

Review 08

State of the arts

Interview with *Jon Winstanley*, creator of Manchester's unique Sketch City

Five years of Grants for the arts

A look at Arts Council funded programmes

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

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**Arts Council England grant-in-aid and
lottery annual report and accounts 2007/08**

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Great art for everyone

Arts Council England works to get great art to everyone by championing, developing and investing in artistic experiences that enrich people's lives.

As the national development agency for the arts, we support a range of artistic activities from theatre to music, literature to dance, photography to digital art, carnival to crafts.

Great art inspires us, brings us together and teaches us about ourselves and the world around us. In short, it makes life better.

Between 2008 and 2011, we will invest in excess of £1.6 billion of public money from the government and the National Lottery to create these experiences for as many people as possible across the country.

Looking back, moving forward

In the year when the Arts Council conducted the most comprehensive review of public funding to the arts in England ever undertaken, it is important to look back further than the furore of the early part of 2008 and remind ourselves of the successful outcome won from the comprehensive spending review.



Sir Christopher Frayling, Chair, 2008. Photo: Steve Double

Led by the Arts Council, the arts sector fought a long campaign that won us a surprisingly good settlement from government in what was roundly acknowledged to be a tough spending round. It is one thing to win a good settlement in an expansive spending round – quite another to do so in tighter times.

But since becoming Chair I've been clear that the Arts Council should be much, much more than a funding body. As I think I may have said once or twice before, the Arts Council is not just a cash point machine with a complicated pin number, but is also a development agency for the arts.

The Arts Council's decisive investment strategy for the arts for 2008–11 led – inevitably – to controversy, but I believe it will enable us to build on the firm foundation of the successes and achievements of the last 10 years, and to move on. I also believe that the arts ecology in this country can be more healthy, confident, and strong as a result. Everyone I've spoken to agrees with the principles we adopted; to champion innovation and excellence by bringing new organisations and giving others above-inflation increases rather than simply give all existing funded organisations a little more. As for the practical consequences... well, they were bound to divide opinion, especially when they led to organisations facing a reduction or non-renewal of their funding. It is precisely because we knew from the start that the investment strategy would at times be difficult that we must now conduct a review in order to benefit from a valuable external perspective on the process. This was in some ways new territory for the Arts Council.



Learning lessons should be one of the key outcomes for the Arts Council from any review of these proportions and I look forward to discussing with Baroness McIntosh her recommendations. They will come in very useful for future investment strategies, and for putting persuasive cases to government about the future level of arts funding. I'm sure the Arts Council will stay firmly on the front foot and will remain a powerful and ambitious advocate for the arts in England, if anything enhanced by the events of the past year.

I must pay tribute to Peter Hewitt who stood down as chief executive of the Arts Council this year. During the last 10 years Peter oversaw the beginnings of a new renaissance in the publicly-funded arts, from the merger of nine regional arts boards into one organisation to Artichoke Productions' the *Sultan's Elephant*. Peter's contribution to making the arts one of our national success stories was profound. And in the debate about the investment strategy, he proved himself to be courageous as well.

In the next year the Arts Council must digest and respond to the McMaster review, *Supporting Excellence in the Arts*. Sir Brian McMaster is a member of our national Council and his was a very welcome intervention that grew in part out of extensive discussions on the Council itself as well as out of our public value inquiry, the arts debate. I was particularly pleased to see the review recognise that artistic excellence can encourage wider and deeper engagement with the arts by audiences. Access enhances excellence, and the two should never be seen as antithetical. As Joan Littlewood once said, if you offer the public anything less than the best you are just being patronising.

So *future* audiences and arts practitioners must be nourished as well and, standing as I do with one foot in the arts world and the other in art and design education, I was inspired by *Creative Britain*, the strategy document from the Department for Culture, Media and Sport. Skills are at the heart of the creative economy and the Arts Council must support the progression from talent to jobs and ensure that more people with the right skills enter the creative sector. Also, we must constantly remind everyone of the deep connections which exist between the publicly-funded arts and the profit-making creative industries.

