operational risks

Operational risks may not necessarily affect the Arts Council's ability to achieve its strategy. They are lower level risks that are particular to a region, area, head office department, activity, process, programme or project.

Management of strategic risks

An annual strategic risk workshop is held to identify and assess strategic risks and risks identified are then agreed by Executive Board and assigned to an Executive Board lead and risk owner or 'manager' who will manage mitigating actions and controls thereafter.

Progress on implementing relevant controls and mitigating actions is reported on a quarterly basis to Management Committee and Performance and Audit Committee. Risk is also a standing item at each one of the monthly Management Committee meetings. A quarterly headline report on risk management is provided to Executive Board, and an annual update is formally reported to National Council in the annual Performance and Audit Committee report.

A summary of the key strategic risks and the action that we took to mitigate them are set out in the table below.

Key strategic risks	Action/mitigation
The challenge of implementing the organisation review which entailed a 50 per cent reduction in Grant-in-Aid administrative expenditure.	Establishing an organisation review implementation board led by the Chief Executive with clear responsibility for overseeing the transition to the new operating model and ensuring the continuity of key services, and that the costs of the new model do not exceed available resources.
The possibility of further cuts in public spending, either at a local or national level, destabilising our ability to resource our 10-year strategy.	<p>Maintain rigorous and constant financial control and management of Grant-in-Aid and Lottery budgets throughout the year.</p> <p>Continue to build on existing good relations and stress the value of public investment in the arts and culture with government departments, local authorities, higher education institutions and local partnerships like local enterprise partnerships.</p> <p>Begin the 'modelling' for the next spending review early to avoid/lessen the impact of a possible 'clash' with the organisation review, and commence thinking/planning for the next investment process.</p>
The challenge of simplifying our business processes to meet the requirement that we reduce our expenditure on administration, while at the same time continuing to ensure that we comply with external regulatory requirements.	Ensure that the Arts Council has a good understanding of what the mandatory regulatory requirements are and maintain good dialogue with key regulators about our approach to simplifying our processes.
Ensuring that we respond appropriately to the financial and economic pressures on the sector.	Regular ongoing monitoring of the financial health of the sector via a funded organisation survey and the use of other intelligence.

Management of operational risks

Regions, areas and head office departments identify operational risks as part of their annual planning process, including risks identified through investment decisions. Programme and project risks are identified as part of the planning process and the control actions identified will be part of the project, programme or activity implementation plan. They are monitored and reported locally at regular management team meetings.

Where an operational risk becomes a significant or major risk that could affect the whole organisation or becomes so severe that it could impact upon delivery of our strategy, the risk is 'escalated' for consideration as a strategic risk by Management Committee.

1	Review
2	Highlighted information
3	Grant-in-Aid accounts
4	Lottery distribution accounts
5	National Lottery report

Trustees' report and management commentary
Independent auditor's report
Statement of financial activities
Balance sheet
Cash flow statement
Notes to the Grant-in-Aid accounts

Trustees' report and management commentary

Internal audit

The annual programme of internal audit work is carried out by an external firm of accountants to standards defined in the Government Internal Audit Standards. The work of internal audit is informed by the risk register, an assessment of the assurance requirements, particularly on the most significant risks facing Arts Council England, and the key day-to-day processes and systems in place. The annual internal audit plan is based on this analysis. It is endorsed by the Executive and approved by the Performance and Audit Committee. The internal auditors receive all Performance and Audit Committee papers and attend the audit part of all Performance and Audit Committee meetings. They provide periodic progress reports including the findings of follow-up reviews, building up to an annual report on internal audit activity. This annual report includes the internal auditors' opinion on the overall adequacy and effectiveness of the systems that internal audit have reviewed. The Performance and Audit Committee reviews and discusses the progress report and the annual assurance report. The internal and external auditors meet with the Performance and Audit Committee before every meeting with no officers present.

Internal audit services have been provided by Deloitte since April 2009.

Review of effectiveness of internal control

The Accounting Officer and Chair of Council, as the representatives of the trustees, have responsibility for reviewing the effectiveness of the system of internal control. This review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within Arts Council England 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. National Council and the Performance and Audit Committee have advised on the implications of the result of our review of the effectiveness of the system of internal control. A plan to address weaknesses and ensure continuous improvement of the system is in place.

Assessment of the effectiveness of internal control during 2012/13

Progress in achieving objectives set in the strategic corporate plan is monitored by the Executive Board and National Council.

Throughout 2012/13 we monitored our strategic, operational and project risks in accordance with our risk management policy. We also continued to revise and refine our risk management policies and procedures.

For 2012/13 internal auditors reported that they were satisfied that sufficient internal audit work has been undertaken to allow them to provide a conclusion of 'adequate and effective assurance' on the design, adequacy and effectiveness of the system of internal control. They arrived at this conclusion having reviewed the following processes:

- National Portfolio Organisation review phase II
- Managing funding allocations
- Cultural property unit key compliance review
- The Space project review
- HR cross-cutting review
- Use of contractors
- Arena systems development
- New National Lottery programmes phase II
- General computer controls
- Music Education Hubs
- Organisation review
- Regional visits – south west, south east, and north west regional offices
- Financial management
- Contract management
- Follow-up on previous years' recommendations

Where weaknesses have been identified during the course of internal audit's work, the findings and the action that management have taken to address key weaknesses are reported to the Performance and Audit Committee.

No significant issues have come to light during the year.

The effectiveness of National Council

In May 2012 the Arts Council commissioned David Norgrove to carry out a review of the Arts Council's non-executive governance structure: our national and regional councils. He was asked to consider:

- The knowledge and expertise needed on, and the size of, the Arts Council's non-executive board (National Council)
- The role of the Arts Council's regional councils
- How best to handle possible conflicts of interest faced by members of National Council and regional councils

He reported his findings to National Council in November 2012, where National Council agreed to accept them in principle. Over the period of November 2012–March 2013 the Arts Council has been in discussions with relevant stakeholders including the Secretary of State for Culture, Media and Sport, regional council members and representatives of local government, about how best to implement those recommendations. In March 2013 the Arts Council agreed its response to David Norgrove's recommendations. The key changes to the non-executive governance structure are that:

- The number of members on National Council will be reduced from 17 to 14
- Five area councils will replace nine regional councils
- Arts investment and arts policy committees will be abolished with the business previously dealt with by these committees being discussed and decided by Council
- National Council will meet more often, 10 times a year
- Following a skills audit, six members of National Council will be retiring in 2013 and four new members with expertise in museums, fundraising, digital media and education will be recruited.

These changes are being phased in from 1 April 2013.

Highlights of National Council and its committee reports in 2012/13

During 2012/13, National Council and its committees considered key strategic issues including:

- The Arts Council's new operating model
- The effectiveness of its governance arrangements and how to improve them including amendments to its Royal Charter
- Making the case to government for continued public investment in arts and culture
- Its response to the Chancellor's autumn statement and its approach to the next spending review
- A review of the Arts Council's priorities
- A risk review of its funded organisations
- The management of the Arts Council's collections
- A review of its approach to investing in opera and ballet
- The future of The Space, an innovative digital arts service delivered in partnership with the BBC
- The approach to its new responsibilities for libraries and Music Education Hubs

A number of significant investment decisions were made by National Council or its committees including:

- Capital grants of around £67 million to 13 organisations under the Arts Council's large scale Capital programme
- £171 million to 123 Music Education Hubs for the period 2012–15
- £15 million grant for a Creative Employment Programme in 2012–15

Members of National Council also received and discussed updates on:

- The progress being made on the Arts Council's goals and priorities
- The latest research on stakeholder perceptions of the Arts Council
- The Arts Council's resource position
- Internal audit findings

More detailed summary reports from the Performance and Audit Committees are set out below.

Performance and Audit Committee

Performance and Audit Committee undertook a self-evaluation of its effectiveness in March 2013. The general conclusion was that the committee was effective particularly on the audit side. It had members with appropriate skills. It had met at regular intervals and was quorate at each meeting. The Chief Executive and Accounting Officer, Alan Davey, very much valued its support and advice.

However, the committee's role was broader than that of a traditional audit committee, and there were concerns that the committee's broader role in relation to performance management was not sufficiently defined. It was agreed that this would be addressed as a priority in 2013/14. Also the frequency of committee meetings – four times a year – while appropriate for the business of the committee, made it difficult for the independent members of the committee to keep up to date with the Arts Council's work. Measures to address this will be explored in 2013/14.

- 1 Review
- 2 Highlighted information
- 3 **Grant-in-Aid accounts**
- 4 Lottery distribution accounts
- 5 National Lottery report

Trustees' report and management commentary

Independent auditor's report
Statement of financial activities
Balance sheet
Cash flow statement
Notes to the Grant-in-Aid accounts

Trustees' report and management commentary

National Council's self-assessment of effectiveness

The Chair of National Council holds appraisal meetings with all council members once every two years. Dame Liz Forgan held one-to-one meetings with each member of National Council in 2011/12. Sir Peter Bazalgette intends to continue this practice.

Attendance at National Council meetings

The Arts Council's National Council had five formal business meetings in 2012/13. The details of individual members' attendance at those meetings is set out below.

Name	29 May 2012	27 June 2012	13 November 2012	15 January 2013	26 March 2013
Dame Liz Forgan	●	●	●	●	n/a
Sir Peter Bazalgette	n/a	n/a	n/a	n/a	●
Janet Barnes	●	●	●	●	n/a
Caroline Collier	●	●	●	●	●
Jon Cook	X	●	●	X	●
Lee Corner	n/a	n/a	n/a	n/a	●
Joe Docherty	●	●	●	●	●
Ekow Eshun	X	●	X	●	X
Sheila Healy	●	●	●	●	●
Sir Nicholas Kenyon	●	●	●	X	●
Keith Khan	●	X	X	X	●
François Matarasso	●	X	●	●	●
Peter Phillips	●	●	●	●	●
Alice Rawsthorn	●	●	●	●	●
Anil Ruia	●	X	●	X	●
Alistair Spalding	●	●	●	●	●
Rosemary Squire OBE	●	●	●	X	●
Veronica Wadley	●	●	●	●	●

● Present at meeting

Grants to locally governed organisations

All grants awarded by the Arts Council are subject to funding agreements with clearly laid out terms and conditions. We satisfy ourselves that relevant conditions are met before payment is made.

Statement of compliance with corporate governance code and departures

The Arts Council is a non-departmental public body and a charity but it is fully compliant with relevant principles set out in *Corporate governance in central government departments: Code of good practice 2011* in 2012/13. It has an effective National Council which provides leadership for the Arts Council's work. Members of National Council are appointed by the Secretary of State for Culture, Media and Sport who seeks to ensure that National Council has an appropriate range of skills and experience. The responsibilities of National Council members are set out in a code of practice. There is a policy on conflicts of interest for staff and members of national and regional councils which is regularly reviewed and explained to new council members and staff. National Council has arrangements in place to discharge its duties effectively and there are effective arrangements for governance, risk management and internal control.

Matters of interest

Changes to our organisational structure during 2012/13

There were no significant changes to the organisation's structure during 2012/13. However, during the year a formal consultation process was carried out internally on proposals to make a major change to the structure of our organisation and reduction in employee headcount. This is in response to the Government's 2010 spending review which required a reduction in our Grant-in-Aid administration costs equivalent to 50 per cent by 2014/15. The decrease in funding is phased over the current settlement period with the most significant cuts in 2013/14 and 2014/15. We cannot look at Grant-in-Aid administration separate to Lottery administration because our staff work across the two funding streams; therefore we are taking the opportunity to review our whole operation.

The objectives of the review are to:

- Reduce our administration costs to the level agreed with DCMS
- Explore and implement all opportunities to improve our organisational performance and efficiency

- Meet the expectations and needs of all our stakeholders
- Preserve our vision and values – to achieve our 10-year strategy and vision for the arts and culture, as defined in *Achieving great art for everyone* and *Culture, knowledge and understanding: great museums and libraries for everyone*
- Put in place an Arts Council that is 'future fit'

It is planned that the new structure will be implemented from 1 July 2013. Work towards this goal was undertaken throughout 2012/13 and will continue until the beginning of 2013/14.

Our approach to human resources

In 2012, the organisation launched a new four-year people and culture strategy to support the strategic aims of the Arts Council identified in *Achieving great art for everyone* and to continue the journey to an improved organisational culture, which began at the time of the last major organisation review in 2009/10. This strategy identifies four interconnected pillars which mirror internally the Arts Council's aspirations for arts and cultural organisations and artists: collaboration; leadership; talent and resilience; and adaptability. We believe that it is important to develop the talent and leadership capability of our own people and to promote effective collaboration, resilience and adaptability to enhance our own organisation's capability to deliver, especially at this time of reducing resources.

As a measure of how successful this strategy has been, we were delighted to be awarded Silver Level Investors in People recognition in 2012, placing the Arts Council within the top 3 per cent of recognised organisations. The assessor praised the improvements in leadership capability, the understanding of staff at all levels about how their performance against objectives contributed to the Arts Council's overall mission and goals, and the strong commitment to our values and levels of investment in high quality internal talent development.

Internally, there continues to be arrangements to promote effective communication, involvement and consultation with staff. Executive Board, Management Committee and National Council decisions are disseminated through local team briefings, our intranet and regularly emailed updates from the Chief Executive, Chief Operating Officer and others, supplemented from time to time by organisation-wide, region-wide and departmental meetings. Employee 'pulse' surveys, sampling staff opinion on the organisation review process and other significant issues for the Arts Council, take place at regular intervals throughout the

1	Review
2	Highlighted information
3	Grant-in-Aid accounts
4	Lottery distribution accounts
5	National Lottery report

Trustees' report and management commentary
Independent auditor's report
Statement of financial activities
Balance sheet
Cash flow statement
Notes to the Grant-in-Aid accounts

Trustees' report and management commentary

year, with the findings and action to address any concerns discussed at senior management level. Voluntary staff turnover and sickness absence rates, which are indicators of organisational 'health', remain low, at 12.3 per cent per cent and 1.7 per cent respectively in 2012/13 (compared to 7.2 per cent and 1.4 per cent respectively in 2011/12). Another positive indicator is the low level of formal employee relations cases during the year, running at 0.9 per cent of the total headcount in 2012/13 (2011/12: 1.5 per cent). Formal appeals by staff in relation to the organisation review process were lodged by 3.6 per cent of affected staff.

More formally, Arts Council England recognises the trade unions Unite and Prospect (for former Museums, libraries and archives (MLA) staff) for consultation and collective bargaining, with well-established consultative arrangements. The National Joint Consultative and Negotiating Committee (NJCNC) handles negotiations about employee reward and benefits, employment terms and policies together with consultation on restructuring proposals for the whole organisation. The NJCNC is supported by Local Joint Consultative and Negotiating Committees currently in each of the nine workplaces.

In terms of representation levels of some diverse groups within the workforce, the proportion of our current staff who classify themselves as lesbian, gay, bisexual or transgender is at 8.5 per cent (2011/12: 9 per cent) and the proportion of disabled staff is 3.9 per cent (2011/12: 3.7 per cent), the proportion of our staff who classify themselves as Black, Asian or other minority ethnic is 13.0 per cent (2011/12: 11.6 per cent). These figures will be kept under review and efforts made to ensure we maintain a diverse workforce through recruitment over the coming year. We were pleased to note that this year we were placed 93rd in the Stonewall Equality Index of employers committed to promoting equality for lesbian, gay, bisexual and transgender employees.

Objectives and activities for the public benefit

The Royal Charter is at the core of our mission. This mission, *Achieving great art for everyone*, represents what Arts Council England is for, and reflects why John Maynard Keynes set up the Arts Council in 1946, 'to give courage, confidence and opportunity to artists and their audiences'.

Information about our 10-year strategic framework and the accompanying Culture our goals and priorities and our activities to achieve these, and our funding programmes can be found on pages 16 to 29.

Equality and diversity

The Arts Council's work this year has focused on providing our funded organisations with greater support in developing their diversity and equality plans and on how to integrate the Creative Case approach within them. Producing these plans is part of the funding agreement requirements placed on all National Portfolio Organisations.

It serves two purposes:

- It is part of the way in which we meets our public sector duty requirements under the Equality Act 2010 – we pass on some of these duties to our National Portfolio Organisations to achieve on our behalf
- It is how we are able to assess how our National Portfolio Organisations engage with the our wider diversity and equality agenda, in the context of our 10-year strategic framework

The key driver of this work is not the production of the plans themselves – they are but a process – but rather how to bring about major change in the arts and culture sectors through greater involvement, engagement, participation and inclusion of more diverse artists, audiences and communities. There is a clearer understanding that the Arts Council is the facilitator for change, for example through our investment decisions, and the arts and cultural community are the actual change makers themselves.

Subsidiary undertakings

Artco Trading Limited, 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. In 2012/13 it continued to run the Arts Council's two interest free credit schemes, Own Art and Take it Away, for the purchase of works of art and musical instruments respectively. During the year it introduced a new scheme, Creative Industry Finance, for a pilot period of 12 months within London and then Yorkshire and the Humber. This scheme provides loans of up to £25,000 to creative industry small and medium enterprises to enable business growth and to support talent development.

Grant-in-Aid funding of £1,285,000 (2011/12: £725,000) for these three schemes goes directly to Artco Trading Limited from DCMS. As at 31 March 2013, there are four Arts Council employees on the Artco Trading Limited board. In addition the board is currently chaired by the Executive Director, Arts. The activities undertaken by Artco were transferred to an independent community interest company from 1 May 2013. The Arts Council will retain the company Artco Trading Limited. As far as the Chief Executive is

aware, there is no relevant audit information of which the National Audit Office is unaware.

Ministerial directions

There were no ministerial directions issued during 2012/13 which affected Arts Council England.

Better Payment Practice Code

We attempt to abide by the Better Payment Practice Code, and in particular pay bills in accordance with our contracts. Invoices are normally settled within our suppliers' standard terms, usually 30 days. In 2012/13, 90 per cent of undisputed Grant-in-Aid invoices were paid within 30 days (2011/12: 94 per cent).

Public sector information

On 1 April 2009 Arts Council England became a provider of official statistics under the extended scope of the Statistics and Registration Act 2008. This means that when the Arts Council produces, manages and disseminates official statistics we strive to abide by the *Code of Practice for Official Statistics* published by the UK Statistics Authority in January 2009.

The code sets out a number of important principles and practices to ensure that the official statistics meet the needs of government and society and are both trustworthy and trusted.

Data security and personal data

There have been no incidents of lapse of data security or loss of personal data during the year.

Principal advisers

Banker

Co-operative Bank
78–80 Corn Hill
London
EC3V 3NJ

Auditor

Comptroller and Auditor General
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Administrators, actuaries and investment advisers to the Arts Council Retirement Plan

Hyman Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Solicitors

A number of specialised solicitors have been appointed to our external solicitor pool.

1	Review
2	Highlighted information
3	Grant-in-Aid accounts
4	Lottery distribution accounts
5	National Lottery report

Trustees' report and management commentary
Independent auditor's report
Statement of financial activities
Balance sheet
Cash flow statement
Notes to the Grant-in-Aid accounts

Trustees' report and management commentary

Financial review

Arts Council England receives Grant-in-Aid from the Department for Culture, Media and Sport (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).

DCMS provided Grant-in-Aid of £469 million for the year (2011/12: £394 million). This included £12 million capital funds to allocate as grants, £2.3 million relating to the costs of redundancy due to the major organisational review and £54 million to support the implementation of the recommendations in the Henley reviews of music and cultural education. In addition we received £5 million of grants and donations for specific strategic projects from a number of organisations (2011/12: £6 million) detailed in note 3 of these accounts.

During the year we awarded grants to our National Portfolio Organisations of £310 million (2011/12: £325 million). In addition we spent £81 million (2011/12: £59 million) through grants and direct expenditure on strategic initiatives and £62 million on restricted activities.

The statement of financial activities funded from Grant-in-Aid shows net incoming resources for the year of £0.8 million (2011/12: net incoming resources for the year of £0.6 million) on unrestricted funds after exceptional items. This surplus is mainly due to a grant lapsing too late in the year to be used, the balancing of capital expenditure within the National Portfolio Organisation grant and the repayment of loans.

Consequently, at 31 March 2013, Arts Council England had unrestricted reserves of £7.1 million (2011/12: £3.2 million) together with £1.7 million restricted reserves. Our policy on reserves has been to ensure that we hold sufficient funds to maintain liquidity, to cover unforeseen short-term cash requirements and to cover planned future expenditure. We review this policy and our reserves position annually. However, our use of reserves is restricted by the government's budgetary controls, which has meant that we would require DCMS approval to use our reserves if it is necessary to do so.

In October 2010, following the spending review, DCMS announced that our funding for the financial years 2011/12, 2012/13, 2013/14 and 2014/15 would be £387.7 million, £359.2 million, £351.6 million and £349.4 million respectively. Over this period the resource element of the budget allocation is split for the first time into programme and administration sub totals. The administration element in

the years 2011/12, 2012/13, 2013/14 and 2014/15 will be £22.6 million, £21.6 million, £16.6 million and £12.2 million respectively. The savings in administration are being made mainly through reduced staff and property costs as a result of the implementation of a major organisational review.

Our funding for 2012/13, 2013/14 and 2014/15 has been increased to include the museums and libraries funding by £46.4 million, £45.8 million and £45.8 million respectively for the Renaissance programme and core costs. Of these amounts £2.5 million in each year has been designated as administration.

We took on the responsibility for funding the Tyne and Wear archives and museums from DCMS from 1 April 2012 which increased our funding by £1.9 million in 2012/13, 2013/14 and 2014/15.

Our programme funding in 2013/14 and 2014/15 was reduced in the 2012 autumn statement and 2013 budget. The total reduction for 2013/14 is £8 million and for 2014/15 is £12 million.

Full details in relation to financial instruments are given in note 25 to the Grant-in-Aid accounts.

Fees paid to the National Audit Office for Grant-in-Aid audit services during 2012/13 were £64,000 (2011/12: £65,500).

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 2012/13 and 2011/12 financial years.

