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c.39, section 35(5)

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# Arts Council of Wales Lottery Distribution Account 2007-2008

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# Arts Council of Wales Lottery Distribution Account 2007-2008

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## Reference and Administrative details

### Trustees

Council Members who served since 1 April 2007 were

Professor Dai Smith, Chairman	(b)
Rhiannon Wyn Hughes MBE, Vice-chairman	(a) (b) (e) (ii) (iii)
Norah Campbell (from 1 April 2008)	
Simon Dancey	(a) (f)
Emma Evans (from 1 April 2008)	
Maggie Hampton	(c)
Margaret Jervis MBE DL (from 1 April 2008)	
John Metcalf	(d)
Robin Morrison	(c) (i)
Christopher O'Neil	(g) (v)
Dr Ian J Rees	(e)
Clive Sefia	(a)
Ruth Till MBE	(f)
David Vokes	(a) (b)
Debbie Wilcox	(f) (iv)
Kate Woodward (from 1 April 2008)	

- a Member of Audit Committee
- b Member of Remuneration Committee
- c Member of Capital Committee
- d Member of Mid and West Wales Regional Committee
- e Member of North Wales Regional Committee
- f Member of South Wales Regional Committee
- g Member of Wales at the Venice Biennale of Art Committee

For at least part of the period covered by this report Council members (identified by the number in brackets after their name in the above list) also served as Members or senior employees of the following public bodies:

- i Blaenau Gwent County Borough Council
- ii Denbighshire County Council
- iii National Museum of Wales
- iv Newport City Council
- v University of Wales Institute, Cardiff

### Chief Executive

James Turner (from 21 April 2008)

Peter Tyndall (to 18 April 2008)

**Offices**

Mid and West Wales region  
4-6 Gardd Llydaw  
Jackson's Lane  
Carmarthen  
SA31 1QD

North Wales region  
36 Prince's Drive  
Colwyn Bay  
LL29 8LA

South Wales region  
and National Office  
9 Museum Place  
Cardiff  
CF10 3NX

**Auditor**

Comptroller and Auditor General  
151 Buckingham Palace Road  
London  
SW1W 9SS

**Internal Auditors**

Bentley Jennison  
33-35 Cathedral Road  
Cardiff  
CF11 9HB

**Bankers**

Bank of Ireland  
South Wales Business Centre  
17 Cathedral Road  
Cardiff  
CF11 9HA

**Solicitors**

Geldards LLP  
Dumfries House  
Dumfries Place  
Cardiff  
CF10 3ZF

# Trustees' Annual Report

## Structure, governance and management

The Arts Council of Wales was established by Royal Charter on 30 March 1994. It is also known by its Welsh name, Cyngor Celfyddydau Cymru.

The Council is a registered charity, number 1034245, whose trustees are the appointed Members.

The Council is an Assembly Government sponsored body. Under the terms of the Government of Wales Act 1998 responsibility for funding the Council transferred from the Secretary of State for Wales to the National Assembly for Wales on 1 July 1999. The Council amended its Royal Charter to reflect this change and to provide for its general activities account to be audited by the Auditor General for Wales. The Council's lottery distribution activities are not a devolved function so these financial statements are, therefore, laid before both Parliament and the Assembly, and are audited by the Comptroller and Auditor General under section 35 of the National Lottery etc. Act 1993 (as amended).

The Welsh Ministers appoint the Members of the Arts Council who normally serve for a period of three years and may be re-appointed for a further three year period. During the period under review the Council met eight times.

## Members induction and training

New Members undergo an induction programme to brief them on their legal obligations under the Royal Charter and charity law, the Code of Best Practice, the Committee and decision making processes, strategic plans and funding issues. During the induction day they receive presentations from the Chairman, Chief Executive and Senior Management Team, and senior representatives from the Welsh Assembly Government's sponsoring division and from the Wales Audit Office. Members also have the opportunity to meet key employees. As well as the Royal Charter and Code of Best Practice, Members are provided with copies of the most recent Annual Report and Accounts, the current Working Budget, and the Charity Commission's publications 'The Essential Trustee' and 'The Independence of Charities from the State'. Seminars and additional training are arranged as necessary to inform the formulation of strategies and policies.

Council has appointed a number of committees to provide specialist advice and to make decisions within a framework of delegated powers; they are: Audit Committee, Remuneration Committee, Capital Committee, Mid and West Wales Regional Committee, North Wales Regional Committee, and South Wales Regional Committee. Ad hoc committees are set up for specific purposes, such as the Venice Biennale of Art. All committees are made up of Council Members and other individuals and operate under specific terms of reference. In addition, a National List of Advisers has been established, members of which are appointed by Council to provide specialist advice.

Council Members reserve to themselves matters such as decisions of policy, the Corporate and Operational Plans, the setting of the annual budget, the annual allocation of grants to revenue-funded organisations, and major alterations to the terms and conditions of service for staff. Members have delegated to staff decisions on grants up to £50,000, and to Capital Committee decisions on lottery capital grants from £50,001 to £250,000.

The register of interests of Members of the Council and of its Committees and National Advisers and the register of interests of Council employees are available for public inspection, by appointment, at each of the Council's offices during normal working hours.

## Accountability

In addition to the requirements of the Royal Charter the Council operates under an accountability regime which includes

- the Charities Acts 1960, 1993 and 2006 and guidance issued by the Charity Commission;
- the Freedom of Information Act 2000 and Data Protection Act 1998 and guidance issued by the Information Commissioner;

- a Management Statement, Financial Memorandum and Accounts Direction issued by the Welsh Ministers;
- Policy Directions, Finance Directions and an Accounts Direction issued by the Welsh Ministers under the terms of S26 of the National Lottery etc. Act 1993 (as amended);
- the power of the Parliamentary Commissioner for Administration to investigate the Council's affairs;
- the power of the Public Services Ombudsman for Wales to investigate the Council's affairs
- a Code of Best Practice, applying to Members and staff, which sets out standards of behaviour required of those involved in financial decisions and in dealing with the public; and
- the Consumer Credit Act 1974 and guidance issued by the Office of Fair Trading.

Copies of the Accounts Directions and of the Code of Best Practice can be obtained free of charge by writing to the Council's Finance and Central Services Director.

The Council is required to account separately for its general and lottery distribution activities. Under separate Accounts Directions the accounting treatment of general and lottery grants differs significantly so, with due regard to paragraph 359 of the Charity Commission's Statement of Recommended Practice (revised 2005), in the judgment of the Trustees the production of a consolidated account is inappropriate as it would not provide a fair view of the application of the Council's resources.

### **Risk management**

Council Members and members of the Audit Committee have reviewed during the year an assessment of the major strategic, business and operational risks to which the Council is exposed and agreed procedures and reporting regimes to manage and reduce the identified risks. An organisation-wide risk register is maintained and regularly considered and reviewed by the Senior Management Team. Clear lines of delegation and authority to staff for the recognition and management of departmental risks minimise any potential impact on the Council should any of those risks materialise.

### **Lottery distribution**

The National Lottery etc. Act 1993 (as amended) set up the National Lottery (Lottery) in order to raise funds to support good causes in the 'arts, sport, national heritage projects, charitable projects, and projects to mark the millennium'. The Council is one of the bodies responsible for the distribution of these funds.

Under the National Lottery etc. Act 1993 (as amended) the Council is required to prepare a statement of account for its lottery distribution activities in the form and on the basis determined by the Welsh Ministers with the consent of the Treasury. The National Lottery Accounts Direction requires that all costs properly attributable to National Lottery activities should be funded from Lottery income. The Council is required to account separately for its general activities.

Given the uncertainty of the level of future lottery funding Council considered it prudent to modify its forward commitment policy so, for 2007-2008, 130 per cent of the year's allocation for Scheme grants was available for commitment and 100 per cent of the year's allocation for film grants. The Capital programme for major awards has been suspended at present but the Council is committed to the continued management and delivery of projects in progress and those already registered for strategic funding. An appropriate budget allocation is available until at least 2012.