My time as Chair of the Arts Council comes to an end in January 2009. Over the last five years much has happened, from the redefinition of our role as a development agency and a clearer understanding of the 'arm's length' relationship to government, to a new approach to our investment strategy and the successful refurbishment of the Festival Hall and hundreds of other major arts centres. Our national office has also been reorganised and there have been fresh appointments at senior level – including the auspicious and timely arrival of Alan Davey as chief executive. Plus a lot of speeches. I keep them all, in hard copy, and the pile of papers is now about as tall as me! During the heated debates of January 2008, I said on the radio, 'you certainly don't take on a role like this to increase your circle of friends'. That's true. But my unwavering belief in public funding of the arts has made it all worthwhile.

I'd like to pay tribute to my predecessor Peter Hewitt, who has created the conditions under which the arts can thrive. He led three major structural reforms of the Arts Council that put over £9 million back into the arts, created one arts organisation out of 10 regional ones, and three funding streams for the arts out of over 100. That's a great platform upon which I can build.

When I got the job of chief executive, Peter told me it was an honour. Making sure that the arts in this country are in good shape is also a tremendous responsibility and one in which I believe profoundly. Governments and organisations in civil society have a duty to ensure welfare and opportunity for all citizens, and in the past this has been understood in terms of material welfare – improving wealth creation and ensuring poverty is reduced. But we must also pay attention to poverty of aspiration: an outlook on life and an ability to get on in the world. The bottom line of GDP is not enough in itself – citizens need a different kind of wealth to live a rounded life. That's where the arts, and culture more generally, come in.

The arts, if they are of high quality, offer us many things – they have an intrinsic benefit and give us tools with which we navigate the world. The Arts Council must therefore create the conditions in which great art and world-class ambition can flourish, and then we must make sure that as many people as possible can experience the pleasure and richness that they have to offer.

That's our mission.

I want the Arts Council to be able to respond to the ambition of artists to take artforms to places we don't yet know, and to take audiences with them. We'll do that through our own funding and through our partnership work with other funders. We'll do that through leading on how the arts can physically, economically and spiritually regenerate communities. We'll do that by encouraging the mixed economy of funding that is unique to this country, and by leading debates on the importance of the arts and the direction particular artforms could go.

You'll notice some changes in the next year or so. I want the Arts Council to have a more open culture and a more courageous dialogue with artists and audiences. At the same time I want to reduce the

percentage of our budget we spend on ourselves by 15 per cent, and put that money into the arts. That's a challenge, but one we need to meet.

I'll take on board the conclusions of Baroness McIntosh on the lessons the Arts Council should learn from the recent investment strategy process. It's important, because in order to deepen the ambition we have for the arts, we will have to make difficult decisions again. Spreading funding thinly so that the quality of the arts suffers is not an option.

I'll also be embracing the McMaster review, *Supporting Excellence in the Arts*. What is great about this review is that it highlights an essential debate for the arts: arts need to be of the highest quality for people to engage with them, so how do we discuss and judge that in an appropriate way? The Arts Council will be addressing this question, with new ways of self assessment and peer review with artistic achievement at its heart. If we get it right, this will point the way forward for other parts of the public sector where quality is essential to the success of the enterprise. Light touch and proportionate – we have to get this right.

Other challenges for the Arts Council over the coming year include: taking forward work on the visual arts in response to Turning Point; getting the Cultural Offer (five hours per week of high quality arts and culture for every child and young person) right; ensuring Creative Partnerships continues to thrive; acting on our assessment of theatre since the Boyden Review of regional producing theatre; and ensuring that the ecology of theatre in this country is healthy, with plenty of groundbreaking work and new writing being seen by and enthusing as many people as possible.

So, there are challenges ahead for the Arts Council. We need to meet those challenges, because nothing less than excellence will do.





We work to get great art to everyone by championing, developing and investing in artistic experiences that enrich people's lives. As the national development agency for the arts, we support a range of artistic activities from theatre to music, literature to dance, photography to digital art, carnival to crafts.

In 2007/08, we invested more than £529 million of public money from the government and the National Lottery. This is the bedrock of support for the arts in England.

Between 2008 and 2011, we will invest £1.3 billion of regular funding in around 880 arts organisations across England, including the Royal Opera House, Birmingham Royal Ballet, Punchdrunk, BALTIC, and Southbank Centre.