	20012/13 £000s	2011/12 £000s
Income		
Grant-in-Aid income	469,227	393,602
Share of the National Lottery Distribution Fund (NLDF)	270,153	210,500
Investment returns on the Distribution Fund	1,445	1,515
Other income	5,600	7,742
Total income	746,425	613,359
Expenditure		
Net Grant-in-Aid grant commitments	438,072	368,872
Other Grant-in-Aid arts expenditure	7,111	6,398
Net Lottery grant commitments	297,222	178,943
Contribution to Olympic Lottery Distribution Fund	14,101	30,276
Support costs	36,321	39,990
Total expenditure	792,827	624,479
Exceptional items		
Cost of fundamental reorganisation	(9,810)	0
Net (outgoing)/incoming resources	(56,212)	(11,120)
Profit on revaluation of fixed assets and loss on disposal of heritage assets	9,477	6,572
Gain/(loss) on revaluation of NLDF balance	0	2,362
	9,477	8,934
Net movement in funds	(46,735)	(2,186)
Consolidated reserves brought forward	141,723	143,909
Consolidated reserves carried forward	94,988	141,723

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 Lottery distribution accounts by £15.6 million in 2012/13 (2011/12: decrease of £19.5 million).

1	Review	Trustees' report and management commentary
2	Highlighted information	Independent auditor's report
3	Grant-in-Aid accounts	Statement of financial activities
4	Lottery distribution accounts	Balance sheet
5	National Lottery report	Cash flow statement
		Notes to the Grant-in-Aid accounts

Trustees' report and management commentary

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 is required to 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, for keeping of proper records, and for safeguarding the Arts Council England's assets, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by HM Treasury.

Alan Davey
Chief Executive
28 June 2013

Sir Peter Bazalgette
Chair
28 June 2013

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

Independent Auditor's report to the trustees of Arts Council England

I have audited the financial statements of Arts Council England for the year ended 31 March 2013. The financial statements comprise: the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Trustees, Chief Executive and auditor

As explained more fully in the Statement of Trustees' and Chief Executive's Responsibilities, the Trustees and Chief Executive, as Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with relevant legal and regulatory requirements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to Arts Council England's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustees and Chief Executive; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Review and Highlighted Information to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

In my opinion, in all material respects the expenditure and

income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Arts Council England's affairs as at 31 March 2013 and of its incoming resources and application of resources for the year then ended; and
- the financial statements have been properly prepared in accordance with the direction made by the Secretary of State under the Royal Charter.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the directions made by the Secretary of State under the Royal Charter; and
- the information given in the Trustees' Report and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- The Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

10 July 2013

1 Review	Trustees' report and management commentary
2 Highlighted information	Independent auditor's report
3 Grant-in-Aid accounts	Statement of financial activities
4 Lottery distribution accounts	Balance sheet
5 National Lottery report	Cash flow statement
	Notes to the Grant-in-Aid accounts

Statement of financial activities for the year ended 31 March 2013

	Note	Unrestricted funds £000s	Restricted funds £000s	Total 2012/13 £000s	Total 2011/12 £000s
Incoming resources					
Incoming resources from generated funds					
Voluntary income	2	397,746	71,481	469,227	393,602
Investment income	2	70	0	70	54
Incoming resources from charitable activities	3	184	4,502	4,686	6,329
Total incoming resources		398,000	75,983	473,983	399,985
Resources expended					
Charitable activities	4	390,370	75,977	466,347	398,435
Governance costs	4	740	0	740	762
Total resources expended		391,110	75,977	467,087	399,197
Net incoming/(outgoing) resources before exceptional items		6,890	6	6,896	788
Exceptional items					
Cost of fundamental reorganisation	26	(6,083)	0	(6,083)	0
Net incoming/(outgoing) resources after exceptional items		807	6	813	788
Net incoming/(outgoing) resources for the year	8	807	6	813	788
Loss on disposal of heritage fixed assets	9	0	0	0	(40)
Gain on revaluation of tangible fixed assets	9	8,975	502	9,477	6,612
Net movement in funds		9,782	508	10,290	7,360
Balance brought forward at 1 April		117,103	5,299	122,402	115,042
Balance carried forward at 31 March 2013		126,885	5,807	132,692	122,402

The notes on pages 67 to 90 form part of these accounts

Balance sheet as at 31 March 2013

	Note	Unrestricted funds £000s	Restricted funds £000s	Total 31 March 2013 £000s	Total 31 March 2012 £000s
Heritage assets					
Works of art	9	114,378	4,181	118,559	108,684
Fixed assets					
Tangible assets	9	5,148	0	5,148	8,599
Current assets					
Debtors	11	1,050	461	1,511	3,881
Due from Arts Council lottery accounts		5,168	0	5,168	418
Grants paid in advance	12	518	4	522	0
Cash at bank and in hand	23	19,623	2,312	21,935	18,344
		26,359	2,777	29,136	22,643
Creditors: amounts falling due within one year					
Grants outstanding		6,841	158	6,999	10,795
Creditors	13	7,629	993	8,622	3,521
Provisions for liabilities and charges	14	4,530	0	4,530	3,208
		19,000	1,151	20,151	17,524
Net current assets					
		7,359	1,626	8,985	5,119
Total assets less current liabilities					
		126,885	5,807	132,692	122,402
Represented by income funds					
Unrestricted fund	20	7,033	0	7,033	3,139
Restricted fund		0	1,675	1,675	1,704
Represented by capital funds					
Designated fund	20	114,704	0	114,704	105,365
Donated asset reserve		0	4,132	4,132	3,595
Capital reserve		5,148	0	5,148	8,599
		126,885	5,807	132,692	122,402

The notes on pages 67 to 90 form part of these accounts

Alan Davey
Chief Executive
28 June 2013

Sir Peter Bazalgette
Chair
28 June 2013

1 Review	Trustees' report and management commentary
2 Highlighted information	Independent auditor's report
3 Grant-in-Aid accounts	Statement of financial activities
4 Lottery distribution accounts	Balance sheet
5 National Lottery report	Cash flow statement
	Notes to the Grant-in-Aid accounts

Cash flow statement for the year ended 31 March 2013

	Note	2012/13 £000s	2011/12 £000s
Operating activities			
Funds received from the Department for Culture, Media and Sport		469,227	393,627
Other cash receipts		7,059	5,446
Grants paid to arts organisations and other bodies		(442,390)	(369,991)
Cash paid to and on behalf of employees		(25,475)	(23,428)
Other cash payments		(3,787)	(2,278)
Net cash inflow from operating activities		4,634	3,376
Interest received on short-term cash deposits		70	54
Net cash inflow from returns on investments		70	54
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,113)	(1,239)
Sale of tangible fixed assets		0	0
Net cash (outflow) from capital expenditure		(1,113)	(1,239)
Increase in cash	21/22/23	3,591	2,191

The notes on pages 67 to 90 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 Statement of Recommended Practice (SORP) issued by the Charity Commission in 2005.

The accounts are prepared on a going concern basis and 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 2012/13, 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 every five years 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 management commentary on page 61.

We have a fully owned subsidiary company, Artco Trading Limited, as detailed in note 27 to the accounts. We do not consider that this company is material enough to require us to produce separate consolidated accounts, therefore the Grant-in-Aid accounts include this subsidiary company's assets and liabilities.

b) Incoming resources

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 to which it relates. All other income is accounted for on a receivable basis.

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 15 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 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 National Council and external and internal audit.

d) Depreciation and fixed assets

Tangible fixed assets excluding heritage 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
- Fixtures and fittings: five years
- Motor vehicles: five years

A full year's depreciation is provided in the year of an asset's

1	Review	Trustees' report and management commentary
2	Highlighted information	Independent auditor's report
3	Grant-in-Aid accounts	Statement of financial activities
4	Lottery distribution accounts	Balance sheet
5	National Lottery report	Cash flow statement
		Notes to the Grant-in-Aid accounts

Notes to the Grant-in-Aid accounts

acquisition, and none in the year of its disposal. Software costs are written off in full in the year of acquisition. All individual assets valued greater than £2,000 are capitalised, except our freehold interests in the Southbank Centre and National Theatre as described in notes 18 and 19 of these accounts.

Heritage assets

The Arts Council has three collections of heritage assets which are held in furtherance of our mission to champion, develop and invest in artistic experiences that enrich people's lives. The collections are accounted for as follows:

Works of art

Our works of art collection is revalued at market value on a rolling basis, with the highest value items revalued at least once every five years. The collection is treated as a non-operational heritage asset and is not held for the purpose of re-sale. Any surplus or deficit on revaluation is reported in the statement of financial activities. The items in the collection are deemed to have indeterminate lives, so the trustees do not consider it appropriate to charge depreciation. Additions to the collection are made by purchase or donation. Purchases are initially recorded at cost and donations are recorded at current value ascertained by the curator with reference to current knowledge of prices, the market and the advice of other experts where necessary.

Poetry collection and film collection

The trustees do not consider that reliable cost or valuation information can be obtained for the poetry collection and film collection. This is because of the diverse nature of assets held and the lack of comparable market values. The Arts Council therefore does not recognise these assets in the balance sheet.

e) Leases

Costs in respect of operating leases are charged to the statement of financial activities on a straight line basis over the life of the lease.

f) Taxation

Arts Council England, as a registered charity (1036733), is considered to pass the tests set out in paragraph 1 schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable trust for UK income tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by part 10 Income Tax Act 2007 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. No tax charge has arisen in the year.

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.

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 apportioned costs on a combination of the number and value of payments made as a proxy for estimating the amount of staff time spent on each activity.

i) Change in accounting policy

There has been no change in accounting policy in the period.

j) Financial instruments

We have adopted FRS 25, 26 and 29 on financial instruments.

2 Voluntary and investment income

Unrestricted funds £000s	Restricted funds £000s	Total 2012/13 £000s	Total 2011/12 £000s
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Voluntary income

Cash Grant-in-Aid voted by Parliament and paid in full

Core funding – revenue	397,746	0	397,746	381,679
Ringfenced funds	0	71,481	71,481	11,923

Grant-in-Aid as shown in the statement of financial activities	397,746	71,481	469,227	393,602
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Investment income relates to interest received on an interest bearing deposit account

3 Incoming resources from charitable activities

Unrestricted funds £000s	Restricted funds £000s	Total 2012/13 £000s	Total 2011/12 £000s
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Grants, sponsorship and donations received

Local authorities	4	45	49	17
Non-government bodies	12	2,925	2,937	3,998
Other central government bodies	15	446	461	1,960
Public corporations	1	100	101	0
Other grants, sponsorship and donations	28	977	1,005	121
Sundry	124	9	133	233

Net incoming resources for the year	184	4,502	4,686	6,329
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*Grants, sponsorship and donations are analysed as follows:***Non-government bodies**

Henry Moore Foundation	0	5	5	0
Legacy Trust UK	12	2,890	2,902	3,938
Screen South	0	0	0	60
The Art Fund	0	30	30	0

Other central government bodies

Advantage West Midlands	0	(10)	(10)	236
Department for Culture, Media and Sport	0	337	337	700
Department of Communities and Local Government	0	(1)	(1)	255
East Midlands Development Agency	0	0	0	11
London Organising Committee of the Olympic Games	0	56	56	670
Museums, Libraries and Archives Council	6	64	70	53
Other	9	0	9	35

Public corporations

The British Council	1	100	101	0
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Other grants, sponsorship and donations	28	977	1,005	121
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	56	4,448	4,504	6,079
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1 Review	Trustees' report and management commentary
2 Highlighted information	Independent auditor's report
3 Grant-in-Aid accounts	Statement of financial activities
4 Lottery distribution accounts	Balance sheet
5 National Lottery report	Cash flow statement
	Notes to the Grant-in-Aid accounts

Notes to the Grant-in-Aid accounts

4a Charitable activities

	Activities undertaken directly £000s	Grant funding of activities £000s	Net support costs £000s	Total 2012/13 £000s	Total 2011/12 £000s
National Portfolio Organisations	0	310,371	7,649	318,020	333,883
Grants for the Arts	0	10	0	10	0
Strategic development, communications and advocacy	4,975	67,625	11,392	83,992	58,775
Other	2,136	62,300	2,123	66,559	7,551
Lapsed and revoked commitments	0	(2,234)	0	(2,234)	(1,774)
	7,111	438,072	21,164	466,347	398,435

National Portfolio Organisations are those organisations of strategic importance with which the Arts Council has long term, multi-year funding agreements.

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.

Other funds are those specific projects delivered through funds provided by partners as detailed in note 3. In 2012/13 they include the sum of £50,052,000 towards Music Education Hubs.

4b Analysis of grant funding by office

	National Portfolio Organisations £000s	Other £000s	Total 2012/13 £000s	Total 2011/12 £000s
East	11,984	0	11,984	11,761
East Midlands	9,744	834	10,578	11,467
London	155,243	7,685	162,928	175,005
North East	14,838	434	15,272	14,521
North West	22,933	765	23,698	24,781
South East	13,865	0	13,865	13,780
South West	14,560	350	14,910	16,160
West Midlands	40,790	275	41,065	46,118
Yorkshire	26,414	1,155	27,569	28,008
National	0	113,175	113,175	28,745
East and South East Area	0	2,144	2,144	50
Midlands and South West Area	0	1,746	1,746	0
North Area	0	1,372	1,372	250
	310,371	129,935	440,306	370,646

4c Analysis of grants by recipient

	Grants to institutions £000s	Grants to individuals £000s	Total 2012/13 £000s	Total 2011/12 £000s
National Portfolio Organisations	310,371	0	310,371	324,592
Grants for the Arts	0	10	10	0
Strategic funding and activity	67,394	233	67,627	46,054
Other restricted funds	62,125	173	62,298	0
	439,890	416	440,306	370,646

4d Analysis of support costs

	Unrestricted £000s	Less recharge to lottery £000s	Total 2012/13 £000s	Total 2011/12 £000s
Staff costs	20,328	(7,342)	12,986	13,409
Agency staff costs	574	(240)	334	365
Depreciation	1,939	(699)	1,240	1,220
Travelling, subsistence and entertainment	1,453	(524)	929	958
Rent and rates	2,854	(1,028)	1,826	2,470
Professional fees	697	(259)	438	729
Office and sundry	3,502	(1,319)	2,183	3,417
Irrecoverable Value Added Tax	1,920	(692)	1,228	597
	33,267	(12,103)	21,164	23,165
Corporate governance costs			740	762
			21,904	23,927

1 Review	Trustees' report and management commentary
2 Highlighted information	Independent auditor's report
3 Grant-in-Aid accounts	Statement of financial activities
4 Lottery distribution accounts	Balance sheet
5 National Lottery report	Cash flow statement
	Notes to the Grant-in-Aid accounts

Notes to the Grant-in-Aid accounts

4e Analysis of support costs by area of expenditure

	Unrestricted £000s	Less recharge to lottery £000s	Total 2012/13 £000s	Total 2011/12 £000s
Direct support costs to front line delivery				
Advocacy and communications	2,067	(736)	1,331	1,230
Arts strategy and research	1,863	(663)	1,200	989
Investment and information management	1,595	(568)	1,027	1,052
Museums and libraries	2,150	(766)	1,384	887
Regional delivery	12,741	(4,536)	8,205	8,238
	20,416	(7,269)	13,147	12,396
Management and administration				
Finance	810	(288)	522	1,170
Human resources	1,717	(611)	1,106	1,428
IT	3,600	(1,281)	2,319	2,512
Property, procurement and legal services	4,020	(1,431)	2,589	3,075
Other costs including management costs	2,704	(1,223)	1,481	2,584
	12,851	(4,834)	8,017	10,769
Total support costs	33,267	(12,103)	21,164	23,165

Costs are allocated between programmes based on an activity analysis completed by each office detailing the estimated time spent by all staff on each of the programmes funded from Grant-in-Aid. This includes analysis of time spent on corporate governance activities where relevant. The proportion of support costs chargeable to the Lottery accounts is based on the proportion of payments made for Lottery funded programmes. Corporate governance costs are defined as those costs which relate to the general running of the Arts Council rather than direct management functions, providing the governance infrastructure allowing the Arts Council through National Council to operate.

5a Staff costs

Staff costs comprise:	2012/13 £000s Total	2011/12 £000s Total
Salaries and wages	19,748	18,428
Employer's National Insurance	1,542	1,463
Employer's pension contributions	3,263	3,528
Agency staff	922	869
	25,475	24,288

Included within salaries and wages are amounts recharged to the Lottery accounts of £7,342,000 and redundancy costs which fell due during the year of £1,578,000 (2011/12: £199,000). These costs arose following the closure of programmes and other contractual payments falling due for those leaving the organisation. Salaries and wages include an amount of £2,000 (2011/12: £107,000) as compensation paid to a member of staff to relinquish their contracted right to a lease car. Staff costs also include £2,119,000 (2011/12: £1,548,000) for staff involved in direct delivery of programmes. They are included in activities undertaken directly in note 4.

The average number of full-time equivalent employees during the year was made up as follows:

	Permanent Staff	Agency Staff	2012/13	2011/12
Direct delivery of programmes	39	7	46	38
Support and corporate governance	462	23	485	472
	501	30	531	510

5b Emoluments by bands

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

Emoluments for the year	2012/13	2011/12
£60,000–£69,999	17	9
£70,000–£79,999	11	5
£80,000–£89,999	1	2
£90,000–£99,999	1	0
£100,000–£109,999	0	0
£110,000–£119,999	2	0
	32	16

Of these employees in 2012/13, 11 received redundancy payments and 29 employees were in a final salary pension scheme for which the employers' contributions during the year amounted to £363,625.

5c Compensation schemes – exit packages

Exit package cost band 2012/13	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
< £9,999	13	0	13
£10,000–£24,999	6	0	6
£25,000–£49,999	10	0	10
£50,000–£99,999	3	0	3
Total number of exit packages by type	32	0	32
Total resource cost £000	696	0	696
Exit package cost band 2011/12			
< £9,999	7	0	7
£10,000–£24,999	3	0	3
£25,000–£49,999	2	0	2
Total number of exit packages by type	12	0	12
Total resource cost £000	166	0	166

1	Review	Trustees' report and management commentary
2	Highlighted information	Independent auditor's report
3	Grant-in-Aid accounts	Statement of financial activities
4	Lottery distribution accounts	Balance sheet
5	National Lottery report	Cash flow statement
		Notes to the Grant-in-Aid accounts

Notes to the Grant-in-Aid accounts

Redundancy and other departure costs have been paid in accordance with the provisions of the Arts Council's job security policy. The Arts Council pays exit costs when employment ends but provides for exit costs at the point when there is sufficiently detailed information to do so. Where early retirements have taken place, the additional pension costs are met by the Arts Council and not by the pension scheme providers.

6 Council members' expenses

It is part of Council members' duties to assess artistic work. The cost of their tickets for attendance at performance and events is met by the Arts Council. In 2012/13, the total cost of tickets purchased for this purpose was £2,647 (2011/12: £3,185). 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 8.

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. Other employers contributing to the scheme are the Arts Council of Wales, Creative Scotland, the Crafts Council and Creativity, Culture and Education. It is a multi-employer scheme and we are unable to identify separately our share of the underlying assets and liabilities as it is not a sectionalised scheme and so gains and losses are not allocated between the different participating employers. 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 2012 was £84.8 million.

An actuarial valuation of the pension fund takes place at least every three years. At the last valuation on 31 March 2010 the actuarial value of the assets using the projected unit method was sufficient to cover 74 per cent of the value accrued to members, with a deficit of £25,800,000. As a result, and on the advice of the actuary, we are now paying employer's contributions of 24.1 per cent of pensionable salary for employees who were transferred

from the Museums, Libraries and Archives Council and 20.7 per cent of pensionable salary for all other employee members.

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

Consumer price inflation rate	3.3%
Long term rate of pay increases	4.8%
Short term rate of pay increases	3.3%
Rate of pension increases	3.3%

Amounts due to the fund at 31 March 2013 were £nil (31 March 2012: £nil).

West Yorkshire Pension Fund

We are an admitted member of the West Yorkshire Pension Fund. Providing pensions to over 200,000 members in 266 mainly local government organisations, 26 Arts Council staff participated in this scheme at 31 March 2013. 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 2013 was £9.85 billion.

An actuarial valuation of the pension fund takes place every three years. At the last valuation on 31 March 2010, the actuarial value of the assets using the projected unit method was sufficient to cover 93 per cent of the value accrued to members. During 2011/12 employer contributions were set at 22.4 per cent of pay plus monetary contributions equal to £5,400 and 22.4 per cent of pay plus monetary contributions equal to £5,700 in 2012/13.

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

Rate of inflation Retail Prices Index	3.8%
Rate of inflation Consumer Prices Index	3.3%
Rate of pay increases	5.3%
Rate of pension increases	3.3%

Amounts due to the fund at 31 March 2013 were £nil (31 March 2012: £nil).

8 Net incoming resources for the year

2012/13	2011/12
£000s	£000s

Net incoming resources of £813,023 (2011/12 net incoming resources: £788,000) are stated after charging:

a. Auditors' remuneration	64	66
b. Operating leases	3,011	3,250
c. Council members' travel, subsistence and hospitality for the 18 serving members during the year	28	31
d. Insurance: trustees' and senior officers' indemnity	10	14
e. Depreciation	4,166	1,955

9 Heritage assets and tangible fixed assets

	Buildings and leasehold improvements £000s	Equipment, fixtures and fittings £000s	Heritage assets: works of art £000s	Total £000s
Costs at 1 April 2012	15,426	5,117	108,684	129,227
Additions	398	318	397	1,113
Revaluations	0	0	9,477	9,477
Less: disposals	0	(56)	0	(56)
Cost at 31 March 2013	15,824	5,379	118,558	139,761
Depreciation at 1 April 2012	7,795	4,149	0	11,944
Less: depreciation on disposals	0	(56)	0	(56)
Revaluations	0	0	0	0
Provided for 2012/13	3,678	488	0	4,166
Depreciation at 31 March 2013	11,473	4,581	0	16,054
Net book value at 31 March 2013	4,351	798	118,558	123,707
Net book value at 31 March 2012	7,631	968	108,684	117,283

	31 March 2013 £000s	31 March 2012 £000s
Freehold	764	782
Short leasehold improvements	3,587	6,849
	4,351	7,631

1	Review	Trustees' report and management commentary
2	Highlighted information	Independent auditor's report
3	Grant-in-Aid accounts	Statement of financial activities
4	Lottery distribution accounts	Balance sheet
5	National Lottery report	Cash flow statement
		Notes to the Grant-in-Aid accounts

Notes to the Grant-in-Aid accounts

9a Heritage assets

The Arts Council holds a works of art, film and poetry collection. The art and poetry collections are managed by the Southbank Centre on our behalf and the film collection is managed in-house. We are required to make specific disclosures in relation to these assets and these follow separately for each collection.