The Capital Committee advises Council in the development of policy on capital development and makes recommendations about individual capital grant applications. Independent external assessors were employed to advise on all Lottery capital applications for £100,000 or more. Council takes the final decisions concerning the award of Capital grants over £250,000.



The Capital Committee members who served since 1 April 2007 were

Robin Morrison, Chairman	Maggie Hampton
Jonathan Adams (from November 2007)	Isabel Hitchman
Alun Bond	Richard Morgan
Gareth Davies	Janet Roberts (from February 2008)

On 24 May 2007 Council delegated its grant making for film to the Film Agency for Wales. The terms of the external delegation are set out in a formal agreement with the Agency and satisfy the conditions of the Council's Statement of Financial Requirements.

## Objectives, activities, achievements and performance

The Council's chartered objects are

- a to develop and improve the knowledge, understanding and practice of the arts;
- b to increase the accessibility of the arts to the public;
- c to advise and co-operate with Departments of Our Government, local authorities, the Arts Councils for England, Scotland and Northern Ireland, and other bodies on any matters concerned, whether directly or indirectly, with the foregoing objects; and
- d to carry out the objects through the medium of both the Welsh and English languages.

The Council's main purpose is to support and develop the arts in Wales for the benefit of people throughout Wales. The principal way in which Council seeks to fulfil this purpose is by the formulation of arts strategies, research, and providing recurrent and one-off grants to organisations and individuals within a strategic and developmental context. Such grant making is backed up by a process of monitoring and assessment to ensure that public money is used effectively for the intended purposes. The Council also manages a range of non-grant activities and services, often in partnership with local authorities and others.

### Main objectives for the year

Implementing the outcomes of the Wales Arts Review was a major priority for the Council in 2007-2008 and underpinned its work which focused on the following areas<sup>1</sup>

- its arts development role;
- establishing the Arts Strategy Board;
- developing proposals for the Beacon Company concept and developing plans to apply this concept to arts organisations;
- supporting the Arts Strategy Board in defining and applying 'national company' status;
- developing regional partnerships pilots in consultation with the Welsh Local Government Association;
- contributing to examination of the notion of a statutory duty for local authorities in relation to arts and culture, and cultural entitlements;
- exploring the implications of the Australian Performing Arts Board model in a Welsh context; and
- developing proposals for additional research and development in line with the Wales Arts Review findings.

The Council's strategic priorities for 2007-2008 are set out in the table below according to our six corporate themes, alongside key achievements made in relation to each priority during the year

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<sup>1</sup> Developing the Arts, ACW Operational Plan 2007-2008; Section 5.

Corporate theme	Priorities	Achievements and performance
Develop more good quality and innovative art forms by further investing in individual artists	Through the Academi, focus resources on literature development work, support for new writers, the National Poet of Wales, and the 2007 Book of the Year, including a heightened profile for literature from Wales at the 2007 Hay Literature Festival.	Particular achievements in the year included the setting up of a cross authority literature worker in the Heads of the Valleys and an initial programme of work, the underpinning of the National Poet process and a successful Book of the Year, the long- and shortlists for which serve to promote book sales of some of our leading authors. The collaboration which the Arts Council of Wales (ACW) led with the Books Council, Academi and the National Library in setting up the first Literature in Wales pavilion at the Hay Festival gave increased prominence to Wales in this international event. Further development of individuals was fostered by the authors who received Creative Wales awards.
Continue to invest in a regional network of financially secure, well-equipped and well-managed galleries and performing arts centres, helping them to exploit their artistic potential and build bigger and better audiences	Further develop the work of the existing network of regional performing arts centres (RPACs) via the Arts outside Cardiff initiative.	The 13 RPACs have been empowered to develop their artistic programmes, make long-term strategies and form even more effective collaborative and creative relationships. Several of the theatres and arts centres (previously exclusively presenters) have become involved in production and are now commissioning, producing and co-producing high quality work for touring – some of them have been actively supporting smaller, non-RPAC venues by creating suitable new productions. The key development for 2007-2008 was the consolidation of a number of Arts outside Cardiff awards, providing greater stability for the sector.
	Work with the National Museum of Wales, the National Library of Wales and our Sponsor Division in overseeing the delivery of a feasibility study into a National Gallery of Arts and a Contemporary Art Space.	After a tendering process, consultants were appointed and submitted a draft of the part of the feasibility study which deals with the concept and realisation of a National Centre for Contemporary Art (NCCA). Feedback and critical commentary has been submitted to the consultants through the Steering Group for the project. The full report, embracing both the NCCA and the study of the separate development of the National Museum of Wales is scheduled for submission in June 2008.

<b>Corporate theme</b>	<b>Priorities</b>	<b>Achievements and performance</b>
Focus resources on key clients who generate high quality artistic product and who deliver our strategic priorities.	Publish and consult on a raft of art form strategies covering Applied Arts and Crafts, Visual Arts, Music(s), Dance, Theatre and Drama, and Literature (in conjunction with Academi).	The strategies were completed in October 2007 and presented and discussed at the first meeting of the Arts Strategy Board. Consultation workshops were held in the three regions in February 2008 during the period of public consultation, with over 300 individuals participating; 78 written responses were also received. The responses to the public submissions were completed in May 2008, with final publication planned for September 2008.
	Take forward proposals for developing English language theatre in the light of the Assembly Government's allocation of additional resources for this work.	With the process of recruiting Chair and Board completed, the work on incorporating the company and developing strategic vision has continued. Research into drama audiences in Wales has been commissioned. The recruitment process for the key role of Artistic Director is underway.
	Carry out a strategic review of festivals, and address the issues relating to the 2006 Brecon International Jazz Festival to ensure the success of the 2007 event.	The approach to this is at an initial stage due for completion in June 2008. This involves an overview of current research on the role of festivals, a commissioned mapping exercise on Festivals in Wales and the drawing up by an internal group of a policy paper providing the rationales for ACW support of festivals going forward. The initial scoping and criteria work was undertaken by the Arts Director and the Senior Arts Development Officer (Music). The terms of reference and membership of the Task Group were agreed by the Senior Management Team. The Task Group will complete its work on policy by June 2008.
	Support the work of Safle, the new public art company created by the merger of Cywaith Cymru. Artworks Wales and CBAT.	Safle has formed as a company. ACW is advising and supporting the new company in its strategic re-thinking of the Artists in Residence programme and in developing its business plan for the next three years.
Encourage greater participation in the arts for participants, practitioners, artists and audiences, especially through transformational community arts programmes in identified areas of deprivation and by tackling the economic, social and physical barriers to accessing the arts.	Focus investment on community arts in areas of deprivation.	ACW continues to regularly monitor the number of grants awarded in the 100 most deprived electoral divisions as identified by the Welsh Index of Multiple Deprivation 2000 Edition and contained in the Communities First Programme. During 2007-2008, a total of 118 grants were awarded to projects, individuals, and organisations delivering in Communities First areas; and 152 performances were supported in those areas through the 'Night Out' programme. In total, ACW invested £10,927,473 in Communities First areas across Wales.
	Work in partnership with the Welsh Assembly Government on plans for developing a Cultural Enterprise Centre in Merthyr Tydfil.	During the year ACW worked closely with the University of Glamorgan to develop a feasibility brief. Consultants were appointed to work on the feasibility study in March 2008. Work on this priority will continue into 2008-2009, with a draft report expected in July 2008.