Grants for the arts is our open access funding programme for the arts, funded by the National Lottery (see pages 27–29). In 2007/08, we made over 2,800 grants totalling nearly £57 million, and brought in a simplified application process.

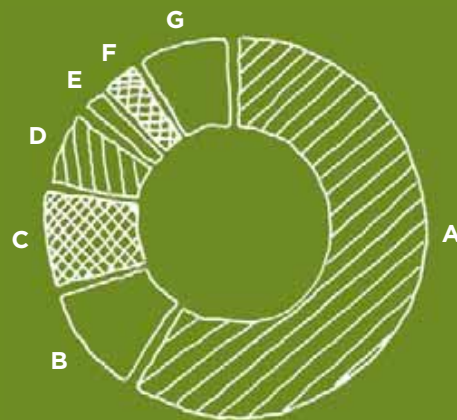
Our managed funds allow us to identify new opportunities for the arts, and establish new partnerships and development projects. These funds are not normally open to application.

529m

Creative Partnerships aims to develop the creative thinking skills of young people in England by supporting long-term projects between schools and creative professionals. The programme is now active in 1,600 schools in 36 areas around the country.

Our administration costs, which cover salaries, rent, office and sundry costs, were £49 million in 2007/08. As part of our government settlement, we are committed to reducing these costs by 15 per cent by 2010/11.

For more detailed figures, please visit www.artscouncil.org.uk/annualreview2008



HOW WE FUND THE ARTS

A Regularly funded organisations	60%
B Grants for the arts	10%
C Managed funds	9%
D Creative Partnerships	7%
E Lottery capital and stabilisation	2%
F Other lottery programmes	4%
G Administration	8%

Street credibility – outdoor art is in from the cold

Manchester's Sketch City was started by Jon Winstanley on a shoestring in June 2005 and has grown into a platform for emerging artists. Sketch City runs music events where street artists work in front of the audience and also organises art workshops, promotes professional street artists and has opened a new city centre art gallery.

I still work part time in a record shop and as a DJ to help pay the bills but spend most of my spare time and energy running Sketch City. I came up with the idea of Sketch City when I had been ill for two years and needed something to get me back on my feet. I have lupus, which is an autoimmune disease that can affect virtually any system in my body and as a result was unable to hold down a proper job. Sketch City gave me the motivation to get myself back into doing something positive with my life; it was born from a passion and it combines my love of street art, music and socialising.

'Brilliant' first event

The first Sketch City event provided music, the venue and materials for street artists to do their thing. The response was better than I could have hoped, with many people showing their gratitude for putting the event on. I'm not saying that I came up with something unique but I think it was presented in a new way, to a new audience and at the right time, and in the right place.

After that, Sketch City just grew. People approached me asking where they could contact the artists and I realised that I could play a role in promoting artists while creating a career for myself. My friends Ryan Hunn and Barney Francis joined me after a year or so and Sketch City really took off.



Jon Winstanley,
Sketch City Style,
2007. Photo:
Jon Winstanley



Lack of money was always a big issue so we were delighted when I won £10,000 in the Arts Council's art07 awards. It really helped and now we have monthly Sketch City events, the Upper Space gallery is now up and running, and Sketch City regulars are accepting commissions for their work.

Doing something right

We had no idea then how street art would develop. Now it's a bit easier to get in touch with individual artists with MySpace and Flickr but they were in their infancy in 2005. We have learned about the business as we go along. We had no training and not much experience but we seem to be doing something right.

I feel that the work we do is of major importance for emerging artists. Our gallery gives them somewhere to show their work in a professional environment. Art and music are closely linked – both facets of the same creative drive. We are always looking for new artists, performers and DJs to get involved in our events and welcome people to get in touch and get involved in the many projects we work on.

“ The award really took the pressure off and showed us that other people recognised what we were trying to achieve. ”

Street artists on show

Sketch City has been able to grow due to the support of the Arts Council and companies that regularly invest materials and finance to help us. Sketch City has enabled artists to showcase their creative methods alongside other companies and has also run stages and art areas at festivals including Glastonbury, Hub, Dpercussion and New Islington.