Works of art collection

The works of art collection has been built up since 1946 and consisted of 7,645 items at 31 March 2013. The purpose of the collection is to broaden the appreciation and public awareness of contemporary British art and to encourage good practice relating to painting, sculpture, photography, drawing, printmaking, mixed and new media, film and video. The collection is based in London and at Longside in Yorkshire (located at the Yorkshire Sculpture Park). The collection is managed on our behalf by the Southbank Centre through the Hayward Gallery.

Valuation

The collection has been valued by the curator of the collection at £118,559,000 at 31 March 2013 (31 March 2012: £108,684,000). Valuation of the collection is undertaken on a rolling programme using current knowledge of prices, the market and, where necessary, the curator seeks the advice of other experts. The policy is that works of exceptionally high value are revalued at least once every five years as are items that are on long term loan. All items are valued when loans are agreed as this provides the value for which the lender has to insure the item. A register of works is maintained by the Senior Curator of the Collection which is amended to reflect acquisitions and items removed from the register, such as pieces damaged beyond repair, throughout the year and records the year end valuation figure. The register supports the entries in the Arts Council's annual accounts and is provided to the auditors for review.

Acquisition and disposal policy

The collection purchases innovative work by artists living in Britain with a focus on the work of younger and emerging artists. Acquisitions are made through the Acquisitions Committee comprising six individuals who are the Head of the Arts Council Collection, Director of the Hayward Gallery, Senior Curator of the Arts Council Collection and Senior Strategy Officer, Visual Arts, Arts Council England, plus external advisers who are usually an artist, a writer and a curator. The external advisers to the committee are appointed for a fixed two year tenure. Artists make an application to have their work considered for acquisition. To be eligible artists must live in Britain, cannot be students

and have to be able to demonstrate their commitment over several years by providing information about the exhibitions of their work that have taken place and are planned. The acquisitions are funded from an allocation within the Arts Council England budget.

Any offers of gifts to the collection are brought to the attention of the Acquisitions Committee which decides on their suitability. Larger donations are considered by the chief executives of both Arts Council England and Hayward Gallery/Southbank Centre.

The procedure for the loss or destruction of works of art is implemented if an item is irretrievably lost or damaged beyond repair. This requires the Head of the Arts Council Collection to report details to the Director of the Hayward Gallery and Director, Visual Arts, of the Arts Council who then seeks approval from the Arts Council England Visual Arts Panel to write off the item. The write off in accounting records is implemented by the Director, Finance, of Arts Council England who takes into account any insurance claims. Funds claimed in this way are paid into the Arts Council Collection acquisition allocation and earmarked to replace the lost items depending on the advice of the current purchasers. If it is not possible to replace a work because the artist is deceased, there are no suitable replacements or equivalent works have become too expensive the funds are transferred into the acquisition fund.

Preservation

The condition of the works is checked on receipt, before going out on loan and on return from loan. Master condition files are maintained and kept at the Hayward Gallery and Longside (for sculpture) and copies of the latest version are made when loans go out. Normally required restoration is carried out at the Hayward Gallery or arranged by them. Any unfitting of frames or restoration carried out away from the Hayward Gallery must be authorised by the Head of the Collection to the Senior Curator. Artists are consulted and involved in restoration when possible and practical, otherwise qualified conservators are employed. Each year a number of original works on paper and photographs are restored as a matter of course. All restoration is reported annually to the Arts Council England Visual Arts Panel.

Collection management

The Head of the Arts Council Collection reports to the Director of the Hayward Gallery and is responsible to the Director, Visual Arts, at Arts Council England. Arts Council Collection staff salaries (London) are paid by the Southbank Centre from the grant from Arts Council England to the

Southbank Centre as part of the Hayward Gallery budget. A ring-fenced fund within the Southbank Centre and Arts Council England agreement covers the rental, staff and operational costs of the Longside Gallery.

Public access to the works of art is achieved through items being part of the extensive Hayward Gallery touring exhibitions and being loaned to other institutions and galleries both at home and abroad. Priority is given to national needs. An exciting project is underway to widen access by providing digital access to the collection. The project has been split into two parts and the first part consists of two phases. The first phase covers paintings and drawings and will be completed by the end of 2011. The second phase covering three dimensional sculpture and installations is which started in 2012. The second part is a digital editorial pilot which started in summer 2011 to develop a prototype on how the collection can be promoted online. A dedicated website, www.artscouncilcollection.org.uk, provides a range of information including where items from the collection are on exhibition and photographs of recent acquisitions with brief information about the artist and item.

The Arts Council works of art collection heritage assets are reported at valuation in the table below:

	2012/13 £000s	2011/12 £000s	2010/11 £000s	2009/10 £000s
Cost at 1 April	108,684	101,778	96,966	91,081
Additions	397	335	418	327
Donations	336	68	0	0
Revaluations	9,141	6,543	4,394	5,558
Less: impairment	0	(1)	0	0
Less: disposal	0	(39)	0	0
Cost at 31 March	118,558	108,684	101,778	96,966

Poetry collection

The poetry collection was started in 1953 and now consists of 100,000 items of 20th and 21st century poetry from 1912. The collection is held in a variety of formats: books, pamphlets, audio cassette, CD, video and DVD for reference and loan, magazines, press cuttings, photographs, posters and postcards for reference. The Poetry Library promotes the reading of poetry for people of all ages, cultures and backgrounds.

The aim is that the collection holds all poetry published since 1912 in the UK. The collection is housed at The Saison Poetry Library located at the Southbank Centre.

Valuation

A valuation of the poetry collection is not included on the balance sheet due to the difficulty in obtaining an accurate valuation. Advice has been sought from the current librarians of the collection and they have concurred with previous advice that there is no ready market in the materials held that would enable a meaningful valuation to be made. Furthermore the collection is made up of a large number of disparate items and would require, even if there was a reliable basis for a valuation, a significant input of resource which is not considered to be feasible. The amount spent on acquisitions during 2012/13 was £30,016 (2011/12: £35,000).

Acquisition and disposal policy

Acquisitions are made primarily through main UK publishers who are commissioned to provide copies of everything they publish each year. Small press special publishers and overseas publishers are selected based on the collection librarians' opinion of what is of interest in the UK after considering reviews. Some publishers provide copies free of charge because they value the uniqueness of the collection. Identified rare items are also purchased if they become available. The librarians have to manage the acquisitions within the annual budget allocation. Two copies of each book and audio title are purchased, one for reference and one for loan. More copies are acquired of popular volumes.

The collection receives donations mainly of books.

Items that are identified as no longer popular or are damaged beyond repair are donated to charity.

Preservation

Items in the collection are cared for by a conservator who is working through the books in the collection and carrying out repairs as necessary. These include restoring covers and ripped pages. A rare book room has been set up at the library in which humidity and temperature is controlled to British Standards (BS). The digitisation of the magazines means that the originals are able to be stored to protect their condition.

Collection management

The collection is managed by the Southbank Centre on behalf of Arts Council England. Day to day management is the responsibility of the collection librarians. The librarians report to the General Manager, Learning and Participation, of the Southbank Centre. Arts Council Collection staff salaries are paid by the Southbank Centre from the grant from Arts Council England to the Southbank Centre.

1 Review	Trustees' report and management commentary
2 Highlighted information	Independent auditor's report
3 Grant-in-Aid accounts	Statement of financial activities
4 Lottery distribution accounts	Balance sheet
5 National Lottery report	Cash flow statement
	Notes to the Grant-in-Aid accounts

Notes to the Grant-in-Aid accounts

Access

The Poetry Library operates as a lending library so the collection is available to those members of the public (adults, children and groups) who take up membership of the library. Membership is free and is open to anyone who lives in the UK and presents official ID and proof of address. Members are able to borrow up to four items for four weeks and are able to renew loans up to three times providing no one else has reserved the items. The Poetry Library is part of the national inter-lending service, so the loan collection is available via the public library network. There is a postal loan service for members with sight problems.

The library has a dedicated website, www.poetrylibrary.org.uk, which explains the purpose of the Poetry Library, how items can be accessed and a full catalogue. This website includes a link to a further website that takes readers to the online archive of poetry magazines.

Film collection

The film collection has been built up over the period between 1953 and 1998. It consists of 450 documentary films made by either Arts Council England commissioning or participating in their production. The films record all aspects of mainly contemporary British art. The subject matter, lengths and formats of the films are as varied as they are eclectic. Moreover, because of the Arts Council's liberal attitude to sponsorship and the creative freedom their commissions offered, they also attracted the best film-makers in the UK. The collection is a unique partnership between the Arts Council, artists and film-makers. The films' subject matter provides a key resource for any historical study of both British and international art, and also many aspects of British documentary film-making.

Restored digital copies of all the films in the collection are stored at the National Film and TV Archive of the British Film Institute.

Valuation

A valuation of the film collection is not included on the balance sheet due to the difficulty in obtaining an accurate valuation. A market for films of the type in the collection does not exist to provide a guide to the value. The collection earned £6,672 from royalty payments during 2012/13 (2011/12: £17,000), an immaterial sum. The value of the collection is in its use as a source of historical information.

Acquisition and disposal policy

An acquisition policy does not exist as the collection has not been added to since the closure of the Arts Council's

film department in 1998. No films have been disposed of during the existence of the collection.

Preservation

The master copies of the films and associated production paperwork are held by the Arts Council in specialist storage facilities which have a professional climate controlled environment. Digitised copies are held by the National Film Archives at the British Film Institute.

Collection management

The film collection is managed directly by the Arts Council.

Access

The collection has been digitised and access is available through a company who manages loans on behalf of Arts Council England and online to further and higher education colleges through the University of Westminster. Details of how to obtain access to the collection are available on the following two websites: www.concordmedia.co.uk; and <http://artsonfilm.wmin.ac.uk/filmcollection.html>

10 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. As a proxy for this, we use the proportion of Grant-in-Aid and Lottery payments during the year as the basis of the apportionment.

11 Debtors	31 March 2013 £000s	31 March 2012 £000s
Trade debtors	55	1,345
Other debtors	68	279
Prepayments and accrued income	1,388	2,257
	1,511	3,881

12 Grants paid in advance

The Arts Council permits organisations to draw down cash from a future year's funding agreement to cover short term cash flow problems. Advances of £521,000 were made in 2012/13 (2011/12: £nil).

13 Creditors: amounts falling due within one year

	31 March 2013 £000s	31 March 2012 £000s
Trade creditors	381	536
DCMS creditor	2,026	0
Other creditors including taxes and social security	145	184
Accruals and deferred income	6,070	2,801
	8,622	3,521

14 Provisions for liabilities and charges

	Redundancies £000s	Organisational reviews £000s	Property £000s	Dilapid- ations £000s	VAT £000s	Tax £000s	Legal £000s	Employment £000s	Total £000s
At 1 April 2012	605	49	436	743	165	681	16	513	3,208
Arising during the year	0	233	2,580	915	0	0	0	53	3,781
Used during the year	(502)	(15)	(309)	(180)	(121)	(40)	(13)	(220)	(1,400)
Reversed unused	(103)	(34)	(8)	(406)	(44)	(274)	(3)	(188)	(1,060)
At 31 March 2013	0	233	2,699	1,072	0	367	0	158	4,529

Expected timing of cash flows

In the year to 31 March 2014	0	233	1,911	907	0	367	0	158	3,576
Between 1 April 2014 and 31 March 2018	0	0	788	165	0	0	0	0	953
Later than five years	0	0	0	0	0	0	0	0	0

As at 31 March 2013

Current	0	233	1,911	907	0	367	0	158	3,576
Non-current	0	0	788	165	0	0	0	0	953

Description of provisions

- a) Redundancies** Redundancies for staff on fixed term contracts which expired in the period to 31 March 2013
- b) Organisational reviews** Redundancies decided in 2012/13 as part of organisational review which will take effect during 2013/14. These will occur after 30 June 2013 and are therefore not funded by DCMS
- c) Property** Provision for building works and lease exit costs
- d) Dilapidations** Provision for dilapidations of premises where it is planned to vacate during 2013/14 and 2014/15
- e) VAT** The VAT liability arose from the secondment of staff in the period 2006/07 to 2009/10. This has now been settled with HMRC
- f) Tax** Provision for payroll taxes on expenses and benefits identified by an internal review

1 Review	Trustees' report and management commentary
2 Highlighted information	Independent auditor's report
3 Grant-in-Aid accounts	Statement of financial activities
4 Lottery distribution accounts	Balance sheet
5 National Lottery report	Cash flow statement
	Notes to the Grant-in-Aid accounts

Notes to the Grant-in-Aid accounts

g) Legal Provision for legal costs relating to judicial review for activities in 2011/12 now paid

h) Employment This is an allowance for the cost of contractual sabbaticals that have been agreed with staff which are required to be completed by 30 June 2013 and compensation payments due to reduced pension benefit to be made to ARTCO staff transferring to Creative Sector Services

15 Grant offers	31 March 2013 £000s	31 March 2012 £000s
Forward funding:		
2012/13	n/a	341,666
2013/14	433,492	340,588
2014/15	421,861	348,697
	855,353	1,030,951

The Arts Council has entered into three year funding agreements with National Portfolio Organisations, Major Partner Museums and Music Education Hubs which commenced in 2012/13. Commitments are recognised for each year with the funding agreements making clear that continued funding is dependent on the organisation continuing to deliver its agreed programme of activity. Forward funding at 31 March 2013 mainly represents allocations for National Portfolio Organisations, Major Partner Museums and Music Education Hubs.

16 Leases

At 31 March 2013 the Arts Council had annual commitments under non-cancellable operating leases as set out below.

	Land & buildings 31 March 2013 £000s	Land & buildings 31 March 2012 £000s
Operating leases which expire:		
within one year	692	0
within two and five years inclusive	682	1,601
over five years	422	928
	1,796	2,529

17 Capital commitments

There were contracted capital commitments at 31 March 2013 of £593,000 (31 March 2012: £62,000). This represents amounts committed against changes, repairs and refurbishment of Arts Council offices.

18 Southbank 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 Southbank 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.

19 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.

20 Reconciliation of movements in funds

	At 1 April 2012 £000s	Income £000s	Expenditure £000s	Transfers £000s	At 31 March 2013 £000s
Income funds					
Unrestricted funds	2,252	398,000	(393,742)	(364)	6,146
Revaluation reserve	887	0	0	0	887
Restricted funds					
Other restricted funds	1,704	75,983	(75,977)	(35)	1,675
Capital funds					
Designated funds	5,190	0	0	364	5,554
Donated asset reserve	3,595	502	0	35	4,132
Capital reserve	8,599	0	(3,451)	0	5,148
Revaluation reserve	100,175	8,975	0	0	109,150
	122,402	483,460	(473,170)	0	132,692

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. Use of these funds in subsequent years is restricted by the government's budgetary controls.
- b) Revaluation reserve** This relates to the unrealised surplus on revalued freehold properties.

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.

Capital funds

- a) Designated funds** This fund relates to capital expenditure on works of art allocated from the unrestricted fund. The transfer figure of £364,000 relates to additions to the collection purchased during the year from unrestricted funds.
- b) Donated asset reserve** This fund relates mainly to donations received by the Arts Council for obtaining works of art for our collection.
- c) Capital reserve** The capital reserve represents the balance of tangible assets.
- d) Revaluation reserve** We show our works of art 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.

1 Review	Trustees' report and management commentary
2 Highlighted information	Independent auditor's report
3 Grant-in-Aid accounts	Statement of financial activities
4 Lottery distribution accounts	Balance sheet
5 National Lottery report	Cash flow statement
	Notes to the Grant-in-Aid accounts

Notes to the Grant-in-Aid accounts

21 Cash flow reconciliation

Reconciliation of operating surplus to net cash inflow from operating activities	2012/13 £000s	2011/12 £000s
Operating surplus	10,290	7,360
Interest receivable	(70)	(54)
Depreciation charges	4,166	1,955
Loss on disposal of fixed assets	0	170
Revaluation of fixed assets	(9,477)	(6,612)
(Increase)/decrease in debtors and prepayments	(2,378)	751
(Increase)/decrease in grants paid in advance	(522)	436
(Decrease) in grants outstanding	(3,796)	(1,555)
Increase/(decrease) in creditors	5,100	(53)
Increase in provisions	1,320	978
Net cash inflow from operating activities	4,634	3,376

22 Reconciliation of net cash flow to movement in funds

	2012/13 £000s	2011/12 £000s
Increase in cash in the year	3,591	2,191
Funds at 1 April	18,344	16,153
Funds at 31 March	21,935	18,344

23 Analysis of net cash

	1 April 2012 £000s	Cash flow £000s	31 March 2013 £000s
Cash	18,344	3,591	21,935

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. The declared interests in grant recipients for the year ended 31 March 2013 are detailed below. Payments made to these grant recipients during the course of the year are not disclosed here; please refer to the related parties note in previous years' annual reviews for information.

Grant for the year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Organisation	Council member	Relationship
18,476	0	English National Opera	Sir Peter Bazalgette	Former board member
977	0	Bristol Old Vic and Theatre Royal Trust	Dame Liz Forgan	Board member
49	5	The British Museum		Board member
1,108	0	York Museums Trust	Janet Barnes	Chief Executive
288	19	Contemporary Art Society	Caroline Collier	Former board member
360	11	Tate Gallery		Employee
128	0	British Centre for Literary Translation	Professor Jon Cook	Employee of the University of East Anglia and former line manager for director of BCLT
425	30	Writers' Centre Norwich		Former board member and partner is former employee
130	13	University of Durham/ Oriental Museum	Joe Docherty	Board member and Chair of Finance and General Purposes Committee
50	0	The Otolith Group	Ekow Eshun	Family member is employee
8	3	Greater London Authority		Board member of 'fourth plinth' commissioning group
778	29	London Organising Committee of the Olympic Games and Paralympic Games		Member of the Public Realm Commissioning Advisory Panel
40	4	London School of Economics & Political Science		Governor
199	3	University of Arts London		Schools governor
900	0	Institute of Contemporary Arts		Former employee
19	3	Cornwall County Council	Sheila Healy	Former Chief Executive
282	0	Kneehigh Theatre Trust		Board member
320	11	Shropshire Council		Former Interim Chief Executive
360	11	Tate Gallery St Ives		Member of Advisory Council
591	0	Artichoke Trust	Sir Nicholas Kenyon	Partner is board member
725	0	Barbican Centre		Managing Director
195	0	Cheek By Jowl Theatre Company		Resident company at the Barbican Centre
18,476	0	English National Opera		Former board member
778	29	London Organising Committee of the Olympic Games and Paralympic Games		Cultural Olympiad Board Member

1	Review	Trustees' report and management commentary
2	Highlighted information	Independent auditor's report
3	Grant-in-Aid accounts	Statement of financial activities
4	Lottery distribution accounts	Balance sheet
5	National Lottery report	Cash flow statement
		Notes to the Grant-in-Aid accounts

Notes to the Grant-in-Aid accounts

Grant for the year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Organisation	Council member	Relationship
2,409	0	London Symphony Orchestra	Sir Nicholas Kenyon (continued)	Resident company at the Barbican Centre
159	0	Modern Masterpieces		Resident company at the Barbican Centre
4,196	0	North Music Trust		Board member
786	28	Serious Events		Resident company at the Barbican Centre
60	38	British Broadcasting Corporation/ BBC Symphony Orchestra		Resident company at the Barbican Centre
34	3	The British Library		Trustee of Saga Trust
778	29	London Organising Committee of the Olympic Games and Paralympic Games	Keith Khan	Former Head of Culture
53	0	City Arts (Nottingham)	François Matarasso	Partner is a former board member
140	0	Multistory		Artist
1,199	1	Birmingham Opera Company	Peter Phillips	Board member
4,809	0	Welsh National Opera		Former board member
164	0	Chisenhale Gallery	Alice Rawsthorn	Chair
159	0	Modern Masterpieces		Trustee
1,511	0	Whitechapel Art Gallery		Trustee
2,442	0	Halle Concerts Society	Anil Ruia	Corporate member
500	11	Manchester International Festival		Corporate sponsor
40	10	University of Manchester/ Whitworth Art Gallery		Governor
391	0	Dance Consortium	Alistair Spalding	Director
950	5	Pioneer Theatres		Co-producing an Olympic project with Sadler's Wells
2,902	3	Sadler's Wells Trust		Chief Executive
344	0	Wayne McGregor/Random Dance		Sadler's Wells resident company
350	0	Dance Umbrella	Rosemary Squire OBE	Director
502	0	Donmar Warehouse Projects		Landlord and partner is landlord
2,598	30	English Stage Company		Son is trainee producer
1,780	53	Rambert Dance Company		Partner is Chair
206	3	The Hall for Cornwall Trust		Director

Grant for the year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Organisation	Council member	Relationship
23 8	22 3	Arts & Business Greater London Authority	Veronica Wadley	Former advisory board member Member of Music Education Steering Group, Senior Advisor to the Mayor for Team London, Volunteering, Charities and Sponsorship and Trustee of Mayor of London's fund for young musicians
2,262	0	Northern Ballet		Board member

Contract for year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Organisation	Council member	Relationship
81	60	Department for Culture, Media & Sport	Sir Peter Bazalgette	Former board member
81	60	Department for Culture, Media & Sport	Dame Liz Forgan	Former board member
66	0	Greater London Authority	Ekow Eshun	Chair of 'fourth plinth' commissioning group
81	60	Department for Culture, Media & Sport	Sheila Healy	Former board member for MLA national review of libraries
0	91	Shropshire Council		Former Chief Executive
0	10	BBC/BBC Symphony Orchestra	Sir Nicholas Kenyon	Resident company at the Barbican Centre
0	3	North Music Trust		Board member
66	0	Greater London Authority	Veronica Wadley	Member of Music Education Steering Group, Senior Advisor to the Mayor for Team London, Volunteering, Charities and Sponsorship and Trustee of Mayor of London's fund for young musicians

1	Review	Trustees' report and management commentary
2	Highlighted information	Independent auditor's report
3	Grant-in-Aid accounts	Statement of financial activities
4	Lottery distribution accounts	Balance sheet
5	National Lottery report	Cash flow statement
		Notes to the Grant-in-Aid accounts

Notes to the Grant-in-Aid accounts

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. The interests in grant recipients declared for the year ended 31 March 2013 are detailed below. Payments made to these grant recipients during 2012/13 are not disclosed here; please refer to the related parties note in previous years' annual reviews for information.