<b>Corporate theme</b>	<b>Priorities</b>	<b>Achievements and performance</b>
<p>Promote opportunities for young people to experience the arts as participants, artists and audiences including developing an entitlement to the arts for young people.</p>	<p>Work closely with Welsh National Opera (WNO) and the BBC National Orchestra of Wales to ensure future stability and the provision of opportunities to widen access to these international quality musical experiences especially for children and young people across Wales.</p>	<p>This has been delivered via our support for WNO MAX, whose project of the Mermaid King was recently premiered in its filmed form, and through the BBC National Orchestra of Wales' community based programmes.</p>
<p>Ensure ACW provides effective support for its internal and external clients by further improving its systems and procedures.</p>	<p>Develop and implement a new sustainable staffing structure.</p>	<p>Following on from a review of ACW's structure and practices during 2006-2007, a new staffing structure was fully implemented in October 2007. ACW is now in the process of aligning the culture with the new structure of the organisation.</p>
	<p>Explore opportunities for alternative funding sources</p>	<p>ACW appointed its first Business Development Manager (part-time) in August 2007 to coordinate the organisation's work towards diversifying its funding sources for the benefit of the arts in Wales. The priority for 2007-2008 has been to devise a clear strategy for the organisation to exploit the opportunity to generate funding from European Structural Funds for Wales. One bid has been made into a WAG coordinated ESF project, and ACW will be a partner in at least two other bids to support training, skills development and business support for those working in the creative and cultural industries in Wales.</p>

In addition to the above, detailed monitoring of performance against key performance indicators (KPIs) is carried out and reported on quarterly to the Senior Management Team and Council. There were 24 KPIs in 2007-2008, 75 per cent of which were achieved, 4 per cent partially achieved and 21 per cent not achieved.

Some key successes within the field of 24 KPIs included

- working towards implementation of the recommendations of the Wales Arts Review, including the agreement and publication of criteria for the allocation of Beacon funding;
- appointing a Creative Programmer to develop Wales's proposals for the Cultural Olympiad;
- delivering a quality presence at the Urdd Eisteddfod (91 per cent of attendees questioned rated ACW's presence as good or excellent);
- continuing to turn round all grant applications within the specified times;
- continuing to respond to 100 per cent of Freedom of Information requests within the statutory 20 days of receipt.

More detail about the Council's work and achievements in 2007-2008 is given in the Council's Annual Report, published separately.

### **Grant making policies**

The Council invites applications for recurrent and one-off grants from organisations and individuals and monitors the proper and effective use of those grants. As well as meeting the Council's strategic aims, applications must demonstrate benefit to the people of Wales across all regional, cultural and economic sectors. Recurrent grants are funded from grant-in-aid only but one-off grants may be funded from grant-in-aid or lottery income. Under the terms of its Lottery Policy Directions the Council makes grants in support of capital and other projects under revenue schemes relating to the arts in Wales.

Capital grants, to organisations only, support the purchase, improvement, restoration, building or creation of an asset that will be used continuously. As noted above, the Council is not presently taking applications for major awards but the Capital programme is open for small grants from £2,000 to £10,000, subject to a maximum of 90 per cent of eligible costs.

On 24 May 2007 Council delegated its grant making for film to the Film Agency for Wales ('the Agency'). The terms of the external delegation are set out in a formal agreement between the Council and the Agency and satisfy the conditions of the Council's Statement of Financial Requirements. The obligations of the Council's Accounting Officer are unchanged by the delegation but he has satisfied himself that the Agency and its systems are suitable to undertake the delegated functions, including: the assessment of applications for film funding; holding, accounting for and distributing Lottery money allocated to it by the Council for that purpose; and monitoring funded projects. The delegation agreement allows for appropriate access to the Agency by the Council's internal auditors and by the Auditor General for Wales for the review of the operation of the delegated functions.

Revenue scheme grants are available to help fund time-limited artistic projects of high quality which best meet the Council's funding priorities. Due to the decline in Lottery income there have been some policy changes from 1 April 2008 in respect of these grants

<b>Grant type</b>	<b>up to 31 March 2008</b>	<b>from 1 April 2008</b>
<b>Training grants</b> support the undertaking or purchase of training and also the provision of arts training	£250 – £5,000 (organisations undertaking training) £250 – £2,000 (individuals) 10 application deadlines each year – one every month other than July and December £1,000 – £30,000 (organisations providing training) three application deadlines each year – April, September and January	£250 – £5,000 (organisations undertaking training) £250 – £2,000 (individuals) five application deadlines each year – April, June, September, January and March £1,000 – £30,000 (organisations providing training) two application deadlines each year – April and September
<b>Small grants</b> support organisations or individuals for pilot projects or where there are significant levels of funding from other sources	£250 – £5,000 10 application deadlines each year – one every month other than July and December	£250 – £5,000 five application deadlines each year (organisations) – April, June, September, January and March three application deadlines each year (individuals) – June, September and January
<b>Creative Wales Awards</b> enable artists to develop their creative practice	£5,001 – £12,000 & £20,000 – £25,000 1 application deadline each year – November	
<b>Production grants</b> support larger programmes of work for established individual artists and organisations.	£5,001 – £50,000 (organisations) £5,001 – £20,000 (individuals) three application deadlines each year – April, September and January	£5,001 – £30,000 (organisations) £5,001 – £20,000 (individuals) two application deadlines each year – April and September
Maximum level of funding for organisations and individuals	90 per cent of eligible costs	75 per cent of eligible costs (organisations) 90 per cent of eligible costs (individuals)
Maximum level of funding for local authorities and school clusters	75 per cent of eligible costs	50 per cent of eligible costs
Maximum level of funding where the main aim of an application is to promote non-arts issues	50 per cent of eligible costs	No funding
Over-arching funding priorities when assessing grant applications	1 Projects delivered in, or involving people based in either Communities First areas or areas of acknowledged deprivation 2 Projects delivered in Welsh or bilingually	1 Projects delivered in acknowledged deprived communities 2 Projects to promote the work of artists from under-represented groups (e.g. disabled people, people from black and minority ethnic backgrounds) 3 Projects delivered in Welsh or bilingually

Successful applicants are allowed no more than one of each type of grant in any financial year.

These are the main funding schemes but the Council publishes general guides to funding for organisations and individuals which include full details of funding priorities and eligibility criteria. These are available from any of the Council's offices and from the website: [www.artswales.org.uk](http://www.artswales.org.uk).

### **Principal Lottery distribution activities**

The Council received 879 (2007: 1,196) lottery applications in the year of which 27 were for capital schemes, 1 for film production, and 851 for revenue schemes. In total 483 (2007: 585) offers of grant were made amounting to £8,749,000 (2007: £11,288,000) of which £5,049,000 were capital grants, and £3,700,000 were revenue scheme grants. Commitments (i.e. grants accepted but not yet paid over) at the end of the year amounted to £12,144,000, of which £9,879,000 were for capital grants and £2,265,000 were for revenue schemes grants.

### **Financial review**

The Council has two principal funding sources: grant-in-aid from the Welsh Assembly Government; and, as one of the bodies responsible for the distribution of funds for good causes, a share of the proceeds raised by the National Lottery. The Council is required to account separately for its general activities.

### **Investment**

Investment powers are governed by the Trustee Act 2000 and the Management Statement and Financial Memorandum and Statement of Financial Requirements issued by the Welsh Ministers. The Council's policy is to achieve the maximum return within these terms. Interest at a negotiated rate linked to bank base rate is received on all credit balances in the Council's current accounts. From time to time, higher rates may be available for restricted funds on long term deposit.

Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Culture, Media and Sport so, although the Council receives investment income on its share of such balances, the Council has no investment powers over the Fund.

### **Financial results**

The Lottery Distribution account shows the Council's 2007-2008 share of the proceeds from the National Lottery of £10,019,000 (2006-2007: £10,051,000), and a decrease in funds for the year of £647,000 (2006-2007: a decrease of £1,792,000) which was transferred from reserves.

Grant offers made in the year totalled £8,749,000 (2006-2007: £11,288,000). £8,997,000 (2006-2007: £11,006,000) is recorded as grant expenditure, which reflects offers made in this year and previous years which were formally accepted during this year. Soft commitments at 31 March 2008, not recorded as expenditure in the Income and Expenditure Account, totalled £636,000 (2007: £1,671,000).