Sketch City works to secure commissions for artists. Through Sketch City, street artist Barney Francis was commissioned to come up with concepts for decorating the new Revolution bar in York and has been commissioned to do the Edinburgh, Cardiff, Manchester Deansgate and Richmond, London venues too.

Sketch City's first international music and street art event took place in Melbourne, Australia in February and seems to be going from strength to strength;

I am hoping to build links with them with a view to setting up an international artists exchange in the not so distant future.

What of the future? Money, as always, is tight, but I would like to see the gallery fully functional and the Sketch City concept spreading to other cities, countries, the world...

Achievement award boosts Sketch City
Sketch City got a well deserved boost when Jon won the prestigious art07 Outstanding Achievement in the Arts award at the Arts Council England art07 awards ceremony last year.

The art07 awards were designed to recognise and nurture creative talent in the north west, and Jon won the top prize, competing against other arts organisations and individuals from across the region. As well as recognising Jon's achievements and hard work, the award gave him a £10,000 cash prize to put towards furthering his artistic ventures.

'It was one of the most astonishing moments of my life; I really didn't expect to win anything. The award and the money came at exactly the right time. It really took the pressure off and showed us that other people recognised what we were trying to achieve'.

The money has helped free up funds for the Upper Space gallery that Jon and friends have been renovating, getting books on building, buying materials and learning how to do it.

Jon also won the Rising Star category, which focuses on emerging new talents who are clearly destined for great things in the arts.

Find out more at www.sketchcity.co.uk



Granting precious time



Anyone with young children would find it hard to set aside time to complete a first novel. Add to that a career as a screenwriter, playwright and actor and you can see why Nazrin Choudhury needed an Arts Council Grants for the arts award to give her time to write.

I studied for a degree in biomedical science at King's College, London but during my time at university, I realised that my real strengths lay in writing and performing. While on a theatre tour in Austria, I began writing in earnest and was thrilled when my first screenplay won a Focus on Talent award and a subsequent development commission with DNA Films. The screenplay dealt with a young racist bomber who embarks on a relationship with an Asian woman as cover for his activities but ends up falling in love with her.

Soon after that I secured a very good agent and was invited to apply for a Channel 4 drama bursary to study for an MA in Screenwriting at the Northern Film School (part of Leeds Metropolitan University). I was also very fortunate as the BBC had read some of my work and decided to nurture me through their various writing schemes. I went on to script episodes of popular shows such as *Doctors*, *Eastenders* and *Casualty* and also storylined at *Coronation Street*. In 2006, my first radio play, *Mixed Blood*, won the Imison Award for the best drama script by a writer new to radio as judged by the Society of Authors.

I continue to work on established shows as well as developing my own original work and feel quite blessed that my writing has received so much recognition along the way.



Nazrin Choudhury, 2008. Photo: Clive Moore



My first novel

Towards the end of 2006 I applied for a Grants for the arts award as I began to turn my attention to writing my first novel, which had been taking shape in my mind and on paper for a while. Writing a novel is an arduous and time-consuming task which requires dedicated time and concentration.

My England is an ambitious novel. The Arts Council award allowed me six months to work solidly on the book in order to get it to a stage where it could be submitted to a literary agent for representation. I was subsequently signed to the Christopher Little Agency by Patrick Janson-Smith.

When I first embarked on a writing career, I always imagined it would be for the stage or in the novel form first but sheer providence meant it actually began in film and television. The novel was therefore a very natural 'next stage' for me.

My England is a novel inspired by my late father and many like him who came to Britain in the 1950s. It tells the story of Harun, a first-generation Bangladeshi immigrant, and his trials and tribulations set against the changing backdrop of political, social and cultural events over six different decades, beginning with his arrival in England in the fifties right through until the present.

There is so much written about immigrants but very little told from the point of view of the immigrants themselves. *My England* seeks to redress that while celebrating the diversity and richness of culture that we have in Britain. It also seeks to promote generational and cultural understanding between

different communities in the telling of the story. I now need to do some more work on the novel in order to get it to the stage where it can be sent to publishers. I am hoping that someone will see value in it like the Arts Council did and want to put it on those bookshelves before long.