Grant for the year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Organisation	Executive Director/ Senior Manager	Relationship
1,032	47	Nottingham City Council	Brian Ashley	Former employee
100	0	November Club	Nicholas Baumfield	Former board member
40	0	The Literacy Consultancy	Antonia Byatt	Family member is employee
425	30	Writers' Centre Norwich		Family member is board member
695	0	Liverpool Biennial of Contemporary Arts	Alison Clark-Jenkins	Personal relationship
276	0	Havering Theatre Trust	Neil Darlison	Family member is employee
1,072	0	Northampton Theatres Trust		Former board member
17,043	15	Royal National Theatre		Lodges with employee
786	28	Serious Events		Executive producer for BT River of Music
391	0	The University of Warwick/ Warwick Arts Centre		Former employee
206	0	Lincoln Arts Trust	Simon Fitch	Family member is trustee
200	0	North Kesteven District Council		Family member is employee
234	0	Engage	Michelle Freeman	Former council member
360	11	Tate Gallery/Tate Liverpool		Former employee
25	0	Imperial War Museum	Scott Furlong	Partner is employee
880	0	Almeida Theatre	Anupam Ganguli	Former board member
164	0	Chisenhale Gallery		Former board member
0	1	Runnymede Trust		Board member
106	0	Theatre Bristol	Phil Gibby	Partner is employee
60	15	Tobacco Factory Arts Trust		Former trustee
4,809	0	Welsh National Opera		Former employee
101	0	Wiltshire Music Centre Trust		Former trustee
185	30	The British Council	Savannah Henley	Former employee
360	11	Tate Gallery	Peter Heslip	Former employee

Grant for the year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Organisation	Executive Director/ Senior Manager	Relationship
282	0	Kneehigh Theatre Trust	Mark Hollander	Former secondment to organisation
2,272	20	Royal Liverpool Philharmonic Society		Close friend is employee
142	0	Tutti Fruitti Productions		Partner is employee
300	0	New Writing North	Matthew Jarrett	Partner is board member
100	0	November Club		Partner is board member
60	38	British Broadcasting Corporation	Simon Jutton	Partner is employee
632	0	ArtForms (Leeds)	Cluny Macpherson	Partner is employee
100	0	Chrysalis Arts Development	Pete Massey	Close friend is employee
60	0	Create Arts Development		Former employee
70	0	Crescent Arts		Former board member
500	11	Manchester International Festival	Simon Mellor	Former employee
63	0	Burnley Youth Theatre	Anthony Preston	Family member is board member
150	0	Bedford Creative Arts	Mark Richards	Close friend is employee
8	3	Greater London Authority	Moira Sinclair	Member of Cultural Strategy Group
110	0	The Stables		Partner is employee
6	1	University of Lincoln		Board member
19,092	1	Southbank Centre (Hayward Gallery)	Rachel Smithies	Partner is employee
222	75	Audience Agency	John Sprackland	Partner is employee
20	0	Faber and Faber		Family member is employee
7	2	The National Football Museum	Hedley Swain	Board member
2,272	20	Royal Liverpool Philharmonic Society	Edward Thomas	Partner is employee
595	0	South East Dance	Mairead Turner	Former employee
0	12	Northcott Theatre Foundation	Pippa Warin	Former board member
12	6	Dorset County Council		Former chair of the Jurassic Coast Art strategy

1	Review	Trustees' report and management commentary
2	Highlighted information	Independent auditor's report
3	Grant-in-Aid accounts	Statement of financial activities
4	Lottery distribution accounts	Balance sheet
5	National Lottery report	Cash flow statement
		Notes to the Grant-in-Aid accounts

Notes to the Grant-in-Aid accounts

Contract for year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Organisation	Executive Director/ Senior Manager	Relationship
0	2	Michael Pinchbeck	Sarah Bond	Close friend
0	6	Tom Fleming Creative Consultancy	Catherine Bunting	Associate and adviser/consultant
0	2	Imperial War Museum	Scott Furlong	Partner is employee
0	10	British Broadcasting Corporation	Simon Jutton	Partner is employee
81	60	Department for Culture, Media & Sport	Clare McGread	Former employee
66	0	Greater London Authority	Moira Sinclair	Member of Cultural Strategy Group

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 Arts Council England had the following balances outstanding with other government bodies:

	Creditor 31 March 2013 £000s	Debtor 31 March 2013 £000s
Balances with other central government bodies	2,313	62
Balances with local authorities	1,299	0
Balances with NHS Trusts	25	0
Balances with public corporations and trading funds	100	0

25 Financial instruments

FRS 29 requires disclosure of financial instruments "that are complex or play a significant medium to long-term role in the financial risk profile" of the Arts Council. As the cash requirements of the Arts Council are met largely through Grant-in-Aid received from the Department for Culture, Media and Sport (98.4 per cent), financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with the Arts Council's expected purchase and usages requirements, or the issue of grants (92.4 per cent). This means the Arts Council is exposed to little credit, liquidity or market risk.

a) Liquidity risk

The Arts Council has a funding agreement with the Department for Culture Media and Sport for the period from 1 April 2011 to 31 March 2015, renewable in line with the timetable set by Government for the next spending round. In the past year 1.1 per cent of funding was received from sources outside Government in terms of partnership and grant support, mostly in the form of restricted funds, and 0.01 per cent was generated from cash balances. This means that 98.9 per cent of funding is sourced through cash draw downs agreed monthly with the DCMS, based on the predicted need for the month ahead.

b) Interest rate risk

The cash balance of £21,935,000 at 31 March 2013 was held in instant access variable rate bank accounts which carried an average interest rate of 0.22 per cent below base rate. The Arts Council does not place money on deposit with any other bank, financial institution or investment product.

c) Foreign currency risk

Our exposure to foreign currency risk is not significant as less than 1 per cent of transactions by value are processed in currencies other than sterling.

d) Financial assets by category

	31 March 2013 £000s	31 March 2012 £000s
Trade debtors	55	1,345
Other debtors	68	279
Accrued income	437	1,311
Due from Arts Council Lottery accounts	5,168	418
Cash at bank and in hand	21,935	18,344
	27,663	21,697

e) Financial liabilities by category

	31 March 2013 £000s	31 March 2012 £000s
Grants outstanding	7,000	10,795
Trade creditors	381	536
Other creditors including taxes and social security	145	184
Accruals	6,070	2,557
	13,596	14,072

26 Exceptional items

The amount provided in 2012/13 relates to the anticipated costs of the organisation review to be implemented on 1 July 2013. This review has been undertaken in response to the requirement from the Secretary of State that we reduce our administration costs by 50 per cent by 2014/15 from a 2010/11 baseline. The majority of the Arts Council's support costs are shared across Grant-in-Aid and Lottery activities and therefore an appropriate proportion of the restructuring costs have been allocated to the Lottery accounts.

	2012/13 £000s	2011/12 £000s
Accelerated depreciation	1,407	0
Redundancy costs	2,509	0
Property costs	2,167	0
	6,083	0

1 Review	Trustees' report and management commentary
2 Highlighted information	Independent auditor's report
3 Grant-in-Aid accounts	Statement of financial activities
4 Lottery distribution accounts	Balance sheet
5 National Lottery report	Cash flow statement
	Notes to the Grant-in-Aid accounts

Notes to the Grant-in-Aid accounts

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, Take it Away, our musical instrument purchase scheme and, new in 2012/13, Creative Industry Finance. We have consolidated the following figures for this subsidiary into our accounts.

	2012/13 £000s	2011/12 £000s
Cash at bank and in hand	468	411
Other debtors	4	0
Current assets	472	411
Other creditors	53	50
Amounts due to Arts Council England	317	302
Current liabilities	370	352
Net assets	102	59
Reserves	102	59
Summary profit and loss		
Income		
Income from DCMS	1,285	725
Other income	56	40
	1,341	765
Expenditure		
Staff costs	270	297
Operating costs	1,028	484
	1,298	781
Surplus/(deficit) for year	43	(16)

28 Post balance sheet event

In accordance with the requirements of FRS 21 events after the balance sheet date, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Independent Auditor's report to the trustees of Arts Council England. The one post balance sheet event to report is the signing of the transfer of activities carried out by ArtCo to an independent community interest company on 1 May 2013.

29 Contingent liability

At 31 March 2013 there were a small number of potential employment tribunal cases which may give rise to a contingent liability. At the balance sheet date these cases were at a stage where the outcome was uncertain but none of the cases have the potential for large awards. As the outcomes were not known, the potential liability could not be measured reliably and was deemed not material enough to include as a provision.

Lottery distribution accounts

The giant hand-crocheted *Lionheart Project* toured the nation for Artists Taking the Lead



4

1	Review	Management commentary
2	Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3	Grant-in-Aid accounts	Statement of comprehensive net expenditure
4	Lottery distribution accounts	Statement of financial position
5	National Lottery report	Cash flow statement
		Notes on Lottery distribution accounts

Management commentary

Governance statement

Reference and administrative details of the charity

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

Scope of responsibilities

The current objects of the Arts Council as stated in its Royal Charter are to:

- Develop and improve the knowledge, understanding and practice of the arts
- Increase accessibility of the arts to the public in England
- Advance the education of the public and to further any other charitable purpose which relates to the establishment, maintenance and operation of museums and libraries (which are either public or from which the public may benefit) or to the protection of cultural property
- Advise and co-operate, where it is appropriate to do so, with departments of our government, our Scottish administration, the Northern Ireland Executive and the Welsh ministers, local authorities, the arts councils and equivalent organisations in the museums and libraries sector for Scotland, Wales, and Northern Ireland (or their successors) and other bodies on any matter related to the objects.

The Governance framework

Arts Council England 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 a Management Agreement agreed with the Secretary of State. As a registered charity and a chartered body, Arts Council England is subject to a range of obligations and accountabilities set out in regulations and law. We prepare our accounts for Grant-in-Aid and Lottery separately to comply with accounts directions issued by the Secretary of State and Charity Commission regulations.

National Council is the non-executive board of Arts Council England. Council members, as charity trustees, retain overall responsibility for the work and conduct of the organisation. This includes responsibility for ensuring the achievement of Arts Council England's objectives, as set out in the Royal Charter. National Council's role and responsibilities are clearly outlined in Arts Council England's governance handbook. The handbook is routinely reviewed with the next review planned for 2013/14.

National Council consists of 17 members with a broad range of artform and culture experience and expertise³, nine of whom also chair a regional council. Members of our National Council are appointed by the Secretary of State for Culture, Media and Sport, except for the London regional council chair who is appointed by the Mayor of London. National Council members are usually appointed for four years, and may be reappointed for a further term of four years.

All members of National Council are required to act in accordance with the Code of Practice for National and Regional Council Members which is contained in the governance handbook. The code reflects the Nolan principles, which are also contained in the handbook, and both documents are brought to the clear attention of all members during their induction.

Sir Peter Bazalgette succeeded Dame Liz Forgan as Chair of the Arts Council on 1 February 2013.

³ There was one unfilled vacancy during 2012/13

The membership of National Council during 2012/13 is set out below.



	Name	Member	Appointment	End of appointment
1	Dame Liz Forgan	Chair of the Arts Council		31 January 2013
2	Sir Peter Bazalgette	Chair of the Arts Council	1 February 2013	
3	Janet Barnes	Member Yorkshire Regional Council Chair		31 January 2013
4	Caroline Collier	Member South East Regional Council Chair		
5	Jon Cook	Member East Regional Council Chair		
6	Lee Corner	Member Yorkshire Regional Council Chair	1 February 2013	
7	Joe Docherty	Member North East Regional Council Chair		
8	Ekow Eshun	Member		
9	Sheila Healy	Member South West Regional Council Chair		
10	Sir Nicholas Kenyon	Member		
11	Keith Khan	Member		
12	François Matarasso	Member East Midlands Regional Council Chair		
13	Peter Phillips	Member West Midlands Regional Council Chair		
14	Alice Rawsthorn	Member		
15	Anil Ruia	Member North West Regional Council Chair		
16	Alistair Spalding	Member		
17	Rosemary Squire OBE	Member		
18	Veronica Wadley	Member London Regional Council Chair		

1	Review	Management commentary
2	Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3	Grant-in-Aid accounts	Statement of comprehensive net expenditure
4	Lottery distribution accounts	Statement of financial position
5	National Lottery report	Cash flow statement
		Notes on Lottery distribution accounts

Management commentary

National Council has established and delegated responsibility to regional councils, committees, panels and other bodies. Details are set out below.

- Nine regional councils, one covering each English region, to assist it in developing, championing and investing in the arts and culture⁴
- Arts policy committee to advise it on policy for the arts, museums and libraries
- Arts investment committee to advise on its approach to investment and to make decisions on investments above a certain threshold
- Performance and Audit Committee to review and report on the systems of internal control and to undertake a performance review and scrutiny function on behalf of National Council
- Remuneration Committee to oversee the pay, performance and conditions of senior staff (a report from the Remuneration Committee is set out on pages 33 to 37)
- Museums Accreditation committee to decide on applications from museums for Accredited status and to oversee the museums Accreditation Scheme
- Museums, libraries and archives designation panel to oversee the Arts Council's Designation Scheme which identifies the pre-eminent collections of national and international importance held in England's non-national museums, libraries and archives, based on their quality and significance
- Acceptance in lieu panel to provide advice to ministers and to HM Revenue and Customs on the suitability of items offered in lieu of Inheritance Tax and under the cultural gifts scheme

Written terms of reference for the regional councils, and the committee and panels are set out in the Arts Council's governance handbook.

Following an independent review of its governance carried out in 2012 by David Norgrove, the Arts Council is in the process of making significant changes to its governance structure. It is reducing the number of members from 17 to 14. The nine regional councils are being replaced by five area councils. It has also decided to abolish its arts investment and arts policy committees, with the business

of these committees being undertaken by the full Council instead which will meet more frequently, about 10 times a year. These changes are being phased in from 1 April 2013. Further details are available from the Arts Council website at www.artscouncil.org.uk/advice-and-guidance/browse-advice-and-guidance/review-governance-arts-council-england

National Council has not established a nominations committee; instead decisions on appointing members to regional councils, committees and panels are made by National Council.

National Council has approved a scheme of financial delegations and authorities, which sets out the required level of approval or authorisation for financial commitments.

National Council has also delegated responsibilities for implementation and operational matters to the Chief Executive and Executive Board.

The Chief Executive has been authorised by National Council to undertake the day-to-day administration and management of the business and staff of the organisation. The Chief Executive is responsible to National Council for those matters. The Chief Executive, as the Accounting Officer, is responsible for the Arts Council's overall efficiency and effectiveness and has responsibility for reviewing the effectiveness of the system of internal control. This review is informed by the internal auditors, the Deputy Chief Executive, executive directors within the Arts Council and comments from the external auditors in their management letter and other reports. The Accounting Officer may, on occasion, be required to give evidence to Parliament's House of Commons Public Accounts Committee.

Written terms of reference and procedures for the Executive Board have been agreed by National Council. The National Council has approved the further delegation of operational responsibility to a Management Committee which is made up of a mix of Executive Board members and other senior managers. Management Committee is responsible for: organisation-wide financial management; taking an overview of HR issues; operational risk management; and a range of other operational decisions.

⁴ In April 2013 the Arts Council announced its intention to reduce the number of regional councils to five.

The membership of Executive Board during 2012/13 is set out below.



	Name	Job title
1	Alan Davey	Chief Executive
2	Elizabeth Bushell	Chief Finance Officer (from 21 January 2013)
3	Alison Cole	Executive Director, Advocacy and Communications (until end of April 2012) (on secondment to The Space during 2012/13)
4	Laura Dyer	Area Executive Director, Midlands and South West (Executive Director from 12 December 2012)
5	Lesley de Courcy	Director, Finance (from 10 November 2012 to 20 January 2013)
6	Althea Efunshile	Chief Operating Officer, Deputy Chief Executive from 12 December 2012
7	Anupam Ganguli	Executive Director, Resources (until 9 November 2012)
8	Paul Leather	Interim Executive Director, Advocacy and Communications (until 31 May 2012)
9	Sarah Maxfield	Interim Executive Director, North
10	Simon Mellor	Executive Director, Arts (Executive Director from 12 December 2012)
11	Mags Patten	Interim Executive Director, Advocacy and Communications (from 1 June 2012)
12	Moira Sinclair	Area Executive Director, London (Executive Director from 12 December 2012)
13	Andrea Stark	Area Executive Director, East and South East (on full-time sabbatical to High House Production Park from 1 January 2013)

1	Review	Management commentary
2	Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3	Grant-in-Aid accounts	Statement of comprehensive net expenditure
4	Lottery distribution accounts	Statement of financial position
5	National Lottery report	Cash flow statement
		Notes on Lottery distribution accounts

Management commentary

Alison Cole was seconded to The Space from 30 November 2011, remaining a member of Executive Board until the end of April 2012. Paul Leather and then Mags Patten were appointed to lead the Advocacy and Communications team in the interim. Anupam Ganguli left the Arts Council on 9 November 2012; his place on Executive Board was assumed by Lesley de Courcy until 20 January 2013 and Elizabeth Bushell thereafter.

Risk management

National Council ensures there are effective arrangements for internal control including risk management at Arts Council England.

The system of internal control is based on an ongoing process designed to identify and prioritise 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 yet economically. 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. National Council takes the view that the absolute mitigation of all risks would be undesirable. It believes that it is important that the Arts Council is innovative and can take managed risks in pursuit of its overarching goal of great art, museums and libraries for everyone.

The system of internal control has been in place in Arts Council England for the year ended 31 March 2013 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

System for managing risk

The Department for Culture, Media and Sport (DCMS) has designated the Chief Executive of Arts Council England as Accounting Officer, with clear responsibility and accountability for maintaining a sound system of internal control within the organisation.

Internal audit provides the Accounting Officer with an objective evaluation of, and opinion on, the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

Risk management forms part of the organisation's ongoing activity and is addressed as a matter of standard practice in its corporate programme and project plans. It continues to be a key element of how Arts Council England monitors its corporate policies and initiatives and is integrated into business planning across the organisation.

Arts Council England has in place a wide range of policies dealing with control issues for corporate governance, financial management (including fraud), project management, health and safety, training and development, information technology and risk management, all of which are reviewed and updated periodically as part of the organisation's business planning process.

During 2012/13, Arts Council England continued to manage risk at the strategic, operational, and individual project, programme and activity levels; and revise and update its risk management policies and procedures.

The Arts Council defines risk as an event or activity which affects the achievement of the Arts Council's objectives. Risks arise from threats to business activity and from the failure to realise opportunities. Our approach to managing risks differs slightly depending on whether the risk identified is strategic or operational.

Strategic risks

Strategic risks are defined as those that adversely affect the Arts Council's ability to achieve its strategy, *Achieving great art for everyone* and *Culture, knowledge and understanding: great museums and libraries for everyone*. They also often have an adverse effect on the reputation of the organisation externally.

Operational risks

Operational risks may not necessarily affect the Arts Council's ability to achieve its strategy. They are lower level risks that are particular to a region, area, head office department, activity, process, programme or project.

Management of strategic risks

An annual strategic risk workshop is held to identify and assess strategic risks and risks identified are then agreed by Executive Board and assigned to an Executive Board lead and risk owner or 'manager' who will manage mitigating actions and controls thereafter.

Progress on implementing relevant controls and mitigating actions is reported on a quarterly basis to Management Committee and Performance and Audit Committee. Risk is also a standing item at each one of the monthly Management Committee meetings. A quarterly headline report on risk management is provided to Executive Board, and an annual update is formally reported to National Council in the annual Performance and Audit Committee report.

A summary of the key strategic risks and the action that we took to mitigate them are set out in the table below.

Key strategic risks	Action/mitigation
The challenge of implementing the organisation review which entailed a 50 per cent reduction in Grant-in-Aid administrative expenditure.	Establishing an organisation review implementation board led by the Chief Executive with clear responsibility for overseeing the transition to the new operating model and ensuring the continuity of key services, and that the costs of the new model do not exceed available resources.
The possibility of further cuts in public spending, either at a local or national level, destabilising our ability to resource our 10-year strategy.	<p>Maintain rigorous and constant financial control and management of Grant-in-Aid and Lottery budgets throughout the year.</p> <p>Continue to build on existing good relations and stress the value of public investment in the arts and culture with government departments, local authorities, higher education institutions and local partnerships like local enterprise partnerships.</p> <p>Begin the 'modelling' for the next spending review early to avoid/lessen the impact of a possible 'clash' with the organisation review, and commence thinking/planning for the next investment process.</p>
The challenge of simplifying our business processes to meet the requirement that we reduce our expenditure on administration, while at the same time continuing to ensure that we comply with external regulatory requirements.	Ensure that the Arts Council has a good understanding of what the mandatory regulatory requirements are and maintain good dialogue with key regulators about our approach to simplifying our processes.
Ensuring that we respond appropriately to the financial and economic pressures on the sector.	Regular ongoing monitoring of the financial health of the sector via a funded organisation survey and the use of other intelligence.

Management of operational risks

Regions, areas and head office departments identify operational risks as part of their annual planning process, including risks identified through investment decisions. Programme and project risks are identified as part of the planning process and the control actions identified will be part of the project, programme or activity implementation plan. They are monitored and reported locally at regular management team meetings.

Where an operational risk becomes a significant or major risk that could affect the whole organisation or becomes so severe that it could impact upon delivery of our strategy, the risk is 'escalated' for consideration as a strategic risk by Management Committee.

1	Review	Management commentary
2	Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3	Grant-in-Aid accounts	Statement of comprehensive net expenditure
4	Lottery distribution accounts	Statement of financial position
5	National Lottery report	Cash flow statement
		Notes on Lottery distribution accounts

Management commentary

Internal audit

The annual programme of internal audit work is carried out by an external firm of accountants to standards defined in the Government Internal Audit Standards. The work of internal audit is informed by the risk register, an assessment of the assurance requirements, particularly on the most significant risks facing Arts Council England, and the key day-to-day processes and systems in place. The annual internal audit plan is based on this analysis. It is endorsed by the Executive and approved by the Performance and Audit Committee. The internal auditors receive all Performance and Audit Committee papers and attend the audit part of all Performance and Audit Committee meetings. They provide periodic progress reports including the findings of follow-up reviews, building up to an annual report on internal audit activity. This annual report includes the internal auditors' opinion on the overall adequacy and effectiveness of the systems that internal audit have reviewed. The Performance and Audit Committee reviews and discusses the progress report and the annual assurance report. The internal and external auditors meet with the Performance and Audit Committee before every meeting with no officers present.

Internal audit services have been provided by Deloitte since April 2009.