The balance held in the National Lottery Distribution Fund at 31 March 2008 was £11,514,000 (2007: £16,630,000). The accounts show a cumulative deficit of funds of £260,000 (2007: a cumulative surplus of £387,000) as a result of the Council's policy of forward commitment.

### **Plans for future periods**

The Council will continue to be a lottery distributor until 2019 which amounts to an investment of some £10 million every year for the arts in Wales, subject to the effects of Lottery funding for the London Olympics in 2012.

The Council has drafted a new Strategic Plan for 2008-2011. We will continue to be the development and funding body for the arts in Wales, with an increased emphasis on our development role. During this planning period our over-arching priorities are

- focusing on our vision and delivering our strategy;
- developing resources and new funding delivery mechanisms; and

- developing the evidence base for identifying the impact of the arts.

Our corporate themes and planned activities are as follows

Corporate theme	Priorities 2008-2009
<i>The creation of art</i>	
<b>Artform development</b> – we will continue to drive forward our vision for the development of six art forms and aim to increase the resources available in order to achieve our five year vision.	Take forward and implement a series of actions for applied arts & crafts, visual arts, music, dance, theatre and drama and literature, related to the 5-year vision for artform development.
<b>International work</b> – through Wales Arts International (WAI) we will continue to work with key partners to place the arts and the contemporary culture of Wales on a world stage and to provide an international context to the arts in Wales.	Work through WAI to establish the European Cultural Desk to increase the flow of information about opportunities for cultural players in Wales to access European Union (EU) funds and prepare successful bids to the EU for the funding of WAI's strategic priorities.
<b>Support for artists</b> – we will continue to support artists of high quality and vision at key points in their professional practice.	Continue to promote the Creative Wales Awards and examine the structure of support provided to individual artists
<b>Excellence in the arts</b> – we will continue to encourage exemplar activity that is innovative and can be used as a model of good practice for others in the sector.	Continue to implement the funding scheme for beacon companies and individuals.
<i>Public engagement</i>	
<b>Participation</b> – we will work towards increasing opportunities for people to actively participate in the arts. We will focus on supporting projects that target areas of high deprivation and on community arts activities that result in transformation of individuals, groups and communities.	Develop a targeted action plan for the implementation of the Arts & Health Strategy over the next three years.  Develop and submit a fully-costed business plan for delivering the Legacy funded Cultural Olympiad programme in Wales.
<b>The development of audiences</b> – we will work towards increasing opportunities for people to engage in quality arts experiences as audiences, participants and artists.	Continue to develop the network of regional performing arts centres through the Arts outside Cardiff funding.  Continue to work, in partnership with the Welsh Assembly Government (WAG), on plans to develop a Cultural Enterprise Centre in Merthyr Tydfil.
<b>Young people</b> – we will increase opportunities for young people to engage with the arts as participants, artists and audiences.	Develop a fully-costed proposal for an Expressive Schools pilot programme, in partnership with schools, local authorities and Assembly departments.  Secure Convergence funding for seven-years' implementation of the Progression through the Arts European Social Fund (ESF) development project, as a key partner in WAG's Reaching the Heights umbrella project.  In partnership with WAG and the Sports Council for Wales, develop and implement phase 1 of the pilot programme of delivering arts activities related to Saturday and Summer School opportunities.



<b>Corporate theme</b>	<b>Priorities 2008-2009</b>
<i>Supporting the arts economy and growth</i>	
<b>Diversifying our funding base</b> – we will work with WAG and other Assembly Government Sponsored Bodies towards identifying ways in which we can diversify our funding base for the wider benefit of the arts economy in Wales.	<p>Work with Arts &amp; Business Cymru to develop effective mechanisms for supporting arts organisations who are forging links with businesses in Wales.</p> <p>Work through Wales Arts International to support a targeted number of bids for transnational funding for arts organisations.</p>
<b>Stimulating enterprise and business growth</b> – we will work, with other partners, to identify the most efficient and appropriate method for delivering business start-up and business development services for micro-businesses and SMEs in the creative and cultural industries.	Work with WAG (Department for the Economy and Transport) to secure appropriate and relevant business support advice, mentoring and training for creative and cultural organisations within the umbrella of generic business support development for Wales.
<b>Skills for the workforce</b> – we will work with Creative & Cultural Skills to develop the diversity of the creative and cultural industries workforce, and to create opportunities and access to appropriate training and other development opportunities.	Work with Creative & Cultural Skills and other partners to develop an ESF bid for the development of skills for the creative industries' workforce to be implemented over the next 4 years.
<b>Regenerating communities</b> – we will continue to focus our work and prioritise our funding in areas of social deprivation in Wales.	Contribute towards the regeneration and development of businesses, communities and individuals through the strategic prioritisation of our funding schemes.
<i>Developing our business</i>	
<b>Implementing the recommendations from the Wales Arts Review</b> – we will continue to progress work, in partnership with WAG, to implement the recommendations from the Wales Arts Review.	<p>Work with WAG in the development of a new Culture Strategy for Wales; develop arts policies and strategies at the Arts Strategy Board.</p> <p>Develop proposals for and begin implementation of regional partnerships, working with WAG and Welsh Local Government Association.</p> <p>Examine future funding models for the arts in Wales and submit proposals which could be implemented within current spending limits.</p> <p>Examine the nature and level of support provided to organisations to ensure a sustainable basis for the delivery of strategic objectives</p>
<b>Culture change programme</b> – we will drive forward our cultural change programme, implement changes and monitor their effectiveness in relation to our future business strategy.	Continue to work with our culture change consultant, staff and Council members to deliver the next stage of our agreed culture change programme.
<b>Managing our processes</b> – we will work towards improving our processes in relation to corporate planning, partnership working and grants and client management.	Develop an appropriate monitoring and evaluation framework, to ensure the achievement of the strategic vision for the arts
<b>Developing our workforce</b> – we will continue to develop the skills of our workforce in line with the needs of our future business strategy.	Plan our training and workforce development, including a reassessment of our appraisal system, to align with our corporate objectives.
<b>Operations</b> – we will manage our operations strategy to make the best use of available resources, and achieving maximum efficiency whilst being aware of the need for environmental sustainability.	Implement our Customer Service Strategy action plan for 2008-2009.

## Disabled employees

The Council is committed to a policy of equality of opportunity in its employment practices. In particular, the Council aims to ensure that no potential or actual employee receives more or less favourable treatment on the grounds of age, disability, ethnic or national origin, gender, marital or parental status, nationality, political belief, race, religion, or sexual orientation.

The Council is on the National Register of Disability Symbol Users, reflecting its commitment to ensure that appropriate facilities are available for disabled employees.

## Employee communication

The Council recognises the trade union Unite, with which it has established a procedural agreement; representatives of management and union meet regularly to discuss matters of current concern. Additionally, regular departmental meetings are held and Directors are required to report to their staff on matters discussed at Council and at the Senior Management Team meetings.

## Payment of creditors

It is the Council's policy to pay suppliers within the terms of trade agreed and generally to observe the principles of the Late Payment of Commercial Debts (Interest) Act 1998. 94 per cent of the invoices received from suppliers during 2007-2008 (2006-2007: 96 per cent) were paid within the agreed contractual terms.

## Remuneration Report

The Council remunerates its entire staff, with the exception of the Chairman and Chief Executive whose terms of appointment are agreed with the Welsh Assembly Government, in accordance with an agreed pay and grading system maintained by the Personnel and Training Department. A Job Evaluation Policy is in place, in accordance with which staff may appeal the grading of posts.

Each year management considers staff remuneration against external comparators and movements in the economy. In consultation with the recognised trade union a pay remit is produced and submitted to the Welsh Assembly Government for approval. The resultant pay and conditions package is binding on the whole of the Council until the next round of negotiation. Increases under the pay remit are dependent upon performance established by the Council's system of personal development reviews.