“ The Arts Council could see the integrity and value of the project and my determination to tell the story. ”

Without the award, it would have been almost impossible to start writing this book as soon as I have done. It means a lot to me to know that the Arts Council could see the integrity and value of the project and my determination to tell the story.

Being a writer is a burden as well as a joy, as when you have a story you so passionately want to tell, it consumes every fibre of your body and every spare moment. You live, breathe and sleep with it. However, much as it is a passion, it is also what pays the bills and that is why the Arts Council award was so useful as I'm not sure I could have achieved what I achieved without it.

“ I continue to work on established shows as well as developing my own original work and feel quite blessed that my writing has received so much recognition along the way. ”



State of the arts

In October 2006, we launched one of the largest pieces of qualitative research into the arts and arts funding ever undertaken. The findings were published in November 2007, and will be a vital part in shaping our future priorities.

Overseen by an independent panel of experts, the arts debate gathered the views of over 1,500 individuals and organisations, using cutting edge research techniques to provide insight into complex and often contentious policy questions. Its aim was to find out whether, and how, people in England value the arts and to help the Arts Council focus on the things that really matter to people. We published the results in November 2007.

The arts debate found that the majority of people believe the arts can play an important role in the lives of individuals and society. There are three main ways in which people describe the value of the arts:

- building people's capacity for understanding and navigating the world around them
- enriching people's experience of life and offering an important emotional escape
- producing wider outcomes or applications, such as creating links between different communities

It is widely agreed that quality and innovation are vital ingredients for the arts. Innovation is seen as an important part of the overall quality of experience, but there is a concern that very innovative work can be alienating. After considering and debating the issue, most people concluded that innovation is essential to heighten the experience of the arts – even if that experience is sometimes difficult or disturbing.

While most people are supportive about public funding of the arts, the research also raised questions about the nature of arts funding. The two main issues that emerge as key challenges for the Arts Council are:

- enabling as many people as possible to experience high quality arts
- ensuring accountability and transparency for both the Arts Council and the organisations we fund

Many believe that the Arts Council needs to do more to bring the arts closer to people's lives. And because 'high quality art' means different things to different people, the Arts Council needs to ensure that there is a richer, and more diverse mix of opportunities for people to get involved in the arts.

It is clear that not everyone is currently engaged with the arts. Most of the population (around 77 per cent) engage with the arts at least once a year, but more detailed analysis shows that the number of people who attend regularly across a broad range of arts events is actually very small, and for the majority of the population arts attendance is, at best, occasional.

There are people from all parts of society who feel a strong sense of exclusion from the arts, or who simply do not want to take up the opportunities that are currently available. Although lack of money or difficulty in finding or getting to the arts can be reasons for not engaging, in the main barriers appear to be psychological rather than physical. Some feel that the arts are just not for people like them. They believe they wouldn't fit in at an arts event and might be looked down on by other members of the audience.

There are persisting inequalities in the take-up of arts opportunities and research reveals that the most important factors affecting attendance and participation are social status and education.

People with little or no formal education and with low social status are particularly likely to have little or no engagement with the arts, while people with a university degree are much more likely to engage with the arts than anyone else.

The arts debate has made an important contribution to the ongoing discussion about the nature and value of the arts and the purpose and role of public funding. It has also presented the Arts Council with many opportunities and challenges for the future. The early findings have informed the development of the Arts Council plan 2008–11. This will reflect our overall mission to get great art to everyone.

We will be working to address some of the longer-term challenges posed by the findings. In particular we want to improve our decision-making processes by being clearer about the outcomes we seek to achieve, drawing more on the expertise and ideas of artists, arts organisations, and members of the public. The arts debate has been a very valuable process for the Arts Council and we believe that ongoing consultation and dialogue will help us to become a more effective, accountable and trusted organisation.

Finally, we believe the arts debate has initiated a new kind of conversation between individuals and organisations everywhere about what the arts mean to people today. In the future the Arts Council will seek to widen and deepen this conversation, allowing more voices to be heard and more experiences to be shared. Ultimately we hope this will enable everyone to feel that the arts are and can be for them.