Review of effectiveness of internal control

The Accounting Officer and Chair of Council, as the representatives of the trustees, have responsibility for reviewing the effectiveness of the system of internal control. This review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within Arts Council England 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. National Council and the Performance and Audit Committee have advised on the implications of the result of our review of the effectiveness of the system of internal control. A plan to address weaknesses and ensure continuous improvement of the system is in place.

Assessment of the effectiveness of internal control during 2012/13

Progress in achieving objectives set in the strategic corporate plan is monitored by the Executive Board and National Council.

Throughout 2012/13 we monitored our strategic, operational and project risks in accordance with our risk management policy. We also continued to revise and refine our risk management policies and procedures.

For 2012/13 internal auditors reported that they were satisfied that sufficient internal audit work has been undertaken to allow them to provide a conclusion of 'adequate and effective assurance' on the design, adequacy and effectiveness of the system of internal control. They arrived at this conclusion having reviewed the following processes:

- National Portfolio Organisation review phase II
- Managing funding allocations
- Cultural property unit key compliance review
- The Space project review
- HR cross-cutting review
- Use of contractors
- Arena systems development
- New National Lottery programmes phase II
- General computer controls
- Music Education Hubs
- Organisation review
- Regional visits – south west, south east, and north west regional offices
- Financial management
- Contract management
- Follow-up on previous years' recommendations

Where weaknesses have been identified during the course of internal audit's work, the findings and the action that management have taken to address key weaknesses are reported to the Performance and Audit Committee.

No significant issues have come to light during the year.

The effectiveness of National Council

In May 2012 the Arts Council commissioned David Norgrove to carry out a review of the Arts Council's non-executive governance structure: our national and regional councils. He was asked to consider:

- The knowledge and expertise needed on, and the size of, the Arts Council's non-executive board (National Council)
- The role of the Arts Council's regional councils
- How best to handle possible conflicts of interest faced by members of National Council and regional councils

He reported his findings to National Council in November 2012, where National Council agreed to accept them in principle. Over the period of November 2012–March 2013 the Arts Council has been in discussions with relevant stakeholders including the Secretary of State for Culture, Media and Sport, regional council members and representatives of local government, about how best to implement those recommendations. In March 2013 the Arts Council agreed its response to David Norgrove's recommendations. The key changes to the non-executive governance structure are that:

- The number of members on National Council will be reduced from 17 to 14
- Five area councils will replace nine regional councils
- Arts investment and arts policy committees will be abolished with the business previously dealt with by these committees being discussed and decided by Council
- National Council will meet more often, 10 times a year
- Following a skills audit, six members of National Council will be retiring in 2013 and four new members with expertise in museums, fundraising, digital media and education will be recruited.

These changes are being phased in from 1 April 2013.

Highlights of National Council and its committee reports in 2012/13

During 2012/13, National Council and its committees considered key strategic issues including:

- The Arts Council's new operating model
- The effectiveness of its governance arrangements and how to improve them including amendments to its Royal Charter
- Making the case to government for continued public investment in arts and culture
- Its response to the Chancellor's autumn statement and its approach to the next spending review
- A review of the Arts Council's priorities
- A risk review of its funded organisations
- The management of the Arts Council's collections
- A review of its approach to investing in opera and ballet
- The future of The Space, an innovative digital arts service delivered in partnership with the BBC
- The approach to its new responsibilities for libraries and Music Education Hubs

A number of significant investment decisions were made by National Council or its committees including:

- Capital grants of around £67 million to 13 organisations under the Arts Council's large scale Capital programme
- £171 million to 123 Music Education Hubs for the period 2012–15
- £15 million grant for a Creative Employment Programme in 2012–15

Members of National Council also received and discussed updates on:

- The progress being made on the Arts Council's goals and priorities
- The latest research on stakeholder perceptions of the Arts Council
- The Arts Council's resource position
- Internal audit findings

More detailed summary reports from the Performance and Audit Committees are set out below.

Performance and Audit Committee

Performance and Audit Committee undertook a self-evaluation of its effectiveness in March 2013. The general conclusion was that the committee was effective particularly on the audit side. It had members with appropriate skills. It had met at regular intervals and was quorate at each meeting. The Chief Executive and Accounting Officer, Alan Davey, very much valued its support and advice.

However, the committee's role was broader than that of a traditional audit committee, and there were concerns that the committee's broader role in relation to performance management was not sufficiently defined. It was agreed that this would be addressed as a priority in 2013/14. Also the frequency of committee meetings – four times a year – while appropriate for the business of the committee, made it difficult for the independent members of the committee to keep up to date with the Arts Council's work. Measures to address this will be explored in 2013/14.

1 Review	Management commentary
2 Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3 Grant-in-Aid accounts	Statement of comprehensive net expenditure
4 Lottery distribution accounts	Statement of financial position
5 National Lottery report	Cash flow statement
	Notes on Lottery distribution accounts

Management commentary

National Council's self-assessment of effectiveness

The Chair of National Council holds appraisal meetings with all council members once every two years. Dame Liz Forgan held one-to-one meetings with each member of National Council in 2011/12. Sir Peter Bazalgette intends to continue this practice.

Attendance at National Council meetings

The Arts Council's National Council had five formal business meetings in 2012/13. The details of individual members' attendance at those meetings is set out below.

Name	29 May 2012	27 June 2012	13 November 2012	15 January 2013	26 March 2013
Dame Liz Forgan	●	●	●	●	n/a
Sir Peter Bazalgette	n/a	n/a	n/a	n/a	●
Janet Barnes	●	●	●	●	n/a
Caroline Collier	●	●	●	●	●
Jon Cook	X	●	●	X	●
Lee Corner	n/a	n/a	n/a	n/a	●
Joe Docherty	●	●	●	●	●
Ekow Eshun	X	●	X	●	X
Sheila Healy	●	●	●	●	●
Sir Nicholas Kenyon	●	●	●	X	●
Keith Khan	●	X	X	X	●
François Matarasso	●	X	●	●	●
Peter Phillips	●	●	●	●	●
Alice Rawsthorn	●	●	●	●	●
Anil Ruia	●	X	●	X	●
Alistair Spalding	●	●	●	●	●
Rosemary Squire OBE	●	●	●	X	●
Veronica Wadley	●	●	●	●	●

● Present at meeting

Grants to locally governed organisations

All grants awarded by the Arts Council are subject to funding agreements with clearly laid out terms and conditions. We satisfy ourselves that relevant conditions are met before payment is made.

Statement of compliance with corporate governance code and departures

The Arts Council is a non-departmental public body and a charity but it is fully compliant with relevant principles set out in *Corporate governance in central government departments: Code of good practice 2011* in 2012/13. It has an effective National Council which provides leadership for the Arts Council's work. Members of National Council are appointed by the Secretary of State for Culture, Media and Sport who seeks to ensure that National Council has an appropriate range of skills and experience. The responsibilities of National Council members are set out in a code of practice. There is a policy on conflicts of interest for staff and members of national and regional councils which is regularly reviewed and explained to new council members and staff. National Council has arrangements in place to discharge its duties effectively and there are effective arrangements for governance, risk management and internal control.

Matters of interest

Changes to our organisational structure during 2012/13

There were no significant changes to the organisation's structure during 2012/13. However, during the year a formal consultation process was carried out internally on proposals to make a major change to the structure of our organisation and reduction in employee headcount. This is in response to the Government's 2010 spending review which required a reduction in our Grant-in-Aid administration costs equivalent to 50 per cent by 2014/15. The decrease in funding is phased over the current settlement period with the most significant cuts in 2013/14 and 2014/15. We cannot look at Grant-in-Aid administration separate to Lottery administration because our staff work across the two funding streams; therefore we are taking the opportunity to review our whole operation.

The objectives of the review are to:

- Reduce our administration costs to the level agreed with DCMS
- Explore and implement all opportunities to improve our organisational performance and efficiency

- Meet the expectations and needs of all our stakeholders
- Preserve our vision and values – to achieve our 10-year strategy and vision for the arts and culture, as defined in *Achieving great art for everyone* and *Culture, knowledge and understanding: great museums and libraries for everyone*
- Put in place an Arts Council that is 'future fit'

It is planned that the new structure will be implemented from 1 July 2013. Work towards this goal was undertaken throughout 2012/13 and will continue until the beginning of 2013/14.

Our approach to human resources

In 2012, the organisation launched a new four-year people and culture strategy to support the strategic aims of the Arts Council identified in *Achieving great art for everyone* and to continue the journey to an improved organisational culture, which began at the time of the last major organisation review in 2009/10. This strategy identifies four interconnected pillars which mirror internally the Arts Council's aspirations for arts and cultural organisations and artists: collaboration; leadership; talent and resilience; and adaptability. We believe that it is important to develop the talent and leadership capability of our own people and to promote effective collaboration, resilience and adaptability to enhance our own organisation's capability to deliver, especially at this time of reducing resources.

As a measure of how successful this strategy has been, we were delighted to be awarded Silver Level Investors in People recognition in 2012, placing the Arts Council within the top 3 per cent of recognised organisations. The assessor praised the improvements in leadership capability, the understanding of staff at all levels about how their performance against objectives contributed to the Arts Council's overall mission and goals, and the strong commitment to our values and levels of investment in high quality internal talent development.

Internally, there continues to be arrangements to promote effective communication, involvement and consultation with staff. Executive Board, Management Committee and National Council decisions are disseminated through local team briefings, our intranet and regularly emailed updates from the Chief Executive, Chief Operating Officer and others, supplemented from time to time by organisation-wide, region-wide and departmental meetings. Employee 'pulse' surveys, sampling staff opinion on the organisation review process and other significant issues for the Arts Council, take place at regular intervals throughout the

1	Review	Management commentary
2	Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3	Grant-in-Aid accounts	Statement of comprehensive net expenditure
4	Lottery distribution accounts	Statement of financial position
5	National Lottery report	Cash flow statement
		Notes on Lottery distribution accounts

Management commentary

year, with the findings and action to address any concerns discussed at senior management level. Voluntary staff turnover and sickness absence rates, which are indicators of organisational 'health', remain low, at 12.3 per cent and 1.7 per cent respectively in 2012/13 (compared to 7.2 per cent and 1.4 per cent respectively in 2011/12). Another positive indicator is the low level of formal employee relations cases during the year, running at 0.9 per cent of the total headcount in 2012/13 (2011/12: 1.5 per cent). Formal appeals by staff in relation to the organisation review process were lodged by 3.6 per cent of affected staff.

More formally, Arts Council England recognises the trade unions Unite and Prospect (for former Museums, libraries and archives (MLA) staff) for consultation and collective bargaining, with well-established consultative arrangements. The National Joint Consultative and Negotiating Committee (NJCNC) handles negotiations about employee reward and benefits, employment terms and policies together with consultation on restructuring proposals for the whole organisation. The NJCNC is supported by Local Joint Consultative and Negotiating Committees currently in each of the nine workplaces.

In terms of representation levels of some diverse groups within the workforce, the proportion of our current staff who classify themselves as lesbian, gay, bisexual or transgender is at 8.5 per cent (2011/12: 9 per cent) and the proportion of disabled staff is 3.9 per cent (2011/12: 3.7 per cent), the proportion of our staff who classify themselves as Black, Asian or other minority ethnic is 13.0 per cent (2011/12: 11.6 per cent). These figures will be kept under review and efforts made to ensure we maintain a diverse workforce through recruitment over the coming year. We were pleased to note that this year we were placed 93rd in the Stonewall Equality Index of employers committed to promoting equality for lesbian, gay, bisexual and transgender employees.

Objectives and activities for the public benefit

The Royal Charter is at the core of our mission. This mission, *Achieving great art for everyone*, represents what Arts Council England is for, and reflects why John Maynard Keynes set up the Arts Council in 1946, 'to give courage, confidence and opportunity to artists and their audiences'.

Information about our 10-year strategic framework and the accompanying Culture our goals and priorities and our activities to achieve these, and our funding programmes can be found on pages 16 to 29.

Equality and diversity

The Arts Council's work this year has focused on providing our funded organisations with greater support in developing their diversity and equality plans and on how to integrate the Creative Case approach within them. Producing these plans is part of the funding agreement requirements placed on all National Portfolio Organisations.

It serves two purposes:

- It is part of the way in which we meets our public sector duty requirements under the Equality Act 2010 – we pass on some of these duties to our National Portfolio Organisations to achieve on our behalf
- It is how we are able to assess how our National Portfolio Organisations engage with the our wider diversity and equality agenda, in the context of our 10-year strategic framework

The key driver of this work is not the production of the plans themselves – they are but a process – but rather how to bring about major change in the arts and culture sectors through greater involvement, engagement, participation and inclusion of more diverse artists, audiences and communities. There is a clearer understanding that the Arts Council is the facilitator for change, for example through our investment decisions, and the arts and cultural community are the actual change makers themselves.

Subsidiary undertakings

Artco Trading Limited, 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. In 2012/13 it continued to run the Arts Council's two interest free credit schemes, Own Art and Take it Away, for the purchase of works of art and musical instruments respectively. During the year it introduced a new scheme, Creative Industry Finance, for a pilot period of 12 months within London and then Yorkshire and the Humber. This scheme provides loans of up to £25,000 to creative industry small and medium enterprises to enable business growth and to support talent development.

Grant-in-Aid funding of £1,285,000 (2011/12: £725,000) for these three schemes goes directly to Artco Trading Limited from DCMS. As at 31 March 2013, there are four Arts Council employees on the Artco Trading Limited board. In addition the board is currently chaired by the Executive Director, Arts. The activities undertaken by Artco were transferred to an independent community interest company from 1 May 2013. The Arts Council will retain the company Artco Trading Limited. As far as the Chief Executive is

aware, there is no relevant audit information of which the National Audit Office is unaware.

Ministerial directions

There were no ministerial directions issued during 2012/13 which affected Arts Council England.

Better Payment Practice Code

We attempt to abide by the Better Payment Practice Code, and in particular pay bills in accordance with contract. Invoices are normally settled within our suppliers' standard terms, usually 30 days. In 2012/13, 90 per cent of undisputed Grant-in-Aid invoices were paid within 30 days (2011/12: 94 per cent).

Public sector information

On 1 April 2009 Arts Council England became a provider of official statistics under the extended scope of the Statistics and Registration Act 2008. This means that when the Arts Council produces, manages and disseminates official statistics we strive to abide by the *Code of Practice for Official Statistics* published by the UK Statistics Authority in January 2009.

The code sets out a number of important principles and practices to ensure that the official statistics meet the needs of government and society and are both trustworthy and trusted.

Data security and personal data

There have been no incidents of lapse of data security or loss of personal data during the year.

Principal advisers

Banker

Co-operative Bank
78–80 Corn Hill
London
EC3V 3NJ

Auditor

Comptroller and Auditor General
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Administrators, actuaries and investment advisers to the Arts Council Retirement Plan

Hyman Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Solicitors

A number of specialised solicitors have been appointed to our external solicitor pool.

1	Review	Management commentary
2	Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3	Grant-in-Aid accounts	Statement of comprehensive net expenditure
4	Lottery distribution accounts	Statement of financial position
5	National Lottery report	Cash flow statement
		Notes on Lottery distribution accounts

Management commentary

Financial review

Arts Council England receives Grant-in-Aid from the Department for Culture, Media and Sport (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).

New Lottery grant commitments (offers made and accepted) in the year totalled £317 million (2011/12: £159 million). At year-end, a total of £311 million (2011/12: £149 million) accepted grant commitments remained outstanding and awaiting payment together with £18 million (2011/12: £33 million) commitments offered but not accepted. This compares with a balance in the National Lottery Distribution Fund, plus bank balances, of £297 million (2011/12: £203 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.

In February 2008 a statutory instrument (SI 2008 No. 255 The Payments into the Olympic Lottery Distribution Fund etc. Order 2008) was passed which allowed for the transfer of up to £1,085 million from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund in order to meet some of the costs of hosting the London 2012 Olympics. This comprises £410 million as originally envisaged when the Government decided to support London's Olympic bid in 2003, and a proposed further £675 million arising from the subsequent budget review.

The Arts Council was committed to contribute up to £50 million in the original bid and this order allows for the transfer of up to a further £63 million. The Arts Council transferred £14 million (2011/12: £30 million) to the Olympic Lottery Distribution Fund during the year. The amount was less in 2012/13, reflecting the timing of the Olympics which also means that this was the final year a contribution was made.

At 31 March 2013, our balance in the National Lottery Distribution Fund account was £282 million (2011/12: £194 million). This year the National Lottery Distribution Fund balance has increased due to a combination of increased proceeds and allowing for the launch of new multi-year grant programmes in 2012/13, the largest of which was a capital grant programme, in line with our policy. Commitments of related grants in 2012/13 totalled £175 million, of which £98 million related to the capital grant programme.

Further details of the activities and policies of Arts Council England are included in the National Lottery report 2012/13 (see pages 132 to 142).

Full details in relation to financial instruments are given in note 18 of the notes to the Lottery Distribution accounts.

Fees paid to the National Audit Office for Lottery external audit services during 2012/13 were £64,000 (2011/12: £65,500).

The Arts Council is a participating employer in the Arts Council Retirement Plan (1994) and the West Yorkshire Pension Fund and also contributes to a group personal pension arrangement. Because these schemes are multi-employer schemes, it is not possible to identify the underlying assets and liabilities of the Arts Council. This means that pensions are treated in the accounts as if they were defined benefit schemes. Note 2b gives further details.

Statement of trustees' 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 and outgoing 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 judgments 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; and
- 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, for keeping of proper records and safeguarding Arts Council England's assets, are set out in the Non-Departmental Public Bodies' Accounting Officers Memorandum, issued by HM Treasury.

Alan Davey
Chief Executive
28 June 2013

Sir Peter Bazalgette
Chair
28 June 2013

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

1	Review	Management commentary
2	Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3	Grant-in-Aid accounts	Statement of comprehensive net expenditure
4	Lottery distribution accounts	Statement of financial position
5	National Lottery report	Cash flow statement
		Notes on Lottery distribution accounts

Certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of Arts Council England's Lottery Distribution for the year ended 31 March 2013 under the National Lottery etc. Act 1993. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Trustees, Chief Executive and auditor

As explained more fully in the Statement of Trustees' and Chief Executive's Responsibilities, the Trustees and Chief Executive, as Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with National Lottery Etc. Act 1993. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Arts Council England's Lottery Distribution circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustees and Chief Executive; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Review and Highlighted Information to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Arts Council England's Lottery Distribution affairs as at 31 March 2013 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the directions made by the Secretary of State under the Royal Charter; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157–197 Buckingham Palace Road
Victoria
LONDON
SW1W 9SP

10 July 2013

1 Review	Management commentary
2 Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3 Grant-in-Aid accounts	Statement of comprehensive net expenditure
4 Lottery distribution accounts	Statement of financial position
5 National Lottery report	Cash flow statement
	Notes on Lottery distribution accounts

Statement of comprehensive net expenditure for the 12 months to 31 March 2013

	Note	2012/13 £000s	2011/12 £000s
Expenditure			
Grant commitments made in the year	8	317,227	162,023
Less: lapsed and revoked commitments	8	(4,410)	(2,557)
Net grant commitments		312,817	159,466
Transfer of funds to the Olympic Lottery Distribution Fund	7	14,101	30,276
		326,918	189,742
General expenditure:			
Staff costs	2	1,809	1,641
Other operating costs	3a	514	706
Costs apportioned from Grant-in-Aid accounts	3b	12,103	13,716
		14,426	16,063
Exceptional item:			
Cost of fundamental reorganisation	19	3,727	0
Total expenditure		345,071	205,805
Income			
Share of proceeds from the National Lottery Distribution Fund	7	270,153	210,500
Investment returns on the Distribution Fund	7	1,445	1,515
		271,598	212,015
Other income		819	1,340
Total income		272,417	213,355
Net (expenditure)/income		(72,654)	7,550
Interest receivable		25	19
Net (expenditure)/income after interest		(72,629)	7,569
Other comprehensive expenditure			
	Note	2012/13 £000s	2011/12 £000s
Net gain/(loss) on revaluation of available for sale financial assets	7	0	2,362
Total comprehensive expenditure for the year ended 31 March		(72,629)	9,931

The notes on pages 113 to 128 form part of these accounts.

Statement of financial position as at 31 March 2013

	Note	31 March 2013 £000s	31 March 2012 £000s
Non-current assets			
Tangible assets	5	0	0
Total non-current assets		0	0
Current assets			
Trade and other receivables	6	49	122
Investments: balance in the National Lottery Distribution Fund	7	282,192	194,490
Cash and cash equivalents		15,002	8,555
Total current assets		297,243	203,167
Total assets		297,243	203,167
Current liabilities			
Grant commitments due within one year	8	163,348	80,148
Trade and other payables	9	180	183
Due to Grant-in-Aid accounts		5,168	418
Total current liabilities		168,696	80,749
Non-current assets plus net current liabilities		128,547	122,418
Non-current liabilities			
Grant commitments due in more than one year	8	147,985	69,227
Assets less liabilities		(19,438)	53,191
Equity			
General reserve		(21,555)	51,074
Fair value reserve		2,117	2,117
		(19,438)	53,191

The notes on pages 113 to 128 form part of these accounts.

Alan Davey
Chief Executive
28 June 2013

Sir Peter Bazalgette
Chair
28 June 2013

1 Review	Management commentary
2 Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3 Grant-in-Aid accounts	Statement of comprehensive net expenditure
4 Lottery distribution accounts	Statement of financial position
5 National Lottery report	Cash flow statement
	Notes on Lottery distribution accounts

Cash flow statement for the 12 months to 31 March 2013

	Note	2012/13 £000s	2011/12 £000s
Cash flows from operating activities			
Funds received from the National Lottery Distribution Fund	7	169,795	115,069
Other cash receipts		819	1,340
Grants paid	8	(150,856)	(105,228)
Cash paid to and on behalf of employees		(1,809)	(1,641)
Other cash payments		(11,527)	(16,011)
Net cash inflow/(outflow) from operating activities	13	6,422	(6,471)
Cash flows from investing activities			
Interest received		25	19
Net cash outflow from investing activities		25	19
Net increase/(decrease) in cash and cash equivalents in the period	13/14/15	6,447	(6,452)
Cash and cash equivalents at beginning of period		8,555	15,007
Cash and cash equivalents at end of period		15,002	8,555

The notes on pages 113 to 128 form part of these accounts.