With the approval of the Charity Commission the Chairman is remunerated at a rate determined by the Welsh Assembly Government which reflects a minimum time commitment to Council business. Annual increases of the Chairman's salary are also advised by the Welsh Assembly Government but he receives no bonus payments and is not a member of the pension scheme. Other Council and Committee members are not paid for their services.

The Chief Executive's remuneration consists of a basic salary plus an annual bonus. Annual increases are recommended to Council by the Remuneration Committee in consideration of the performance of the Chief Executive against a set of predetermined objectives. A percentage of the increase, as advised by the Welsh Assembly Government, is consolidated into the Chief Executive's salary and the remainder is paid as a non-consolidated award.

Council members are appointed by the Welsh Ministers for a period of three years and may be re-appointed for a further three year period. The current Chairman, Professor Dai Smith, was appointed as a Council member on 1 April 2004 but took over the chairmanship on 1 April 2006. The Minister for Culture, Sport and the Welsh Language subsequently appointed Professor Smith for a term of three years from 1 April 2007 until 31 March 2010. The Chief Executive and senior directors are all employed on permanent contracts on the Council's standard terms and conditions.

Having successfully completed a probationary period of six months, the Chief Executive and senior directors are entitled to thirteen weeks notice of termination of employment.

The dates of commencement of employment are: Professor Dai Smith (Chairman) 1 April 2006; Peter Tyndall (Chief Executive) 1 October 2001 (left 18 April 2008); David Alston (Arts Director) 1 July 2005; Hywel Tudor (Finance and Central Services Director) 21 January 2002; Jane Clarke (Operations Director) 1 April 2004 (left 9 May 2008); Siân Phipps (Head of Communications) 26 January 2004.

Since 21 April 2008, following the departure of Peter Tyndall, the post of Chief Executive has been covered by James Turner under an agency arrangement. The post of Operations Director is vacant at present.

The Chief Executive, Arts Director, Finance and Central Services Director, Operations Director and Head of Communications are responsible for directing the Council's activities. Their actual emoluments were as follows, 40 per cent (2006-2007: 40 per cent) of which is charged in these financial statements and the remainder to general activities. The figures within this Remuneration Report have been audited.

Name and position	2008 £000	2007 £000	2008 Real increase in pension at age 65 £	2008 Total accrued pension at age 65 as at 31 March 2008 £	Cash <sup>1</sup> Equivalent Transfer Value at 31 March 2007 £	2008 Cash Equivalent Transfer Value at 31 March 2008 £	2008 Real <sup>2</sup> increase in cash equivalent transfer value £
Peter Tyndall Chief Executive	70-75	65-70	568	20,952	223,628	284,547	52,421
David Alston Arts Director	60-65	50-55	786	1,267	6,116	19,424	13,076
Hywel Tudor Finance and Central Services Director	60-65	60-65	1,634	5,604	39,826	70,660	29,321
Jane Clarke Operations Director	60-65	55-60	8,155	12,543	49,855	171,472	119,723
Siân Phipps Head of Communications	40-45	35-40	6,368	11,492	45,581	127,866	80,553

1 Cash Equivalent Transfer Values – A Cash Equivalent Transfer Value (CETV) 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 CETV 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 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 disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Arts Council Retirement Plan 1994. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

2 Real increase in CETV - This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Following an amendment to the Council's Royal Charter, and with the approval of the Charity Commission, since 1 April 2004 the Chairman has been paid for his services. Other Council and Committee members are not paid for their services.

The total actual emoluments of the Chairman and Chief Executive were made up of

	2008 £	2007 £
Chairman		
Salary	<b>42,120</b>	32,864
Chief Executive		
Salary	<b>65,621</b>	64,021
Non-consolidated award	<b>4,801</b>	4,684
Pension contribution	<b>13,387</b>	13,060
	<b>83,809</b>	81,765

40 per cent (2006-2007: 40 per cent) of the Chairman's and Chief Executive's emoluments are charged in these financial statements and the remainder to general activities.

## Statement of Council's and the Accounting Officer's responsibilities

Under Section 35 of the National Lottery etc. Act 1993 (as amended) the Council is required to prepare for each financial year a statement of accounts for its Lottery distribution activities in the form and on the basis determined by Welsh Ministers. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Council and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

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 Welsh Ministers, including the relevant 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 a going concern basis.

The Principal Accounting Officer for the Welsh Assembly Government has designated the Chief Executive as the Accounting Officer of the Council. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Council's assets, are set out in the Welsh Assembly Government's Accounting Officers' Memorandum issued by HM Treasury.

So far as the Accounting Officer is aware, there is no relevant audit information of which the Council's auditor is unaware, and he has taken all the steps that he ought to have taken as Accounting Officer in order to make himself aware of any relevant audit information and to establish that the Council's auditor is aware of that information.

*James Turner*  
Accounting Officer

8 July 2008

*Dai Smith*  
Chairman

8 July 2008

## Statement on Internal Control

### Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Council policies, aims and objectives set by the Welsh Assembly Government whilst safeguarding the public funds and resources for which I am personally responsible, in accordance with the responsibilities assigned to me in the Financial Memorandum, Lottery Finance Directions and in Managing Public Money.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Council policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2008 and up to the date of approval of the trustees' annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

The risk management process is led by the Senior Management Team and endorsed by Council and the Audit Committee. Staff are equipped to manage risk in a way appropriate to their authority and duties by the provision of risk awareness training and on-the-job guidance. Key performance and risk indicators have been established and are monitored on a regular basis.

### The risk and control framework

The Council has a system of internal control based on a framework of regular management information, documented administrative procedures including the segregation of duties, and a system of delegation and accountability.

This includes an organisation-wide risk register containing details of all key risks and mitigating controls. Managers are responsible for drawing up and maintaining more detailed risk registers for any new activities. During the year ended 31 March 2008, for example, a review of the Council's staffing structure was identified as a risk priority and managed accordingly.

Risk management has been embedded in the key operations of the Council by the introduction of a prioritisation methodology based on risk ranking. From the receipt and assessment of applications for funding through to the monitoring of scheme and annually recurring revenue awards, a risk category is assigned on the basis of key criteria. The level of qualitative and other monitoring will be dependent upon the risk category assigned and mitigating controls identified, which are regularly reviewed.

Policies and procedures have been drafted to ensure that there is adequate detection and response to inefficiency, conflict of interest and, as far as possible, fraud and to minimise the loss of grant. These are reviewed regularly and updated as necessary. Policies are also in place covering the acceptable use of IT systems and data protection but, in view of recent security breaches in the public sector, work is underway to review and evaluate the Council's information security management to ensure best practice is in place.

The Council has established the following processes

- the Senior Management Team meets regularly to consider the plans and strategic direction of the Council;
- periodic reports from the chairman of the Audit Committee, to Council, concerning internal control;

- regular reports by the Council's appointed internal auditors, to standards defined in the Government Internal Audit Manual, to the Audit Committee which includes the auditors' independent opinion on the adequacy and effectiveness of the Council's system of internal control together with recommendations for improvement;
- regular reviews to identify and keep up to date the record of risks facing the Council;
- maintenance of an organisation-wide risk register; and
- introduced key performance indicators.

Any weaknesses in the control framework identified by both auditors and our own internal control reviews are reviewed by the Senior Management Team which ensures that corrective action is taken.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the Audit Committee which oversees the work of the internal auditors, the executive managers within the Council 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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by Council, the Audit Committee and the internal auditors and a plan to address weaknesses and ensure continuous improvement of the system is in place.