No pain, no gain



In February 2008, we announced the most comprehensive review of arts funding in our history, with an increase in funding for 76 per cent of organisations. We brought 81 new organisations into our portfolio, while 185 had their funding withdrawn. The initial proposals sparked controversy across the art world, as shown by this reprint of Alistair Smith's article from the *The Stage*, published two weeks before the final decisions were announced.

Undoubtedly, it hasn't been a good few weeks for the Arts Council.

This culminated last Wednesday in the mass public showing of disapproval at the Young Vic, when actors and leading figures from the theatre world got together to voice their anger at its proposed 'cull' of nearly 200 arts organisations in its latest spending review.

The Arts Council has, undeniably, handled this situation poorly. Some might argue that it has behaved worse than that. Certainly, a decent proportion of those at the Young Vic felt that the Arts Council had been underhand and secretive in its dealings. However, it seems very much more cock-up than conspiracy. The decision not to announce the entire raft of proposals at once – losses and gains together – was, with hindsight, the wrong one.

It has created a PR disaster, in which people can only see the bad and can have no idea of any overall strategy. The Arts Council insists this decision was taken honourably to protect client confidentiality. I, for one, believe them – especially given the Arts Council chief executive Peter Hewitt's impassioned showing at the Young Vic.

Whatever the case, their serious procedural shortcomings do not necessarily mean the proposals themselves are the wrong ones. Some proposals may well be. In fact, one could argue that several

are – for example, cutting funding to the Bush seems totally nonsensical, given its track record. These decisions will be appealed and should be overturned. Hewitt has himself acknowledged he expects some of the proposals to be changed in the light of the appeals process. Again though, these mistaken proposals do not mean that every proposal, or indeed the principle of cutting companies, is wrong.

Indeed, there are several organisations facing cuts, for whom (without naming names) it is the correct and responsible decision. This is, after all, tax payers' money (the Arts Council's responsibility is not only to the arts sector) and there are other companies who might be more deserving of that subsidy.

To assert, as the usually incisive Samuel West did at the Young Vic meeting, that 'every single one of these cuts must be opposed' seems to me to be the wrong approach. If you oppose every single cut, then by definition you oppose every funding increase and every new company introduced into the Arts Council portfolio.

It is no use saying that the Arts Council was given more money by the government and should therefore be able to afford these extra companies at no expense to the current crop of regularly funded organisations. People seem to think that the Arts Council has an extra £50 million to spend. It doesn't. In real terms, it has an extra £20 million when inflation is taken into account. That extra

£20 million must be spread across three years and across all artforms and, because theatre had a generous boost of £25 million at the Theatre Review, most will be going to other sectors. If one also factors in the money to be spent on the Cultural Olympiad, that doesn't leave a huge amount extra. Thinking realistically, for new blood to be brought in, someone must be cut.

The Arts Council is by no means perfect. It is going through a period of immense change – one needs only to look at the staff turnover recently to see that it is in a state of flux. It has made difficult decisions. Some of those decisions it has got right, several it has not. The decisions which it has got wrong, we must hope, will be overturned as part of the process it has itself instigated to appeal the proposals. If, after that process is complete, it has still not got its house in order, then something more may have to be done.

What is truly concerning, though, is that following the Young Vic meeting, there have ensued the predictable calls for an end to the Arts Council and the arm's-length principle itself. To quote one, the *Evening Standard's* theatre critic Nicholas de Jongh: 'The Arts Council is an overstuffed bureaucracy. It is high time that government tried something different. Let the council be mothballed, its staff dismissed and its functions be taken over by the Department for Culture [sic], which could draw up a diverse cultural blueprint for each art form.'

This strikes me as a rather worrying line to be taking, even given the well-publicised problems that the Arts Council is facing. To borrow a phrase from the lady who would be taking over the Arts Council's functions under de Jongh's proposals, removing the arm's-length principle of funding would turn ministers into 'cultural commissars'.

Speaking last year at the TMA conference, culture minister Margaret Hodge continued: 'Politicians don't run the arts and neither should we. The arts must be independent, they must be oppositional and they must be challenging. It shouldn't be for government to decide what gets funded, what work is showing, any more than the government decides which TV programmes are broadcast or what newspapers choose to print.'