Statement of changes in equity for the 12 months to 31 March 2013

	Note	SoCNE reserve £000s	Fair value reserve £000s	Total reserves £000s
Opening reserve position at 1 April 2011		43,505	(246)	43,259
Transferred (to)/from the statement of comprehensive net expenditure		7,569	2,363	9,932
Opening reserve position at 1 April 2012		51,074	2,117	53,191
Transferred (to)/from the statement of comprehensive net expenditure		(72,629)	0	(72,629)
Closing Lottery reserve at 31 March 2013		(21,555)	2,117	(19,438)

Notes on Lottery distribution accounts

1 Accounting policies

a) Basis of accounts

We have prepared these accounts in accordance with the National Lottery etc Act 1993 (as amended) and directions issued thereunder by the Secretary of State for Culture, Media and Sport with the consent of HM Treasury and the 2012/13 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy the accounting policy which is judged to be the most appropriate for the particular circumstances of Arts Council Lottery Fund for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Arts Council Lottery Fund are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

The accounts are prepared on a going concern basis. The grant commitments have been entered into after consideration of the cash requirements of grant recipients and after taking account of income projections provided by the Department for Culture, Media and Sport.

The accounts are prepared on a historic cost basis. 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 and payable 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 a 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 statement of comprehensive net expenditure. Details of soft commitments are disclosed in note 8 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) 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 date of the statement of financial position, 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.

d) Taxation

Arts Council England, as a registered charity (1036733), is considered to pass the tests set out in paragraph 1 schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable trust for UK income tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by part 10 Income Tax Act 2007 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. No tax charge has arisen in the year.

e) 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 IAS19 Employee Benefits, with the costs of the schemes charged to the statement of financial activities.

f) 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.

It should be noted that Grant-in-Aid accounts are prepared under the Charity SORP 2005, and as such are not impacted by International Financial Reporting Standards (IFRS). There is no material impact on the recharge to Lottery were IFRS a requirement for adoption for the Grant-in-Aid accounts.

g) Change in accounting policy

There has been no change in accounting policy in the period.

1	Review	Management commentary
2	Highlighted information	Certificate and report of the Comptroller
3	Grant-in-Aid accounts	and Auditor General to the Houses of Parliament
4	Lottery distribution accounts	Statement of comprehensive net expenditure
5	National Lottery report	Statement of financial position
		Cash flow statement
		Notes on Lottery distribution accounts

Notes on Lottery distribution accounts

h) Financial instruments

In accordance with the Lottery accounts direction, unrealised profits and losses on investments are recognised within the statement of comprehensive net expenditure.

i) Policy on reserves

Reserves held within the Lottery distribution accounts represent the difference between the amount allocated to the Arts Council and the amount committed.

j) Statement of comprehensive net expenditure

The statement of comprehensive net expenditure reports the revaluation reserve on the National Lottery Distribution Fund balance as a note. The statement of financial position also shows this separately as a fair value reserve.

k) Adoption of International Financial Reporting Standards (IFRS)

The Arts Council has been required to present the Lottery distribution accounts under IFRS since 2009/10.

It is a requirement of IFRS that staff costs include an accrual for any outstanding leave at the close of the year as a potential liability to the organisation. Due to the immaterial nature of this change to these accounts no adjustment for this has been included.

There are no standards and interpretations in issue but not yet adopted that the trustees anticipate will have a material effect on the reported income, expenditure or net assets of the Lottery activities of Arts Council England.

2a Staff costs	2012/13 £000s	2011/12 £000s
Salaries and wages	1,392	1,215
Employer's National Insurance	114	96
Employer's pension contributions	211	204
Agency	92	126
	1,809	1,641

IAS 19 requires the reporting of any unpaid leave or other accrued employment rights where these are material to staff costs. In our view this cost would not be material and so no adjustment has been made in these accounts.

In addition to the cost of staff working directly on Lottery activities in the table above, £7,342,000 (2011/12: £7,857,000) of the costs apportioned from Arts Council England's Grant-in-Aid accounts (note 5) relate to staff costs.

The average number of staff engaged directly on Lottery activities for the year ended 31 March 2013 was as follows:

	Permanent staff	Agency staff	2012/13 Total staff	2011/12 Total staff
Management and operational	52	3	55	48

The average number of days of sickness absence per full-time employee during 2012/13 was 4.2 days (2011/12: 3.7 days).

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. Other employers contributing to the scheme are the Arts Council of Wales, Creative Scotland, the Crafts Council and Creativity, Culture and Education. It is a multi-employer scheme and we are unable to identify separately our share of the underlying assets and liabilities as it is not a sectionalised scheme and so gains and losses are not allocated between the different participating employers. Consequently, we have accounted for the scheme as if it were a defined contribution scheme, in accordance with IAS19 Employee 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 2012 was £84.8 million.

An actuarial valuation of the pension fund takes place at least every three years. At the last valuation on 31 March 2010 the actuarial value of the assets using the projected unit method was sufficient to cover 74 per cent of the value accrued to members, with a deficit of £25,800,000. As a result, and on the advice of the actuary, we are now paying employer's contributions of 24.1 per cent of pensionable salary for employees who were transferred from the Museums, Libraries and Archives Council and 20.7 per cent of pensionable salary for all other employee members.

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

Consumer price inflation rate	3.3%
Long term rate of pay increases	4.8%
Short term rate of pay increases	3.3%
Rate of pension increases	3.3%

Amounts due to the fund at 31 March 2013 were £nil (31 March 2012: £nil).

West Yorkshire Pension Fund

We are an admitted member of the West Yorkshire Pension Fund. Providing pensions to over 200,000 members in 266 mainly local government organisations, 26 Arts Council staff participated in this scheme at 31 March 2013.

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 IAS19 Employee Benefits.

The net market value of total scheme assets at 31 March 2013 was £9.85 billion.

An actuarial valuation of the pension fund takes place every three years. At the last valuation on 31 March 2010, the actuarial value of the assets using the projected unit method was sufficient to cover 93 per cent of the value accrued to members.

During 2011/12 employer contributions were set at 22.4 per cent of pay plus monetary contributions equal to £5,400 and 22.4 per cent of pay plus monetary contributions equal to £5,700 in 2012/13.

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

Rate of inflation Retail Prices Index	3.8%
Rate of inflation Consumer Prices Index	3.3%
Rate of pay increases	5.3%
Rate of pension increases	3.3%

Amounts due to the fund at 31 March 2013 were £nil (31 March 2012: £nil).

1 Review	Management commentary
2 Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3 Grant-in-Aid accounts	Statement of comprehensive net expenditure
4 Lottery distribution accounts	Statement of financial position
5 National Lottery report	Cash flow statement
	Notes on Lottery distribution accounts

Notes on Lottery distribution accounts

3a Other operating costs	2012/13 £000s	2011/12 £000s
Travelling, subsistence and entertainment	107	120
Professional fees	42	82
Office and sundry	48	168
Irrecoverable Value Added Tax	71	83
External assessment costs	246	253
	514	706

3b Costs apportioned from the Grant-in-Aid accounts	2012/13 £000s	2011/12 £000s
Staff costs	7,342	7,858
Agency staff costs	240	267
Depreciation	699	712
Travelling, subsistence and entertainment	524	559
Rent and rates	1,028	1,442
Professional fees	259	442
Office and sundry	1,319	2,088
Irrecoverable Value Added Tax	692	348
	12,103	13,716

4 Increase/decrease in lottery funds	2012/13 £000s	2011/12 £000s
Stated after charging:		
(a) Auditors' remuneration	64	64
(b) Staff travel, subsistence and hospitality	107	120

5 Non-current assets

Lottery accounts are charged their share of the depreciation of assets employed across all Arts Council activities.

6 Receivables	31 March 2013 £000s	31 March 2012 £000s
Prepayments and accrued income	2	2
Other receivables	47	120
	49	122

7 Investments: balance in the National Lottery Distribution Fund	2012/13 £000s	2011/12 £000s
Balance at 1 April	194,490	125,457
Share of proceeds from the National Lottery Distribution Fund	270,153	210,500
Investment returns on the Distribution Fund	1,445	1,515
Unrealised (losses)/gains	0	2,362
Diversion of funds to the 2012 Olympics	(14,101)	(30,276)
Cash drawn down	(169,795)	(115,068)
Balance at 31 March	282,192	194,490

The balance in the National Lottery Distribution Fund at 31 March 2013 was unaudited at the date of signing these accounts.

Arts Council England's ongoing National Lottery Distribution Fund balance policy can be summarised as follows:

We believe that our Lottery financial model should preserve a balance of at least £50 million in each year over the period to 2017/18. This is the equivalent of approximately three months' worth of income or cash payments which we feel is sufficient to mitigate the risks involved while ensuring that we commit to as a high a value of Lottery grant programmes as possible. We may also choose to build up our Lottery balance for a particular reason, for example to enable the launch of a new capital programme where a significant budget is required in one financial year. However as a general principle we would not allow our balance to exceed one year's worth of income. We review this policy annually and may either revise this figure upward or downwards based on our assessment of the risks.

The other element of risk mitigation we consider is the level of commitments we feel able to enter into in advance of receiving the income into the National Lottery Distribution Fund. We have been encouraged by DCMS to adopt a policy of entering into commitments in advance of receiving the income. We are able to do this because of the time lag on some of our programmes between entering into the grant commitment and actually paying out the cash to the recipient. This time lag varies and so the appropriate level of commitment will depend on the mix of our programme budgets and their cash flow profiles. This approach introduces another element of risk to our Lottery activities as future income is not certain. We therefore have a policy that our balance sheet at the end of a financial year (adjusted to include soft commitments) will not show commitments in excess of the assets we currently hold of more than the forecast income level for the following year.

This year the National Lottery Distribution Fund balance has increased due a combination of increased proceeds and allowing for the launch of new multi year grant programmes in 2012/13 of which the largest was a capital grant programme in line with our policy. Commitments of related grants in 2012/13 totalled £175 million of which £98 million related to the capital grant programme.

1	Review	Management commentary
2	Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3	Grant-in-Aid accounts	Statement of comprehensive net expenditure
4	Lottery distribution accounts	Statement of financial position
5	National Lottery report	Cash flow statement
		Notes on Lottery distribution accounts

Notes on Lottery distribution accounts

<i>Olympic Lottery Distribution Fund contribution</i>	2012/13 £000s	2011/12 £000s
Olympic Lottery Distribution Fund contribution remaining	0	14,103

The Arts Council along with other Lottery distributors was required to make a contribution from balances to help fund the 2012 Olympics. A total contribution of £112.5 million was set, and was payable as outlined below.

	2008/09	7,569
	2009/10	30,276
	2010/11	30,276
	2011/12	30,276
	2012/13	14,103
		112,500

8 Soft and hard commitments	31 March 2013 £000s	31 March 2012 £000s
Soft commitments brought forward	33,331	14,125
Soft commitments transferred to hard commitments	(317,227)	(162,023)
Soft de-commitments	(635)	(405)
Soft commitments made	302,081	181,634
Balance of soft commitments outstanding carried forward	17,550	33,331
Hard commitments brought forward	149,370	95,137
Hard commitments met in the last year	(150,854)	(105,233)
Hard de-commitments	(4,410)	(2,557)
Hard commitments made	317,227	162,023
Balance of hard commitments outstanding carried forward	311,333	149,370
Ageing of hard commitments:		
2012/13	n/a	80,148
2013/14	163,348	39,501
2014/15	98,771	29,721
2015/16 and beyond	49,214	0
Total hard commitments	311,333	149,370

Commitments accounted for are limited to those where there has been written acceptance from the grant recipient.

9 Current liabilities

	31 March 2013 £000s	31 March 2012 £000s
Trade payables	0	2
Accruals and deferred income	166	125
Provisions	0	0
Provision for doubtful debts	14	56
	180	183

10 Leases

There were no commitments under non-cancellable operating leases at 31 March 2013 (31 March 2012: £nil).

11 Capital commitments

There were no contracted capital commitments at 31 March 2013 (31 March 2012: £nil).

12 Charges on assets

Since April 2012, the standard conditions for capital grants of £500,000 or more, request funded organisations provide security on assets.

13 Cash flow reconciliation

	2012/13 £000s	2011/12 £000s
Reconciliation of operating surplus/(deficit) to net cash flow from operating activities.		
Operating surplus/(deficit)	(72,629)	9,931
Interest receivable	(25)	(19)
Unrealised (gain)/loss on investment	0	(2,363)
(Increase) in receivables and prepayments	(87,629)	(66,646)
Increase in payables	166,705	52,626
Net cash inflow/(outflow)	6,422	(6,471)

14 Reconciliation of net cash flow to movement in funds

	2012/13 £000s	2011/12 £000s
Increase/(decrease) in cash and cash equivalents in the year	6,447	(6,452)
Funds at 1 April	8,555	15,007
Funds at 31 March	15,002	8,555

15 Cash and cash equivalents

	1 April 2012 £000s	Cash Flow £000s	31 March 2013 £000s
Cash and cash equivalents	8,555	6,447	15,002
	8,555	6,447	15,002

1	Review	Management commentary
2	Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3	Grant-in-Aid accounts	Statement of comprehensive net expenditure
4	Lottery distribution accounts	Statement of financial position
5	National Lottery report	Cash flow statement
		Notes on Lottery distribution accounts

Notes on Lottery distribution accounts

16 Reconciliation of transactions with delegate body

16a National Foundation for Youth Music (Youth Music)

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

	2012/13 £000s	2011/12 £000s
Transactions in Arts Council England accounts:		
Grant commitments in the year	29,712	10,000
NFYM payables balance as at 31 March	22,712	2,000
This reconciles to NFYM's accounts for the year ended 31 March as follows:		
Balance at 1 April	3,694	5,299
Incoming funds: Arts Council England grant	10,000	10,000
Other funds	199	4,921
Outgoing funds: grant expenditure	(9,204)	(10,149)
Other expenditure	(1,689)	(6,377)
Balance at 31 March	3,000	3,694
Arts Council England receivables balance as at 31 March	22,712	2,000

The 2012/13 figures were unaudited at the date of signing these accounts.

16b National Skills Academy

The National Skills Academy is a delegate body of Arts Council England in distributing Lottery funds. Transactions in these accounts relating to this delegation reconcile to transactions in the accounts of the National Skills Academy as follows:

	2012/13 £000s	
Transactions in Arts Council England accounts:		
Grant commitments in the year	15,000	
National Skills Academy payables balance as at 31 March	14,612	
This reconciles to the National Skills Academy's accounts for the year ended 31 March as follows:		
Balance at 1 April	0	
Incoming funds: Arts Council England grant	368	
Other funds	2	
Outgoing funds: grant expenditure	(259)	
Other expenditure	0	
Balance at 31 March	111	
Arts Council England receivables balance as at 31 March	14,612	

The 2012/13 figures were unaudited at the date of signing these accounts.

17 Related parties

17a 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 declared interests in grant recipients for the year ended 31 March 2013 are detailed below. Payments made to these grant recipients during the course of the year are not disclosed here; please refer to the related parties note in previous years' annual reviews for information.

Grant for the year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Soft grant commitment at 31 March 2013 £000s	Organisation	Council member	Relationship
3,257	2,875	0	English National Opera	Sir Peter Bazalgette	Former board member
381	359	0	The Charleston Trust		Partner is trustee
771	455	0	Bristol Old Vic and Theatre Royal Trust	Dane Liz Foran	Board member
3,500	3,511	0	York Museums Trust	Janet Barnes	Chief Executive
1,114	746	4,000	Tate Gallery	Caroline Collier	Employee
0	1	0	Egg Box Publishing	Professor Jon Cook	Board member
10	10	0	University of East Anglia		Employee
0	7	0	Sainsbury's Centre for Visual Arts at UEA		Chair
240	482	0	Writers' Centre Norwich		Former board member and partner is former employee
120	52	0	Greater London Authority	Ekow Eshun	Board member of 'fourth plinth' commissioning group
180	140	0	Institute of Contemporary Arts		Former employee
1	2	0	University of Arts, London		Schools governor
217	146	0	Kneehigh Theatre Trust	Sheila Healy	Board member
0	1	0	Museums, Libraries and Archive Council		Former board member for National Review of Libraries and independent panel member for modernising museums
0	20	0	Shropshire Council		Former Interim Chief Executive
1,114	746	4,000	Tate St Ives		Member of Advisory Council
0	195	0	Artichoke Trust Ltd	Sir Nicholas Kenyon	Partner is board member
0	6	0	Barbican Centre		Managing Director
250	125	0	Britten-Pears Foundation		Partner is trustee
150	101	0	Cheek by Jowl Theatre Company		Resident company at the Barbican Centre
3,257	2,875	0	English National Opera		Former board member

1 Review	Management commentary
2 Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3 Grant-in-Aid accounts	Statement of comprehensive net expenditure
4 Lottery distribution accounts	Statement of financial position
5 National Lottery report	Cash flow statement
	Notes on Lottery distribution accounts

Notes on Lottery distribution accounts

Grant for the year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Soft grant commitment at 31 March 2013 £000s	Organisation	Council member	Relationship
2,390	2,355	0	London Symphony Orchestra	Sir Nicholas Kenyon (continued)	Resident company at the Barbican Centre
0	82	0	Modern Masterpieces		Resident company at the Barbican Centre
1,342	2,301	0	North Music Trust		Board member
321	191	0	Serious Events Ltd		Resident company at the Barbican Centre
0	1	0	British Broadcasting Corporation/BBC Symphony Orchestra		Resident company at the Barbican Centre
10	0	0	The Dartington Hall Trust		Trustee
110	111	0	Art on the Underground	Keith Khan	Board member
0	6	0	City Arts (Nottingham)	François Matarasso	Partner is former board member Artist
329	277	0	Multistory		
85	137	0	Birmingham Opera Company	Peter Phillips	Board member
0	2,493	0	Welsh National Opera		Former board member
210	140	0	Chisenhale Gallery	Alice Rawsthorn	Chair
0	82	0	Modern Masterpieces		Trustee
719	719	0	Whitechapel Gallery		Trustee
419	419	0	Halle Concerts Society	Anil Ruia	Corporate member
240	215	0	Manchester International Festival		Corporate sponsor
310	280	0	University of Manchester/ Whitworth Art Gallery		Governor
335	350	0	Dance UK	Alistair Spalding	Former chair
0	203	0	Dance Consortium Ltd		Director
121	12	0	Dance United		Host venue is Sadler's Wells
0	45	0	New Adventures		Sadler's Wells resident company
0	3	0	Pioneer Theatres Ltd		Co-producing an Olympic project with Sadler's Wells
826	637	0	Sadler's Wells Trust		Chief Executive
240	170	0	Wayne McGregor/Random Dance		Sadler's Wells resident company
187	19	0	Youth Dance England		Host venue is Sadler's Wells
10	1	0	Brighton Theatre	Rosemary Squire OBE	Director and partner is director
300	0	0	English Stage Company		Son is trainee producer
912	540	61	Rambert Dance Company		Partner is chair
0	3,009	0	Rambert Trust		Partner is director

Grant for the year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Soft grant commitment at 31 March 2013 £000s	Organisation	Council member	Relationship
240	261	0	The Hall for Cornwall Trust	Rosemary Squire OBE (continued)	Director
120	52	0	Greater London Authority	Veronica Wadley	Member of Music Education Steering Group, senior adviser to the Mayor for Team London, Volunteering, Charities and Sponsorship and trustee of Mayor of London's fund for young musicians
385	1,236	0	Northern Ballet		Board member

17b Directors and senior managers

Executive directors and senior managers at Arts Council England are also required to declare any direct interests in grant applications made to and commercial relationships with the Arts Council. The interests in grant recipients declared for the year ended 31 March 2013 are detailed below. Payments made to these grant recipients during 2012/13 are not disclosed here; please refer to the related parties note in previous years' annual reviews for information.