*James Turner*  
Accounting Officer

8 July 2008

*Dai Smith*  
Chairman

8 July 2008

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament and the Members of the National Assembly for Wales

I certify that I have audited the financial statements of the Arts Council of Wales Lottery Distribution Account for the year ended 31 March 2008 under the National Lottery etc. Act 1993 (as amended) These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## Respective responsibilities of the Council, Accounting Officer and Auditor

The Council and Accounting Officer are responsible for preparing the Trustees' Annual Report, the Remuneration Report and the financial statements in accordance with the National Lottery etc. Act 1993 (as amended) and Welsh Ministers' directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Council's and the Accounting Officer's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and Welsh Ministers' directions made thereunder. I report to you whether, in my opinion, the information, which comprises the Lottery Distribution, Objectives, activities, achievements and performance, Financial review, Plans for future periods, Disabled employees, Employee communication and Payment of creditors, included in the Trustees' Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Council has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Council's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Trustees' Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises Reference and administrative details, Structure, governance and management and the unaudited part of the remuneration report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinion

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



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

## Opinions

In my opinion

- the financial statements give a true and fair view, in accordance with the National Lottery etc. Act 1993 (as amended) and directions made thereunder by Welsh Ministers, of the state of the Arts Council of Wales Lottery Distribution Account's affairs as at 31 March 2008 and of its decrease in funds for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and Welsh Ministers' directions made thereunder; and
- information, which comprises the Lottery Distribution, Objectives, activities, achievements and performance, Financial review, Plans for future periods, Disabled employees, Employee communication and Payment of creditors, included within the Trustees' Annual Report, is consistent with the financial statements.

### **Opinion on regularity**

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

## Report

I have no observations to make on these financial statements.

*T J Burr*  
Comptroller and Auditor General

16 July 2008

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Income and Expenditure Account for the year ended 31 March 2008

	Notes	2008 £000	2007 (restated) £000
<b>Income</b>			
Share of proceeds from the National Lottery	6	<b>10,019</b>	10,051
Investment income on balances in the National Lottery Distribution Fund	6	<b>782</b>	946
Other Income		<b>20</b>	150
Interest receivable		<b>44</b>	33
Grants recoverable		<b>17</b>	116
<b>Total income</b>		<b>10,882</b>	11,296
<b>Expenditure</b>			
<i>Expenditure on the arts</i>			
Net grant commitments made (hard)	9b	<b>8,997</b>	11,006
Delegated distributor: Film Agency for Wales	8a, 11	<b>787</b>	0
Direct costs of grant making	5	<b>47</b>	158
		<b>9,831</b>	11,164
<i>Management and administration</i>			
Staff costs	2	<b>1,107</b>	1,111
Operating costs	4	<b>604</b>	612
Provision for doubtful debts		<b>12</b>	0
		<b>1,723</b>	1,723
<b>Total expenditure</b>		<b>11,554</b>	12,887
<b>Excess of expenditure over income for the year</b>		<b>(672)</b>	(1,591)
Unrealised gain/(loss) on investment in the National Lottery Distribution Fund	6	<b>25</b>	(201)
<b>Decrease in Lottery funds for the year</b>	10	<b>(647)</b>	(1,792)

There are no discontinued activities.

There are no gains or losses other than those shown above.

*The notes on pages 26 to 33 form part of these financial statements*

## Balance Sheet at 31 March 2008

	Notes	2008		2007	
		£000	£000	£000	£000
<b>Current assets</b>					
Investments - balance held in the National Lottery Distribution Fund	6	11,514		16,630	
Debtors	7	162		196	
Cash		752		12	
			<b>12,428</b>		16,838
<b>Creditors: amounts falling due within one year</b>					
Other creditors	8	(115)		(32)	
Delegated distributor: Film Agency for Wales	11	(429)		-	
Provision for grant commitments (hard)	9b	(8,826)		(11,933)	
			<b>(9,370)</b>		(11,965)
Net current assets			<b>3,058</b>		4,873
<b>Creditors: amounts falling due after more than one year</b>					
Provision for grant commitments falling due after more than one year (hard)	9b		(3,318)		(4,486)
Net assets/(liabilities)			<b>(260)</b>		387
<b>Financed by</b>					
Income and Expenditure account	10		<b>(260)</b>		387

*The notes on pages 26 to 33 form part of these financial statements*

The financial statements were approved by the Arts Council of Wales and signed on its behalf by

*James Turner*  
Accounting Officer

8 July 2008

*Dai Smith*  
Chairman

8 July 2008

## Cash Flow Statement for the year ended 31 March 2008

	<b>2008</b>	2007
	<b>£000</b>	£000
<b>Reconciliation of decrease in Lottery funds</b>		
Decrease in Lottery funds	<b>(647)</b>	(1,792)
Decrease/(increase) in debtors and prepayments	<b>34</b>	(87)
Decrease in provision for grant commitments	<b>(4,275)</b>	(1,882)
Increase/(decrease) in other creditors	<b>512</b>	(981)
<b>Net cash outflow from operating activities</b>	<b>(4,376)</b>	(4,742)
<b>Cash Flow Statement</b>		
Net cash outflow from operating activities	<b>(4,376)</b>	(4,742)
Payments to acquire tangible fixed assets	<b>0</b>	-
<b>Decrease in cash and the balance held in the National Lottery Distribution Fund</b>	<b>(4,376)</b>	(4,742)
	<b>Cashflow</b>	Cashflow
	<b>change in</b>	change in
	<b>year</b>	year
	<b>2008</b>	2007
	<b>£000</b>	£000
<b>Reconciliation of net cash flow to movement in net funds</b>		
Increase in cash	<b>740</b>	-
Decrease in the balance held in the National Lottery Distribution Fund	<b>(5,116)</b>	(4,742)
	<b>(4,376)</b>	(4,742)
Net funds at 1 April	<b>16,642</b>	21,384
<b>Net funds at 31 March</b>	<b>12,266</b>	16,642

Net funds at 31 March 2008 comprise cash held by the Council of £752,000 and the balance held in the National Lottery Distribution Fund of £11,514,000.

*The notes on pages 26 to 33 form part of these financial statements*

# Notes forming part of the Financial Statements

## 1 Accounting policies

### *a Basis of preparation*

These financial statements are prepared under the historical cost convention. They have been prepared in accordance with the Accounts Direction issued by Welsh Ministers and meet the requirements of the Government Financial Reporting Manual issued by HM Treasury and of the Statements of Standard Accounting Practice and Financial Reporting Standards issued and adopted by the Accounting Standards Board so far as those requirements are appropriate. A summary of the principle accounting policies which have been applied consistently are set out below.

Under separate Accounts Directions the accounting treatment of general and lottery grants differs significantly so, with due regard to paragraph 359 of the Charity Commission's Statement of Recommended Practice (revised 2005), in the judgment of the Trustees the production of a consolidated account is inappropriate as it would not provide a fair view of the application of the Council's resources.

### *b Going concern*

These financial statements have been prepared on the going concern basis on the assumption that funds will continue to be made available from the National Lottery Distribution Fund. This assumption is itself dependent on future levels of lottery ticket sales, which cannot be guaranteed. The Council is however allowed to commit funds on the basis of anticipated future income.

### *c General activities*

These financial statements do not cover the Council's general activities, funded mainly by grant-in-aid, for which separate financial statements have been prepared.

### *d Grant commitments*

A distinction is made in respect of grants made by the Lottery distributors between 'hard commitments' and 'soft commitments'. Hard commitments, which are charged as expenditure in the financial statements, arise when the Council has made a formal offer of grant which (together with appropriate conditions) has been accepted by the recipient. Soft commitments, which are recorded in a note to the financial statements, arise when the Council has agreed to offer a grant but, at the year end, the offer has not been accepted formally by the recipient.

Hard commitments payable within one year of the year end are recognised in the balance sheet as current liabilities. Those payable more than one year after the balance sheet date are shown as such.

### *e 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 such balances attributable to the Council is shown in the accounts at the lower of cost or market value and, at the balance sheet date, has been notified by the Secretary of State for Culture, Media and Sport as being available for distribution by the Council in respect of current and future commitments.

### *f Pensions*

The Council is an admitted employer of the Arts Council Retirement Plan 1994. The pension scheme provides defined benefits to Council employees. The costs of the Council's contributions are charged to the Income and Expenditure Account so as to spread the cost of pensions over employees' working lives.