Grant for the year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Soft grant commitment at 31 March 2013 £000s	Organisation	Executive Director/ Senior Manager	Relationship
0	2	0	University of Southampton	Sally Abbott	Partner is employee
36	1	0	Roberta Jean	Janet Archer	Family member
400	234	0	Nottingham City Council	Brian Ashley	Former employee
7	7	0	Metro-Boulot-Dodo Ltd	Sarah Bond	Close friend of employees
28	3	0	Hatch		Close friend of employees
240	482	0	Writers' Centre Norwich	Antonia Byatt	Family member is board member
120	130	0	Liverpool Biennial of Contemporary Arts	Alison Clark-Jenkins	Personal relationship
10	20	0	Music Beyond Mainstream	Neil Darlison	Former board member
0	1	0	Northampton Theatres Trust		Former board member
18,384	16,062	99	Royal National Theatre		Lodges with employee
321	191	0	Serious Events		Executive producer for BT River of Music

1 Review	Management commentary
2 Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3 Grant-in-Aid accounts	Statement of comprehensive net expenditure
4 Lottery distribution accounts	Statement of financial position
5 National Lottery report	Cash flow statement
	Notes on Lottery distribution accounts

Notes on Lottery distribution accounts

Grant for the year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Soft grant commitment at 31 March 2013 £000s	Organisation	Executive Director/ Senior Manager	Relationship
86 421	60 350	0 0	Theatre Absolute Warwick Arts Centre/ The University of Warwick	Neil Darlison (continued)	Former board member Former employee
110	60	0	Dance United Yorkshire	Beverley Dawson	Family member is a former employee
71	27	0	Suffolk County Council	Laura Dyer	Family member is a former employee
2,592 0	2,204 52	0 0	Leisure in the Community t/a Arts NK North Kesteven District Council	Simon Fitch	Family member is employee Family member is employee
0 1,114	74 746	0 4,000	Castlefield Gallery Tate Gallery/Tate Liverpool	Michelle Freeman	Board member Former employee
210 0	140 0	0 9	Chisenhale Gallery Mountview Academy of Theatre Arts	Anupam Ganguli	Former board member Board member
51 332 0 491	25 262 2,493 456	0 0 0 0	Malvern Theatres Trust Tobacco Factory Arts Trust Welsh National Opera Wiltshire Music Centre Trust	Phil Gibby	Former trustee Former trustee Former employee Former trustee
42	4	0	PopUp Initiative	Kathryn Goodfellow	Close friend of employee
1,114	746	4,000	Tate Gallery	Peter Heslip	Former employee
217 875 0 0	146 160 74 68	0 0 0 0	Kneehigh Theatre Trust Royal Liverpool Philharmonic Society Tutti Fruitti Productions Unlimited Theatre Company	Mark Hollander	Former secondment to organisation Close friend of employee Partner is employee Future employer
235	166	0	New Writing North	Matthew Jarrett	Partner is board member
0	1	0	British Broadcasting Corporation	Simon Jutton	Partner is employee
27 21	0 2	0 0	I Love West Leeds Festival Musical ARC	Cluny Macpherson	Close friend of employee Partner is former board member and former employee

Grant for the year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Soft grant commitment at 31 March 2013 £000s	Organisation	Executive Director/ Senior Manager	Relationship
91	46	0	Chrysalis Arts Development Ltd	Pete Massey	Close friend of employee
10	8	0	North Yorkshire County Council		Close friend of employee
269	164	0	Open Art		Partner is employee
0	145	0	Corn Exchange (Newbury) Trust	Sarah Maxfield	Former board member
0	20	0	Oxford Inspires		Former employee
0	1	0	Museums, Libraries and Archives Council	Clare McGread	Former employee
24	12	0	Literary Platform	Simon Mellor	Partner is artist/practioner
240	215	0	Manchester International Festival		Former employee
10	7	0	Freewheelers Theatre Company	Marina Norris	Partner is artist/practioner
30	3	0	Museums Sheffield	Helen Parrott	Former colleague is employee
5	0	0	University of Sheffield		Employee
0	1	0	Museums Libraries Archives South East	Wendy Parry	Former employee
402	275	0	Burnley Youth Theatre	Anthony Preston	Family member is board member
120	52	0	Greater London Authority	Moira Sinclair	Member of Cultural Strategy Group
380	210	0	The Stables		Partner is employee
20	40	0	University of Lincoln		Board member
3,321	11,384	0	Southbank Centre (Hayward Gallery)	Rachel Smithies	Partner is employee
0	27	0	Faber and Faber	John Sprackland	Family member is employee
1,000	332	0	High House Production Park	Andrea Stark	Acting Chief Executive while on sabbatical
0	7	0	The National Football Museum Ltd	Hedley Swain	Board member

1	Review	Management commentary
2	Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3	Grant-in-Aid accounts	Statement of comprehensive net expenditure
4	Lottery distribution accounts	Statement of financial position
5	National Lottery report	Cash flow statement
		Notes on Lottery distribution accounts

Notes on Lottery distribution accounts

Grant for the year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s	Soft grant commitment at 31 March 2013 £000s	Organisation	Executive Director/ Senior Manager	Relationship
875	160	0	Royal Liverpool Philharmonic Society	Edward Thomas	Partner is employee
264	106	0	South East Dance	Mairead Turner	Former employee
0	10	0	Northcott Theatre Foundation	Pippa Warin	Former board member
0	27	0	Dorset County Council		Former chair of the Jurassic Coast Art strategy
Contract for the year ended 31 March 2013 £000s	Balance unpaid at 31 March 2013 £000s		Organisation	Executive Director/ Senior Manager	Relationship
0	247		Grant Assessment Monitoring & Evaluation	Althea Efunshile	Family member undertook work experience

17c 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 and the National Skills Academy are similarly regarded as related parties by virtue of their funding relationships with the Arts Council. At the year end Arts Council England had the following balances outstanding with other government bodies:

	Payables 31 March 2013 £000s	Receivables 31 March 2013 £000s
Balances with other central government bodies*	827	282,210
Balances with academies	2	0
Balances with local authorities	15,657	0
Balances with NHS Trusts	244	0
Balances with public corporations and trading funds	9	0

* The receivables figure is largely our balance in the National Lottery Distribution Fund

18 Financial instruments

Cash requirements for Lottery expenditure are met by drawing down against weekly forecasts of need from the balances held on behalf of the Arts Council by the National Lottery Distribution Fund. At 31 March 2012 the fund balance was £194 million. This had increased to £282 million by 31 March 2013, at which point there were £311 million of grant commitments yet to be paid out. In budgeting for current expenditure the Arts Council balances the anticipated outflow of cash payments against grant commitments along with forward forecasts of Lottery income provided by the Department for Culture, Media and Sport. This means that the Arts Council is exposed to little immediate credit, liquidity or market risk.

18a Liquidity risk

In 2012/13, 99.2 per cent 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 0.5 per cent, and from bank interest and other income of 0.3 per cent.

£000s

At the balance sheet date, Arts Council England had net assets of:

(19,438)

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 2013:

£000s

Market value of National Lottery Distribution Fund investments
Cash and cash equivalents

282,192
15,002

18b 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 share of the National Lottery Distribution Fund was £282,192,000. In the year, the average return on these investments was 0.78 per cent (2011/12: 2.26 per cent).

	Fund Balance £000s	Investment return £000s	Average return	Proportion of total income
2011/12	194,490	1,515	2.26%	0.71%
2010/11	125,457	2,092	1.13%	1.15%
2009/10	97,363	1,396	0.58%	0.81%
2008/09	129,622	7,122	3.72%	4.66%
2007/08	155,552	11,272	6.05%	7.41%

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 per cent below base rate during the year. The cash balance at the year end was £15,002,000.

18c Foreign currency risk

Our exposure to foreign currency risk is not significant as less than 1 per cent of transactions by value are processed in currencies other than sterling.

1	Review	Management commentary
2	Highlighted information	Certificate and report of the Comptroller and Auditor General to the Houses of Parliament
3	Grant-in-Aid accounts	Statement of comprehensive net expenditure
4	Lottery distribution accounts	Statement of financial position
5	National Lottery report	Cash flow statement
		Notes on Lottery distribution accounts

Notes on Lottery distribution accounts

18d Financial assets by category	2012/13 £000s	2011/12 £000s
Receivables due within one year		
Accrued income	2	2
Other receivables	47	120
	49	122
Investments		
National Lottery Distribution Fund	282,192	194,490
Cash and cash equivalents		
Cash and cash equivalents	15,002	8,555
Total	297,243	203,167

18e Financial liabilities by category	2012/13 £000s	2011/12 £000s
Trade payables	0	2
Accruals	166	125
Due to Arts Council Grant-in-Aid accounts	5,168	418
Grant payables falling due within one year	163,348	80,148
Grant payables falling due over one year	147,985	69,227
	316,667	149,920

19 Exceptional items

The amount provided in 2012/13 relates to a provision for the anticipated costs of the organisation review to be implemented on 1 July 2013. This review has been undertaken in response to the requirement from the Secretary of State that we reduce our administration costs by 50 per cent by 2014/15 from a 2010/11 baseline. The majority of the Arts Council's support costs are shared across Grant-in-Aid and Lottery activities and therefore it is appropriate to allocate a proportion of the restructuring costs to the Lottery accounts.

	2012/13 £000s	2011/12 £000s
Balance brought forward	0	0
Provided in year	3,727	0
Released	0	0
Balance carried forward	3,727	0

20 Events after the reporting period

In accordance with the requirements of IAS10 Events After The Reporting Period, these events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the certificate and report of the Comptroller and Auditor General. There are no events after the reporting period to report.

1 Review
2 Highlighted information
3 Grant-in-Aid accounts

4 Lottery distribution accounts
5 **National Lottery report**

National Lottery report

Sea Odyssey saw thousands of spectators take to the streets as part of the Liverpool Biennial



National Lottery report

As one of the distributors of the proceeds of the National Lottery, we are required to report on a number of areas relating to how we decide to distribute Lottery funds and the administration of our grants programmes.

Policy Directions

Under the National Lottery etc Act 1993, the Secretary of State issued Policy Directions in November 2007, which we must take into account from April 2008 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 and subsequent Acts.

a) The need to involve the public and local communities in making policies, setting priorities and distributing money.

Our strategic framework, *Achieving great art for everyone*, provides the rationale for our investment in the arts and will inform our future funding decisions. It has been shaped by the views of artists, arts organisations, the public and our many other stakeholders and partners.

We introduced a regular stakeholder focus survey in 2009, helping us to strengthen our relationships with the public and other stakeholders and to support our mission to bring great art to everyone. The aim of the research is to ensure we are in touch with the views of our external stakeholders and the public, and to explore levels of trust and confidence in the Arts Council, as well as perceptions of accountability. The 2012 research added a new question to ask our stakeholders about attitudes to Lottery funding of the arts and culture which yielded strong positive support. We will repeat the research later in 2013 to generate a third wave of data so that we are able to track our progress against certain issues over time, as well as any changes in opinions. We are determined to have a clear vision, complemented by strong, supportive and responsive relationships with all those we work with.

b) Its assessment of the needs of the arts and its priorities for addressing them.

Within each goal in *Achieving great art for everyone* we set out why it is an important area of work, what we will do and what success looks like. We also indicate the priorities within each goal that we will focus on during the period 2011–15. *The Arts Council Plan 2011–15*, published in autumn 2011, described our approach to these goals in more detail.

c) The need to increase access and participation for those who do not currently benefit from the cultural opportunities available in England.

Through Creative People and Places, Woodhorn Charitable Trust have been awarded nearly £2.5 million to lead a consortium to bring arts provision to south east Northumberland. Stage and screen writer Lee Hall (*Billy Elliot*, *The Pitmen Painters*) is the artistic sponsor for the project, inspired by the real life Pitmen Painters, the 'Ashington Group' of miners who produced world-class paintings, and whose main collection is now exhibited at Woodhorn. The programme proposed by the consortium will seek to bring new and engaging art to the area by working with the local community and national and international artists after an initial public consultation on what south east Northumberland considers to be 'great art'.

Increasing public engagement with the arts is an important principle of Grants for the Arts, with specific criteria that requires applicants to demonstrate how the funding applied for provides opportunities for the public to engage with the arts activity. We place additional weighting on applications that are targeted at people who do not engage with the arts or are in places of low arts infrastructure. For example, Suited and Booted received £23,290 for experimental animations projected onto the facade of historical buildings in Bath. The animations are created by groups of vulnerable and disadvantaged young people and adults working with professional animators. The projections will bring to life these iconic buildings with work from the hidden community of Bath. Also, Cartwheel Arts was awarded £60,000 for Tell Us Another One, a three-year adventure in creative writing, performance, publishing and broadcasting linking diverse communities in Rochdale, Oldham and Bury, and audiences throughout the north west. Grants for the Arts provided funding for an ambitious strand of the project Digital Diversity.

d) The need to inspire children and young people, awakening their interest and involvement in the arts.

One of our five organisational goals outlines our commitment to a high quality arts provision for children and young people. We have a number of Lottery funded programmes that support our priorities around children and young people such as Arts Award and In Harmony. We also continue to assess applications for Grants for the Arts funding on how well they meet the needs of children and young people. More detailed information on some of our Lottery funded projects for children and young people can be found on pages 24 to 26.

Grants for the Arts awarded £13,397,335 to arts projects specifically aimed at children and young people. For example, Gobble De Gook received an award of £50,394 for their project *In A Deep Dark Wood*, a new concept of combining interactive video and dance for young children. It plays with the audience's imagination to create a magical story all played out in shadow play. The basis of the show is a fusion between contemporary and break dance/hip hop.

We awarded funding of £50,055 to Effervescent Theatre for *The Fish Hearted Bride*, a participatory multi-artform activity with vulnerable children and young people not in education, employment or training, leading to professional performances for families in and around the tanks at the National Marine Aquarium during and following the Plymouth City Marine Festival Autumn 2012.

Staffordshire County Council received funding of £43,850 to engage with young people during and after the construction of the Chesterton Vision Centre. Young people and the community will have access to the arts and will play their part in creating a lasting legacy through interior design work and dance, art and drama workshops tackling issues young people face.

e) The need to foster local community initiatives which bring people together, enrich the public realm and strengthen community spirit.

We believe that the arts have the power to change lives and communities, and we have funded a range of projects that have toured across the country, from theatres to village halls.

Through Grants for the Arts we have supported festivals and other events of national significance such as supporting Soweto Kinch with an award of £40,000 to produce a special community based arts festival and commission celebrating contemporary Jamaican culture in the UK. The Flyover Show celebrated its fifth year. It focused on Jamaican culture as part of the Cultural Olympiad Festival to coincide with the Jamaican Olympic Team being based in Birmingham.

Other projects include a £34,500 grant to The Shed/Pied Piper Projects. The project takes The Shed on tour to Rural Arts' established village hall venue network to inspire adventurous programming and provide unique mentoring opportunities for rural promoters. The collaboration will raise the profile of the arts in north Yorkshire and the Tees Valley and offer exciting new art experiences.

f) The need to support volunteering and participation in the arts and community arts.

We encourage high quality experiences for people participating in the arts. Voluntary and community groups are eligible to request funding and we aim to support participation through the programme. For example, Scunthorpe Co-Operative Junior Choir received £65,000 to engage over 1,800 Scunthorpe residents of all ages as performers in a large-scale community opera, scored by Tim Sutton with libretto by Ian McMillan. The opera is inspired by the life of a local cycling champion and was staged at Glanford Park stadium in July 2012.

The Hanleys' Village Society received £8,000 to embark on a project that will employ an artist to engage the community in the creation of a sculpture through a process that will both challenge and extend the artist and engage and excite the community. The sculpture will reflect the heritage of the Hanleys and be located in a public open space in the centre of Hanley Swan.

g) The need to encourage new talent, innovation, and excellence and help people to develop new skills.

The Grants for the Arts assessment criteria support excellence, promote development opportunities, and encourage innovation and risk. We place additional priority on development of new ideas and the use of art in new contexts, formats and places. Foreground Projects Ltd received £10,000 to commission sculptor Brian Griffiths to create a new site-specific installation, converting a recently vacated amateur boxing club into an immersive artwork. Griffiths' installation makes it unclear whether his work has been made for this building or whether the entire building and its contents have been constructed as an artwork.

De La Warr Pavillion received £50,000 to commission a sculpture by British artist Richard Wilson, involving balancing a 'coach' on the edge of the De La Warr Pavilion rooftop to recreate the iconic final scene from the film *The Italian Job*. This was an official London 2012 Festival project and a major attraction during the Olympic Games.

h) The need to ensure that money is distributed for projects which promote public value and which are not intended primarily for private gain.

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

National Lottery report

i) The need to further the objectives of sustainable development.

Under our Capital Investment Programme 2012–15, we are committed to furthering the objectives of sustainable development and expect projects, as far as possible, to take account of all long-term benefits and costs – environmental, social and economic. Organisations will need to respond to legislative changes around climate change and acknowledge the increasing public pressure for responsible sustainable development. We expect organisations applying for capital investment to consider energy efficiency as a priority. (See pages 38 to 44)

j) The desirability of ensuring equality of opportunity, of reducing economic and social deprivation and ensuring that all areas of England have access to the money distributed.

We encourage applications to Grants for the Arts for activity that is happening in areas of social deprivation. Third Films received £29,967 for the production of a collection of moving image art works by Duane Hopkins, entitled *Rapture:England*. This project presents moving image portraits, both real time and extreme-slow-motion, concentrating on economically challenged wards of post-industrial England.

k) The need to support the long-term managerial viability and leadership of organisations in the arts.

Through our part Lottery funded Developing Resilient Leadership Programme we have awarded The Clore Leadership Programme a commissioned grant to provide fellowships to support the personal and professional development of cultural leaders.

We welcome applications to Grants for the Arts from organisations wishing to improve their longer-term resilience by developing their organisation. Through Grants for the Arts we invested £15,852,967 in organisational and sector development. The new Open Eye Gallery opened on the Liverpool Waterfront in 2011. Grants for the Arts gave an organisational development award of £135,000 designed to embed effective and appropriate systems, behaviours, planning and evaluation processes, and prototype new approaches to audience development and income generation, to underpin Open Eye's long-term viability.

l) The desirability of working jointly with other organisations, including other distributors.

We work with a number of partners in a variety of ways to help get the most out of our Lottery money and the projects we fund. When assessing applications to Grants for the Arts, we regularly seek comments from local authorities on applications that benefit or take place in their area. With major capital projects, we work closely with other funders to ensure that we have a common understanding and approach to the particular circumstances of each project. We continue to meet regularly with the other distributors to explore and discuss the best ways to get the most out of Lottery money for good causes.

Catalyst, our new £100 million culture-sector-wide private giving investment programme, is aimed at helping cultural organisations diversify their income streams and access more funding from private sources by developing organisational expertise and approach to funding. Catalyst has been created with joint investment from the Arts Council, Heritage Lottery Fund and the Department for Culture, Media and Sport (DCMS). (See page 24 for more information).

We have developed close relationships with a number of organisations including the National Trust and the Canal & River Trust to work jointly to promote art and cultural projects in places that are not traditional arts venues. For example, the arts organisation Unravelled received £122,000 for a project called Unravelling the National Trust. Unravelled will develop a network for artists working with extreme and conceptual craft and manage a series of career development opportunities. A total of 30 artists will be commissioned to produce site-specific work responding to three National Trust houses across the south east region, presented between 2012–14 in three six-month exhibitions.

m) The need to ensure that all those receiving Lottery money acknowledge it using the common Lottery branding.

We recognise how important it is that the public can see how the Lottery has benefited the arts and other good causes. We make it a condition of funding for all successful applicants that they acknowledge receiving Lottery funding by using the common Lottery branding.

n) The need to require an element of partnership funding, or contributions in kind from other sources, to the extent that this is reasonable to achieve for different kinds of applicants in particular areas.

All our funding programmes require applicants to demonstrate their ability to attract partnership funding from other sources when this can be reasonably expected.

We believe that this is important not only because it means that our Lottery funds go further, but also because it demonstrates that the proposed activity has the support of the wider community and others. The new Catalyst programme requires organisations to raise money from private giving as match funding for their grants.

o) The need (a) to support projects which are for a specific, time-limited purpose, (b) to ensure that Arts Council England has the necessary information and expert advice to make decisions on each application and (c) for applicants to demonstrate the financial viability of projects.

We have only ever used Lottery funding for specific time-limited projects. Our application materials and assessment processes have been reviewed and developed over a number of years to ensure that we have the necessary information on which to base decisions.

In the case of major capital projects, all applications for funding are assessed against a number of criteria comprising: leadership, governance and project management; sustainability and resilience; partnership funding; capital costs; and quality of capital proposals.

Monitoring and evaluation

We continue to use 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:

- 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 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 expect 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.

Lottery funded programmes

Grants for the Arts

Grants for the Arts is our flagship open application programme that provides Lottery funding to individuals, organisations and for national activities. Grants range from £1,000 to £200,000 and can cover activities lasting up to three years; 2012/13 was the ninth full year of operation. From September 2012 we opened applications to the Grants for the Arts Libraries Fund, which will invest £6 million National Lottery money in projects delivered by public libraries or library authorities working in partnership with cultural organisations and involving all types of arts activities including music, dance, theatre, visual arts and literature.

Youth Music

Youth Music is the leading UK charity committed to enabling life-changing music making experiences for children and young people, particularly those with least opportunity.

Through its grant making process, the Youth Music Programme, the charity invests in music education organisations and projects throughout England to deliver learning opportunities across all styles of music, for children and young people who would not normally get the chance. The Youth Music Network is the charity's online community of professionals working in music education to share best practice, disseminate research and drive fresh thinking across the music education sector.

Strategic Lottery programmes

Strategic funding will be used alongside our National Portfolio investment to target particular challenges, opportunities or gaps in the delivery of those priorities. It will be open to any individual, organisation or consortia that meet the eligibility criteria.

Awards will support additional work, rather than the running costs of arts organisations. National Portfolio Organisations that apply will need to show how work supported by strategic funding is additional to their core programme.

Strategic funding must be invested in arts activities, as required by Lottery regulations. Museums and libraries can therefore only apply to this programme for work that is primarily arts focused.

National Lottery report

Details of some of the strategic Lottery programmes are as follows:

The Space

Managed by Arts Council England and developed in partnership with the BBC, The Space is a digital arts and culture media service designed to change the way people can connect with and experience the arts. A sum of £3.5 million of Lottery funding was committed to The Space to fund 53 new art commissions to be shown on the platform.

Audience Focus

Audience Focus is a £7.5 million fund from which we will commission work to make the arts more audience focused and invest in initiatives that increase, widen and sustain audiences and visitors for the arts. In 2012/13 work began on three large-scale, exciting and ambitious programmes, each covering one of the objectives of the fund: understanding audiences; collaborative action; and best practice.

Creative People and Places

Creative People and Places, a £37 million fund, will focus our investment on parts of the country where people's involvement in the arts is significantly below the national average, with the aim of increasing the likelihood of participation. Over three years, the Creative People and Places fund will invest in around 15 programmes of activity that use radical new approaches to developing excellent, inspiring and sustainable arts experiences for communities not currently engaging with the arts.

Strategic touring

The £45 million Strategic Touring Programme is designed to encourage collaboration between organisations so that more people across England experience and are inspired by the arts, particularly in places which rely on touring for much of their arts provision.

The first awards were made in round one of the programme in April 2012. Since then, 55 projects have been awarded almost £15 million over six rounds, enabling people across England to experience high quality art touring to their local area.

Catalyst

The future resilience of the arts, libraries and museum sector is dependent on a sustainable mixed economy of increasingly varied income sources. Our Catalyst Arts investment of almost £70 million aims to deliver significant change in the long-term ability of the arts sector to attract private giving. Through Catalyst Arts we have introduced four schemes:

- In May 2012 we announced 173 awards from a £30 million match funding and capacity building scheme. This scheme supports the sector's efforts to improve capacity in fundraising and provides an incentive for donors to give to the arts. External evaluation shows that these grants are already delivering significant change in how arts organisations are approaching fundraising, with a growing shift to greater board engagement and whole organisation fundraising
- With the support of DCMS, 18 awards were offered in June 2012 as part of a £30.5 million scheme offering match funding to arts organisations with a successful track record of fundraising. This is to help them build endowments by July 2015, to provide an annual income for a minimum term of 25 years

Capital

Over the period 2012–15, our £234.6 million Lottery-funded Capital Investment Programme will support organisations to develop resilience by giving them the right buildings and equipment to deliver their work, and to become more sustainable and resilient businesses.

Creative Employment Programme

The Creative Employment Programme will help nurture young talent by providing paid experience in the sector. In November 2012 we announced the Skills Academy as our partner. They will be responsible for delivering our funding of up to £15 million which will directly benefit unemployed young people.

Artsmark and Arts Award

Artsmark, the Arts Council's national programme, enables schools, further education colleges and youth justice settings to evaluate, celebrate and strengthen a quality arts offer, and supports formal education institutions to deliver rich and high quality provision. In 2012/13 we announced that Trinity College London will deliver the Artsmark programme between April 2012 and March 2015. We are committing £4.5 million to the Artsmark programme during this time. A total of 3,230 schools have a current Artsmark.

Trinity College London has also managed Arts Award in association with the Arts Council since 2005. Arts Award is a national qualification that aims to deepen young people's engagement with the arts through practical experience. There are nearly 4,000 Arts Award centres in England. Just over 20,000 children and young people achieved an Arts Award and 2,000 people trained as Arts Award advisors between April and November 2012.

In Harmony

In Harmony is a national programme that aims to inspire and transform the lives of children using the power and disciplines of community-based orchestral music-making. In July 2012 the Sage Gateshead, Nottingham City Council, Opera North and Telford and Wrekin Music were chosen to deliver four new In Harmony projects between 2012–15. They join existing In Harmony projects in Liverpool and Lambeth. More information on In Harmony can be found on page 28.

Digital R&D Fund for the Arts

The £7 million Digital R&D Fund for the Arts was launched by the Arts Council in partnership with NESTA and Arts and Humanities Research Council, to support research and development projects that use digital technology to enhance audience reach and explore new business models in the arts.

The first eight successful projects of our Digital R&D Fund for the Arts were announced this year. They include Script in partnership with Agency Mobile and Dr Rob Toulson, who will develop a mobile-friendly 'app-album' with Grammy award-winning musician and performer, Imogen Heap. The project will explore how mobile music apps can change an artist's interaction with their fans and might offer new revenue streams such as subscriptions, merchandising and ticketing. More information on the Digital R&D Fund for the Arts can be found on page 27.

Mature funding programmes closed to new applications

The following programmes have been closed to new applications for a number of years and have a small, dwindling number of awards that require monitoring:

- Transform
- Thrive

Details of these programmes can be found in previous editions of this report.

Financial Directions

Under section 26(3), (3a) and 4 of the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998), the Secretary of State issued Financial Directions to the Arts Council, as set out below.

The Arts Council of England ('the Council') shall comply with the requirements contained within the attached Statement of Financial Requirements, which have the status of Directions under section 26 of the National Lottery etc Act 1993, as amended ('the Act'). The Statement

of Financial Requirements complements the Council's Management Statement and Financial Memorandum (MS/FM), which deals with corporate management matters and with the application of non-Lottery funds, and should be read in conjunction with the MS/FM.

We confirm that, to the best of our knowledge, we complied fully with the financial requirements in 2011/12. A copy of the Statement of Financial Requirements is available from us.

Performance against targets for administrative efficiency.

The financial year 2012/13 was the second year covered by *Achieving great art for everyone*, our strategic framework for the arts and our plan, which sets out five goals and 13 priorities for the arts. It was the first full year covered by the companion document, *Culture, knowledge and understanding: great museums and libraries for everyone*, which reflects the needs and priorities for museums and libraries. Detailed information on our goals can be found on pages 19 to 29. These goals have been central to all of our Lottery funded activities.

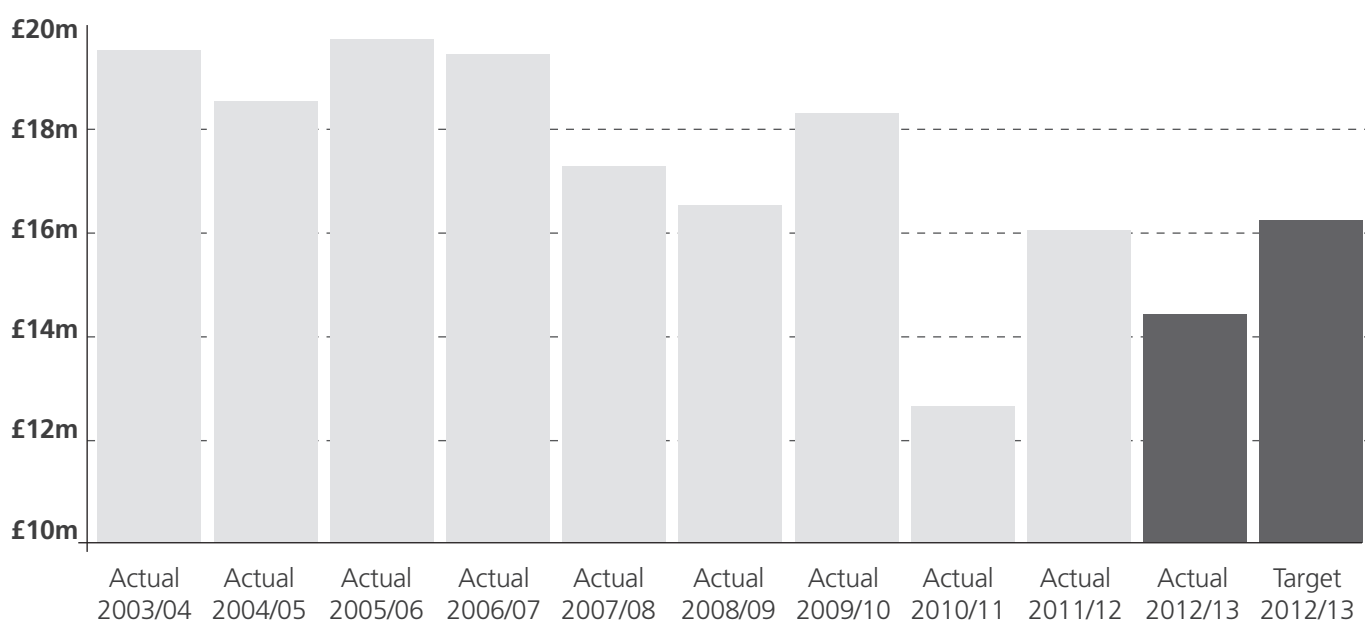
- 1 Review
- 2 Highlighted information
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 **National Lottery report**

National Lottery report

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.

1 Actual Lottery administration costs



	2003/04 £m Actual	2004/05 £m Actual	2005/06 £m Actual	2006/07 £m Actual	2007/08 £m Actual	2008/09 £m Actual	2009/10 £m Actual	2010/11 £m Actual	2011/12 £m Actual	2012/13 £m Actual	2012/13 £m Target
Actual administrative costs*	19.57	18.54	19.77	19.49	17.33	16.55	18.34	12.63	16.06	14.43	16.25

*Excludes exceptional items and one-off IT development costs

	2003/04 £m Actual	2004/05 £m Actual	2005/06 £m Actual	2006/07 £m Actual	2007/08 £m Actual	2008/09 £m Actual	2009/10 £m Actual	2010/11 £m Actual	2011/12 £m Actual	2012/13 £m Actual	2012/13 £m Target
Actual administrative costs*, **	19.57	18.14	18.80	18.14	15.74	14.69	15.90	10.81	13.43	11.86	13.36

* Excludes exceptional items and one-off IT development costs

** Figures have been adjusted for inflation using 2003/04 as the base year

2 Adjusted Lottery administration costs

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2012/13
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Target
Actual administrative costs*, **	19.57	18.14	18.80	18.14	15.74	14.69	15.90	10.81	13.43	11.86	13.36

* Excludes exceptional items and one-off IT development costs

** Figures have been adjusted for inflation using 2003/04 as the base year

The figures in this table are for illustration only. The adjusted figures reflect the inflation rate for 2012/13 as defined by the Treasury's GDP deflators.

3 Actual Lottery administration costs as a proportion of Lottery income

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
Actual administration costs as % of Lottery income*	12.15%	10.96%	11.49%	13.05%	11.44%	10.92%	10.59%	6.95%	7.53%	5.30%

*Excludes exceptional items and one-off IT development costs

Grants processing times

Since the start of our flagship Lottery programme Grants for the Arts in April 2003, we have undertaken to process applications to decision within the following turnaround times:

Size of application	Turnaround time
Applications for funding up to and including £10,000:	6 weeks
Applications for funding for £10,001 and above:	12 weeks

1	Review
2	Highlighted information
3	Grant-in-Aid accounts
4	Lottery distribution accounts
5	National Lottery report

National Lottery report

Since 2009/10 we have adopted a target of processing 90 per cent of all applications within our stated turnaround times. The chart below shows how we've performed against this target.

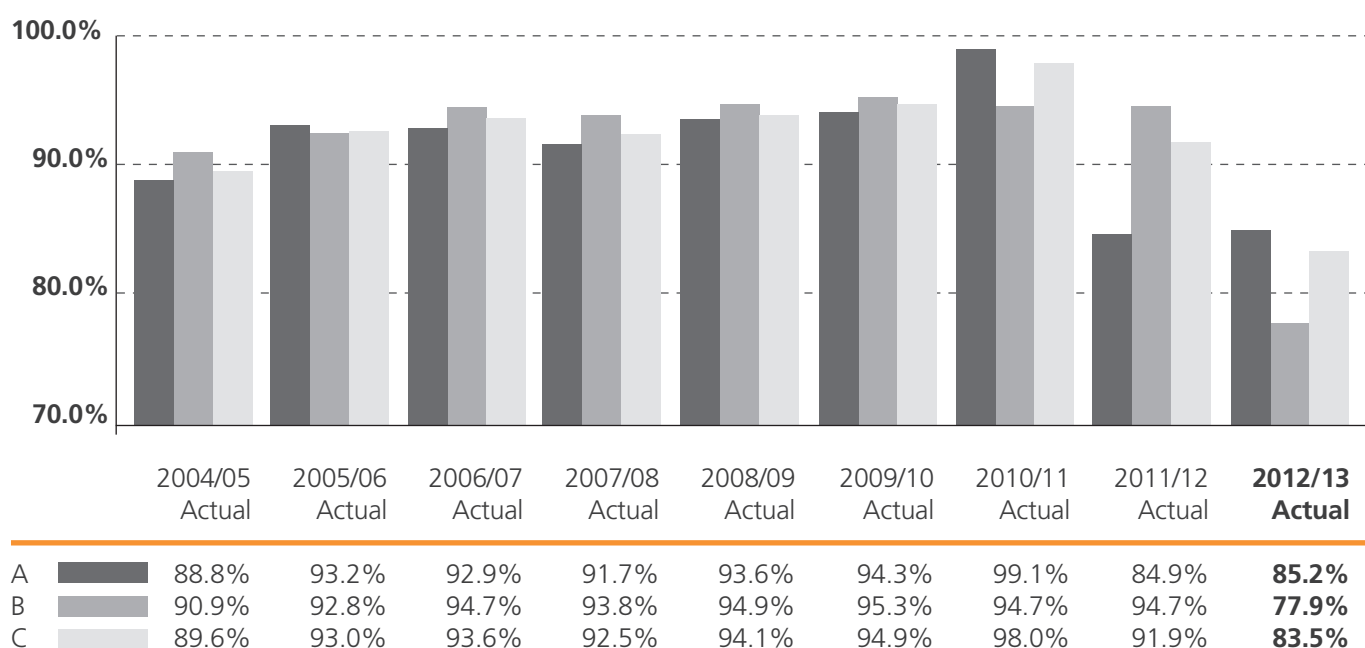
	2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 Target
A	88.8%	93.2%	92.9%	91.7%	93.6%	94.3%	99.1%	84.9%	85.2%	90%
B	90.9%	92.8%	94.7%	93.8%	94.9%	95.3%	94.7%	94.7%	77.9%	90%
C	89.6%	93.0%	93.6%	92.5%	94.1%	94.9%	98.0%	91.9%	83.5%	90%

A % of applications for up to £10,000 processed in six weeks or less

B % of applications for £10,001 and above processed in 12 weeks or less

C Overall % of applications processed within target time

* Please note that for the years of 2004/05 to 2009/10 the target time was six weeks for applications for up to £5,000 and 12 weeks for applications over £5,000



A % of applications for up to £10,000 processed in six weeks or less

B % of applications for £10,001 and above processed in 12 weeks or less

C Overall % of applications processed within target time

Policy on additionality

The Arts Council and the organisations that distribute Lottery funds on its behalf recognise and respect the additionality principles of Lottery funding. Lottery funding enables us to extend the reach and increase the impact of the activity that we could undertake if only Exchequer funds were available.

Together with the other Lottery distributors who make up the Lottery Forum, we have agreed to share the following common definition of additionality:

‘Lottery funding is distinct from government funding and adds value. Although it does not substitute for Exchequer expenditure, where appropriate it complements government and other programmes, policies and funding’.

We and our delegates will have regard to the principles of additionality and this policy when we set the strategic objectives of our Lottery-funded programmes and when we decide how each programme will operate. We have, and will continue to use, Lottery funding to fund specific time-limited activity that would not take place without the support of the Lottery.

Performance against strategic objectives

The financial year 2011/12 was the first year covered by *Achieving great art for everyone*, our strategic framework for the arts and our plan, which set out five goals and 13 priorities for the arts. Detailed information on our priorities can be found on pages 19 to 29.

These priorities have been central to all of our Lottery-funded activities.

Customer service charter

In June 2008, we agreed with the other Lottery distributors and with DCMS to replace our common customer service charter with a set of customer service principles.

Progress report on major Lottery awards over £5 million

This section reports on projects that have received capital awards totalling over £5 million, even if they involve a number of separate awards. It includes any projects that were active at 1 April 2012 but fully paid during 2012/13 and those with outstanding balances at 31 March 2013. 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 2013
- B** projects completed and opened during 2012/13
- C** projects completed and opened in previous years but with final payments still outstanding at 1 April 2012

A Projects still to be completed at 31 March 2013

Chichester Festival Theatre Award: £12,000,000

This project will refurbish and extend the Grade 2* Festival Theatre set in the grounds of Oaklands Park. It will redevelop the front of house spaces, auditorium and extend the back of house facilities. The capital works will improve the facilities for artists, staff and the audience experience including capacity, access, sightlines, décor and the exterior parkland environment. The project is due for completion in summer 2014.

£888,735 paid (7.4 per cent of the total award)

Liverpool and Merseyside Theatres Trust Award: £17,027,719

(Lottery £16,931,311; Grant-in-Aid £96,408)
The Liverpool and Merseyside Theatres Trust run both the Everyman Theatre and the Playhouse Theatre. This project will rebuild the Everyman building on the current site using an enlarged footprint provided by a previous building purchase. The building will retain the unique character of the main auditorium while significantly improving backstage and public facilities and providing extra space for the community and new writing programmes. The project is due for completion in 2013/14.

£8,910,139 paid (52.3 per cent of the total award)

Manchester City Council Award: £5,500,000

Manchester City Council is developing a new production centre for international contemporary art, theatre and film (called HOME) as part of a wider mixed use development in Manchester city centre. It will be a digitally enabled, low carbon venue that will provide opportunities for showcasing new work and increase audience engagement and education work. The first operators of the venue will be Greater Manchester Arts Centre formed by the merger of Cornerhouse and the Library Theatre Company and it is due for completion in 2014/15.

£0 paid (0 per cent of the total award)

Rambert Trust Limited Award: £7,000,000

Rambert Trust Limited is building a new headquarters at Doon Street, London, adjacent to the National Theatre. This building will increase their profile and will put dance at the heart of the UK's highest concentration of creative

- 1 Review
- 2 Highlighted information
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 **National Lottery report**

National Lottery report

organisations. The aim of the new building is to improve Rambert Dance Company's already excellent artistic standards, create a national centre for choreography and allow their outreach programme to grow and increase accessibility of the company. The building is due to complete in 2013/14.
£3,991,027 paid (57 per cent of the total award)

Royal National Theatre Award: £17,500,000

NT Futures will transform the current National Theatre building – inside and outside – including the public spaces and behind the scenes. This project will improve the experiences of those who visit and work in the theatres, and will generate new spaces for learning, production and recreation. The project is due for completion in 2014/15.
£1,902,909 paid (10.8 per cent of the total award)

Royal Opera House Award: £10,000,000

The Royal Opera House is undertaking a strategic programme of capital improvements over a four year period to ensure that it can continue to stage a world-class programme of opera, ballet and dance, and to continue to compete in an international market.
£0 paid (0 per cent of the total award)

Southampton City Council Award: £7,344,000

Southampton's new arts complex will create dramatic new contemporary arts spaces in the heart of the city, built on the old Tyrrell and Green site. The new arts complex will bring internationally acclaimed art exhibitions and a full programme of performing arts. These will share their home with outstanding resources for film-makers, providing new creative opportunities for everyone across the city and beyond.
£1,076,699 paid (14.6 per cent of the total award)

Theatre Royal Plymouth Award: £5,000,000

This project will renovate and modernise the Theatre Royal's front of house facilities, including catering, corporate hospitality and retail facilities, external facades, and re-landscaping of public approaches to the building and its entrances. It will also create a workshop space for creative learning and community programmes. The project is due for completion in 2013/14.
£0 paid (0 per cent of the total award)

Lyric Theatre Hammersmith Award: £6,000,000

The Lyric Theatre Hammersmith project will make improvements to the existing building as well as create a range of new facilities, including an extension on an adjacent site to house the first ever teaching theatre for the performing arts. This will allow young people to participate in cross art-form formal statutory training as well as education

activities. The project is due for completion in 2014/15.
£1,246,939 paid (20.8 per cent of the total award)

B Projects completed and opened during 2012/13

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.

Bristol Old Vic Trust Award: £6,331,050

(Lottery £5,751,808; Grant-in-Aid £579,242)
The capital work to the Bristol Old Vic Theatre Complex is divided into two work packages. The first work package includes refurbishing the auditorium, improvements to acoustic and air circulation, and repair and modernisation of the stage, sound and lighting infrastructure. The second work package will provide new office facilities, refurbish the current rehearsal room and create a new rehearsal room/education space. The project completed in September 2012.
£6,331,050 paid (100 per cent of the total award)

C Projects completed and opened in previous years but with final payments still outstanding at 1 April 2012.

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.

Colchester Borough Council Award: £9,370,000

(Lottery £9,176,603; Grant-in-Aid £193,397)
Colchester Borough Council worked in partnership with the firstsite art gallery towards the development of a new visual arts facility that showcases established artists and emerging talent and meets a regional need for a large-scale, contemporary visual arts venue. The spaces will also act as a focus for the University of Essex's Latin American art collection. The firstsite gallery opened in September 2011.
£6,944,557 paid (74 per cent of the total award)

Leeds City Council Award: £16,100,000

The project is a partnership between Leeds City Council, Leeds Grand Theatre and Opera North. Phase one provided a new base and rehearsal centre for Opera North and refurbishment and modernisation of the Leeds Grand Theatre. It reopened in October 2006. Phase two has created the Howard Assembly Room, The Emerald Grand Hall and a new glass link bridge. The restoration of the former Assembly Rooms has resulted in a 350-seat flexible performance space and home to the Orchestra of Opera North. It reopened in January 2009.
£16,100,000 paid (100% per cent of the total award)

- 1 Review
- 2 Highlighted information
- 3 Grant-in-Aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

Image credits



Creating the Spectacle!
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Random International's *Rain Room* at the Barbican. Image: Felix Clay, *Rain Room*, Random International 2012, Courtesy of Barbican Art Gallery



Godiva Awakes
by Imagineer productions.
Image: Andy Moores



Ballet Boyz.
Image: Michael Nunn



Candoco Dance Company.
Image: Hugo Glendinning



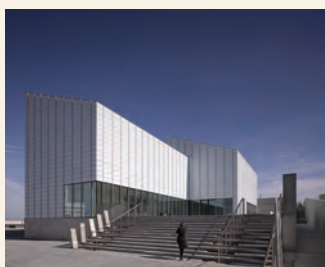
Circus Space.
Image: Bertil Nilsson



Circus Space.
Image: Bertil Nilsson



Sadler's Wells National Youth Dance Company.
Image: Peter Teigen



Turner Contemporary.
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Author event at Hove Library, Brighton and Hove.
Image: Matthew Andrews



Kafiristan wooden figures.
Image: courtesy of Royal Albert Memorial Museum.



Sir Peter Bazalgette.
Image: Phillipa Gedge



Onegin by the Royal Ballet at the Royal Opera House.
Image: Bill Cooper/ROH



English Touring Opera's *Laika the Spacedog*.
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Alan Davey.
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Birmingham Opera's *Mittwoch aus Licht*.
Image: Helen Maybanks



The Hepworth Wakefield.
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Sacrilege by Jeremy Deller,
College Green, Bristol.
Image: Kevin Clifford



Candoco Dance Company.
Image: Branislav Stefanik



The Boat Project, Collective Spirit by Lone Twin, part of
Artists Taking the Lead for
the Cultural Olympiad.
Image: Toby Adamson



King Lear, Belarus Free
Theatre, Shakespeare's
Globe, London World
Shakespeare Festival.
Image: Simon Kane



Lorna Goodison at the
Yardstick Festival.
Image: Bristol City Council



BALTIC Centre for
Contemporary Art.
Courtesy BALTIC Centre
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The Royal Shakespeare
Company's *Matilda the Musical*.
Image: Manuel Harlan



First Time Live – Youth in
Scunthorpe with the Royal
Philharmonic Orchestra.
Image: Paul Coghlin



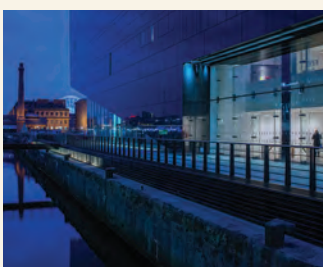
Transient Graffiti by Suited
and Booted.
Image: Suited and Booted



ss Great Britain,
by Bompas and Parr, part
of Museums at Night 2012.
Image: Stephen Lewis



Circus Space performer.
Image: Bertil Nilsson.



Open Eye gallery, Liverpool.
Image: Mark McNulty



Ballet Boyz.
Image: Michael Nunn



Seven Stories, The National
Centre for Children's Books.
Image: Seven Stories



SummerTyne Americana
Festival 2012, Outdoor Stage.
Sage Gateshead.
Image: Mark Savage

- 1 Review
 - 2 Highlighted information
 - 3 Grant-in-Aid accounts
 - 4 Lottery distribution accounts
 - 5 National Lottery report
-

Image credits



Student Brown Noto and Tutor Nicholas Yiannarakis from Holts Academy. Image: provided by Creative & Cultural Skills © Briony Campbell



Humpty Dumpty at Ewell Library part of Big Dance. Image: Michael Cameron Photography



In Harmony Liverpool's Fourth Birthday Concert at Liverpool Philharmonic Hall, March 2013. Image: Mark McNulty courtesy of Liverpool Philharmonic



Breakin' Convention at Sadler's Wells. Image: Ben Dowden



National Theatre Production of *The Curious Incident of the Dog in the Night-Time* based on the best-selling novel by Mark Haddon. Image: Brinkhoff/Mögenburg



Sadler's Wells co-production, Akram Khan Company, *DESH*. Image: Richard Haughton



Lionheart Project launch, Chatsworth. Image: Alan Fletcher



Sea Odyssey by Royal de Luxe commissioned by Liverpool City Council. Image: Liverpool City Council/Ant Clausen



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