*g Taxation*

Non-recoverable Value Added Tax arising from expenditure is charged to the Income and Expenditure Account or capitalised as a fixed asset where applicable.

*h Apportionment of management and administration costs from the General Activities Account*

The Council incurs costs which support both its general activities and lottery distribution functions. In accordance with the Financial Direction issued by the Secretary of State, the Council apportions indirect costs properly between these two areas of activity with reference to the time spent on or the consumption of the relevant resources by the respective activities.

**2 Staff costs**

	<b>2008</b>	2007
	<b>£000</b>	£000
Wages and salaries charged to lottery distribution activity	<b>819</b>	893
Social security costs	<b>66</b>	69
Other pension costs	<b>155</b>	165
Redundancy costs	<b>36</b>	0
Agency costs	<b>31</b>	22
	<b><u>1,107</u></b>	<u>1,149</u>

**Staff costs are incorporated in the accounts as follows***Management and administration*

Staff costs	<b>1,107</b>	1,111
Direct costs of grant making (note 5)	-	38
	<b><u>1,107</u></b>	<u>1,149</u>

*The average number of staff (full time equivalents) employed across the whole Council during the year was*

	<b>No</b>	No (restated) <sup>1</sup>
Services, direct promotions and direct costs of grant making	<b>21</b>	20
Management and administration	<b>73</b>	76
Agency staff	<b>2</b>	2
	<b><u>96</u></b>	<u>98</u>
<i>Based on time apportionments, the average number of staff (full time equivalents) employed on Lottery distribution during the year was</i>		
Direct costs of grant making	-	1
Management and administration	<b>32</b>	34
	<b><u>32</u></b>	<u>35</u>

The balance of 64 (2006-2007: 63) staff were employed on general activities.

1 The totals for 2007 have been restated to include agency staff.

### 3 Pension costs

Most employees are members of the Arts Council Retirement Plan 1994. The fund is a defined benefit scheme. It is also a multi-employer scheme so the Council is unable to identify its share of the underlying assets and liabilities. The scheme has therefore been accounted for as if it were a defined contribution scheme, in accordance with FRS17.

An independent actuarial valuation of the Arts Council Retirement Plan 1994 normally takes place every three years. The last valuation was carried out as at 31 March 2007 using the 2007 Ongoing Basis. The overall market value of the Plan's assets as at 31 March 2007 was £58.5m. The actuary concluded that at the valuation date the Plan had a past service deficit of £18.8m and a funding ratio of 76 per cent. In order to eliminate the deficit, the actuary recommended increased employer contributions over the next 9 years. The reduction to 9 years compared to the 12 years used previously took account of the guidance issued by the Pensions Regulator.

On the assumption that the recommended amounts would be paid to the Plan, the actuary's opinion was that the resources of the scheme are likely in the normal course of events to meet in full the liabilities of the scheme as they fall due. The main actuarial assumptions used were that price inflation would be 3.2 per cent per annum, pay increases would be 4.7 per cent per annum, pension increases would be 3.2 per cent per annum on pensions in excess of Guaranteed Minimum Pensions (GMPs), pension increases of deferred pensions would be 3.2 per cent per annum on pensions subject to statutory revaluations, the past service discount rate would be 5.9 per cent per annum and the future service discount rate would be 7.1 per cent per annum.

Contributions by the Council and its employees were

	For staff in post on or before 31 August 2006		For staff in post on or after 1 September 2006	
	<b>2008</b> %	2007 %	<b>2008</b> %	2007 %
Council	<b>20.6</b>	20.4	<b>18.6</b>	18.4
Employees	<b>0.0</b>	0.0	<b>2.0</b>	2.0

In addition to the above, all employees contribute 1.5 per cent to secure pension benefits for dependants.

The Council will also pay 0.2 per cent of pensionable salary in respect of each life assurance only member.

### 4 Operating costs

	<b>2008</b> <b>£000</b>	2007 £000
Accommodation	<b>42</b>	52
Office running costs	<b>147</b>	136
Operating leases		
buildings	<b>66</b>	63
office equipment	<b>1</b>	1
Recruitment, training and other staff costs	<b>72</b>	38
Travel and subsistence		
Officers	<b>42</b>	50
Members	<b>11</b>	9
Communications	<b>5</b>	7
Lottery promotion and information	<b>2</b>	6
Grant monitors, advisers and legal fees	<b>62</b>	60
Audit	<b>16</b>	16
Other professional fees	<b>33</b>	31
Irrecoverable VAT	<b>78</b>	78
Charge for use of fixed assets	<b>27</b>	65
	<b>604</b>	612

Operating costs are apportioned between the Council's general activities and lottery distribution accounts with reference to the time spent on, or the consumption of, the relevant resources by the respective functions. The rates applied differ according to the expenditure heading and geographical region but the average charge to Lottery activities was 40 per cent (2006-2007: 40 per cent).

## 5 Direct costs of grant making

	<b>2008</b>	2007
	<b>£000</b>	£000
Assessors' fees	<b>32</b>	32
Legal and professional fees	<b>3</b>	53
Creative Wales Awards	<b>12</b>	12
Staff costs	–	38
Monitoring fees	–	23
	<b>47</b>	158

## 6 National Lottery Distribution Fund

	<b>2008</b>	2007
	<b>£000</b>	(restated) £000
Balance held in the National Lottery Distribution Fund at 1 April	<b>16,630</b>	21,372
Allocation of Lottery proceeds	<b>10,019</b>	10,051
Investment income receivable	<b>782</b>	946
Unrealised gain/(loss) on investment in National Lottery Distribution Fund	<b>25</b>	(201)
Drawn down in the year	<b>(15,942)</b>	(15,538)
Balance held in the National Lottery Distribution Fund at 31 March	<b>11,514</b>	16,630

The balance held at 31 March 2008 at the National Lottery Distribution Fund may be subject to change as the audit of the fund is incomplete. Any adjustments arising from that audit will be reflected in the Council's 2008-2009 accounts. There was no corresponding adjustment for 2006-2007 to make in these accounts but the comparative figures for 2007 now reflect a revised disclosure layout.

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 £1,085m from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund in order to meet some of the costs of hosting the 2012 games. This comprises £410m as originally envisaged when the Government decided to support London's Olympic bid in 2003, and a proposed further £675m arising from the subsequent budget review.

The Arts Council of Wales was committed to contribute up to £3.552m in the original bid and this order allows for the transfer of up to a further £4.509m.

The first transfer of funds is expected to take place on or after 1 February 2009 when the Arts Council of Wales will contribute up to £0.542m.



**7 Debtors: amounts falling due within one year**

	<b>2008</b>	2007
	<b>£000</b>	£000
<i>a Analysis by type</i>		
Grants recoverable	<b>31</b>	19
Other debtors	<b>150</b>	150
Due from the Arts Council of Wales General Activities account <sup>1</sup>	–	34
Specific provision for doubtful debts	<b>(19)</b>	(7)
	<b>162</b>	196

1 The amount due from the Arts Council of Wales General Activities account relates to apportioned costs.

*b Intra-government balances*

Balances with other central government bodies	–	34
Balances with bodies external to government	<b>162</b>	162
Total debtors	<b>162</b>	196

**8 Creditors: amounts falling due within one year***a Analysis by type*

Trade creditors	<b>7</b>	16
Due to the Arts Council of Wales General Activities account <sup>1</sup>	<b>88</b>	–
Accruals and deferred income	<b>20</b>	16
<i>Sub-total: Other creditors</i>	<b>115</b>	32
Film Agency for Wales <sup>2</sup>	<b>429</b>	–
Provision for grant commitments (hard)	<b>8,826</b>	11,933
	<b>9,370</b>	11,965

1 The amount due to the Arts Council of Wales General Activities account is made up of

*Recharges of apportioned costs*

Staff	<b>48</b>	–
Overheads	<b>13</b>	–
Charge for use of assets	<b>27</b>	–
	<b>88</b>	–

2 On 24 May 2007 the Film Agency for Wales became the Council's delegated distributor of funding for film

Allocation of funds during the year	<b>787</b>	–
Hard commitments delegated in accordance with novation agreement	<b>993</b>	–
	<b>1,780</b>	–
Drawn down in the year	<b>(1,351)</b>	–
Undrawn funds at 31 March	<b>429</b>	–

	<b>2008</b>	2007
	<b>£000</b>	£000
<i>b Intra-government balances</i>		
Balances with other central government bodies	<b>88</b>	–
Balances with local authorities	<b>3,189</b>	3,022
<i>Sub-total: Intra-government balances</i>	<b>3,277</b>	3,022
Balances with bodies external to government	<b>6,093</b>	8,943
Total creditors	<b>9,370</b>	11,965

## 9 Grant commitments

	£000	£000	£000	2008	2007
	Film	Capital	Revenue schemes	£000	£000
				Total	Total
<i>a Soft commitments</i>					
Soft commitments at 1 April	<b>88</b>	<b>304</b>	<b>1,279</b>	<b>1,671</b>	4,151
Soft commitments made in the year	–	<b>5,049</b>	<b>3,700</b>	<b>8,749</b>	11,288
Total grant offers made	<b>88</b>	<b>5,353</b>	<b>4,979</b>	<b>10,420</b>	15,439
Offers not accepted	–	–	(6)	(6)	(21)
Soft commitments transferred to hard commitments	<b>(88)</b>	<b>(5,226)</b>	<b>(4,464)</b>	<b>(9,778)</b>	(13,747)
Soft commitments at 31 March	–	<b>127</b>	<b>509</b>	<b>636</b>	1,671
<i>b Hard commitments</i>					
Hard commitments at 1 April	<b>1,290</b>	<b>12,058</b>	<b>3,071</b>	<b>16,419</b>	18,301
Hard commitments in the year	<b>88</b>	<b>5,226</b>	<b>4,464</b>	<b>9,778</b>	13,747
Amounts not taken up	–	(629)	(152)	(781)	(2,741)
Charged to Income and Expenditure Account <sup>1</sup>	<b>88</b>	<b>4,597</b>	<b>4,312</b>	<b>8,997</b>	11,006
Grants paid in the year	<b>(385)</b>	<b>(6,776)</b>	<b>(5,118)</b>	<b>(12,279)</b>	(12,888)
Hard commitments delegated <sup>2</sup>	<b>(993)</b>	–	–	<b>(993)</b>	–
Hard commitments at 31 March	–	<b>9,879</b>	<b>2,265</b>	<b>12,144</b>	16,419
Hard commitments payable within one year	–	<b>7,180</b>	<b>1,646</b>	<b>8,826</b>	11,933
Hard commitments payable after one year	–	<b>2,699</b>	<b>619</b>	<b>3,318</b>	4,486
	–	<b>9,879</b>	<b>2,265</b>	<b>12,144</b>	16,419

1 Hard grant commitments charged to the Income and Expenditure Account comprise

Grants to public bodies	<b>3,289</b>	3,967
Grants to private bodies	<b>5,708</b>	7,039
	<b>8,997</b>	11,006

2 On 24 May 2007 the Film Agency for Wales became the Council's delegated distributor of funding for film. All outstanding hard commitments for film were transferred to the Agency via a novation agreement. See also note 11.

**10 Movement in Lottery funds**

	<b>2008</b>	2007
	<b>£000</b>	£000
Income and Expenditure Account at 1 April	<b>387</b>	2,179
Decrease in Lottery funds for the year	<b>(647)</b>	(1,792)
Income and Expenditure Account at 31 March	<b>(260)</b>	387

**11 Delegated distributor: Film Agency for Wales**

From 24 May 2007 a delegation agreement with the Film Agency for Wales was in place and fully operational for the purpose of the distribution of Lottery funds. Transactions in these financial statements relating to this delegation reconcile to transactions in the financial statements of the Film Agency for Wales as follows

	£000
<b>Arts Council of Wales</b>	
<i>Expenditure on the arts</i>	
Allocation of funds during the year	787
Existing hard commitments delegated	993
<i>Creditor (due within one year)</i>	
Film Agency for Wales	429
	£000
<b>Film Agency for Wales</b>	
<i>Income</i>	
Share of National Lottery proceeds	787
Funding contracts transferred from the Arts Council of Wales	993
<i>Debtor</i>	
Arts Council of Wales	429

The following Lottery distribution information is extracted from the unaudited draft financial statements<sup>1</sup> of the Film Agency for Wales for the year ended 31 March 2008

	£000
Reserves at 1 April 2007	Nil
Incoming funds: Arts Council of Wales	1,780
Incoming funds: Other	23
Outgoing funds	(1,143)
<b>Reserves at 31 March 2008</b>	<b>660</b>
<i>Details of grant commitments at 31 March 2008</i>	
Hard commitments	845
Soft commitments	253

A full list of the grants awarded by the Agency in 2007-2008 is given in the Council's Annual Report, published separately. More detail about the Agency's work can be found on its website at [www.filmagencywales.com](http://www.filmagencywales.com).

1 The draft financial statements will be presented to the Agency's Board on 25 July 2008 and audited in August 2008.

**12 Post balance sheet events**

Authorisation of these financial statements for issue

The Accounting Officer authorised these financial statements for issue on 16 July 2008.

### 13 Related party transactions

#### *Public bodies*

The Council is an Assembly Government sponsored body.

The National Assembly for Wales/Welsh Assembly Government is regarded as a related party and details of transactions with the National Assembly for Wales/Welsh Assembly Government are given in the separate accounts covering the Council's general activities.

The National Lottery Distribution Fund is administered by the Department for Culture, Media and Sport which is regarded as a related party. During the year the Council had no material transactions with the Department for Culture, Media and Sport other than those shown in the Income and Expenditure Account.

#### *Individuals*

During the year members of Council, or other related parties (being close family members) undertook material financial transactions (listed below) with the Council in its role as Lottery distributor. Material financial transactions with the Council in respect of its general activities are recorded in the separate accounts covering those activities. There were no material financial transactions with key managerial staff or their close family members.

#### *Council members*

A number of Council members and/or their close family were members of the Boards of Management (or equivalent) or were senior employees of organisations offered Lottery grants by the Council in 2006-2007. In all such cases, in accordance with the Council's Code of Best Practice, the member concerned withdrew from any meeting during discussion of the application.

<b>Member</b>	<b>Organisation</b>	<b>Transaction (number)</b>	<b>Total value £</b>	<b>Total balance outstanding at 31 March 2008</b>
Maggie Hampton Director	Disability Arts Cymru	Grant (2)	25,881	20,881
Board member (family member)	India Dance Wales	Grant (1)	18,750	18,750
Rhiannon Wyn Hughes MBE Councillor	Denbighshire County Council (including Ruthin Craft Centre and Royal International Pavilion)	Grant (6)	119,816	99,375
Trustee	Bodelwyddan Castle	Grant (1)	1,440	Nil
Vice President	Llangollen International Musical Eisteddfod	Grant (1)	7,182	7,182
John Metcalf Employee	Swansea Festival of Music and the Arts	Grant (1)	20,000	2,000
Robin Morrison Employee	Blaenau Gwent County Borough Council	Grant (3)	10,930	Nil
Ruth Till MBE Committee member	Community Dance Wales	Grant (2)	40,172	40,172
Debbie Wilcox Councillor	Newport City Council (including The Riverfront and Newport Museum and Art Gallery)	Grant (1)	49,439	49,439

#### **Key managerial staff**

During the year no key managerial staff and/or their close family had connections with organisations with which the Council entered into material financial transactions.

For further information about the National Audit Office please contact:

National Audit Office  
Press Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS  
Tel: 020 7798 7400  
Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

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