Now, it would be difficult to argue that the Arts Council is perfect. I'm not even sure that its chief executive Peter Hewitt would attempt to argue this point. Indeed, at the Young Vic meeting he acknowledged the organisation had its 'strengths and weaknesses'. However, it has to be better than the idea of direct funding from central government, with all that entails.

Originally published in *The Stage*, issue dated 17 January 2008. This article can be accessed at archive.thestage.co.uk



Personal bests

Staff working across music, theatre, literature, dance and visual arts consider their personal highlights of 2007/08.

Visual arts

“ For me, 2007/08 was notable for the vibrant state of regional visual arts venues. Following its opening at the beginning of the year, Middlesbrough Institute of Modern Art soon established itself with art and craft exhibitions of national and international importance including *Bauhaus 1919–1933*. The success of the newly extended Pallant House Gallery in Chichester was then recognised with the award of the Gulbenkian Prize for museums and galleries in May.

Just over seven months later, Wysing Arts Centre relaunched as an important centre for the visual arts in the east, supporting the development of artists through commissioning and an international residency programme, while engaging local communities in the making of art that is exhibited nationally and internationally.

Both Modern Art Oxford and Milton Keynes Gallery continued their excellent track record of holding exhibitions of major international

artists such as Daniel Buren and Marcel Broodthaers and showing the work of younger and emerging English artists such as Stella Vine and Phoebe Unwin.

Another sign of the vitality of regional venues is the nomination of Cathy Wilkes, an exhibitor at Milton Keynes Gallery, for this year's Turner Prize; the second time in two years that the gallery has earned the accolade.

Meanwhile, in London, the constantly innovative Artangel continued its own programme of public art with the video installation *The Saints* in a vast empty building in the shadow of the new Wembley Stadium. The work saw American artist Paul Pfeiffer enlist young Filipinos to recreate the sounds of the crowd at the 1966 World Cup final to powerful effect.”

Andrew Brown, acting Director,
Visual Arts Strategy

Music

“ My gig of the year was Contemporary Music Network’s Magnetic Man tour in March. The live dubstep project was developed with partners Tempa and Coda, and featured leading producers Skream and Benga.

The tour was a huge success. Ticket sales surpassed our expectations, reaching 3,800 people across the UK. The audience reaction was incredible, particularly in Birmingham where the promoter described it as ‘the pivotal point for dubstep in Birmingham’.

Continuing the bass-heavy theme, the performance by drone metal band Sunn O))) at Jarvis Cocker’s Meltdown last summer was another of my year’s highlights. Their panto presentation, complete with dark robes and dry ice, and their earth-shaking drop-tuned guitar sounds had an irresistible appeal.

The Global’s Festival Stomp was both a welcome excuse to dance like a maniac, and a great chance to celebrate the success of the scheme, which has created lots of new opportunities for emerging world music artists to perform across London.”

Anne Parry, Producer,
Contemporary Music Network

Theatre

“ I saw much in 2007/08 that gave me cause to celebrate. Highlights included Kneehigh’s charming and exhilarating *Brief Encounter*, brought about through collaboration with the Birmingham Rep and David Pugh and now sitting proudly in the West End; Live Theatre’s *The Pitmen Painters* by Lee Hall in their wonderfully redeveloped space; the quality and variety of work at the decibel Showcase, much of which has since found routes to further development and audiences; and Punchdrunk’s *Masque of the Red Death* at the Battersea Arts Centre – a glorious redefinition of what theatre can be.”

Barbara Matthews, Director, Theatre Strategy

Literature

“ Three leading literature organisations are building on their successes in 2007/08, with increased funding from the Arts Council over the coming year.

Apples & Snakes is the country's leading agency for the promotion of performance poetry. Its core commitment lies in establishing a professional network across England, and developing talent from a wide diversity of backgrounds. A 42 per cent increase in funding from April 2008 will enable Apples & Snakes to accelerate this process, with the appointment of two new regional coordinators. It will also relocate to a new home at The Albany arts centre in south east London.

The Reading Agency specialises in the promotion of reader development. In partnership with government departments, public libraries, the publishing industry and many others, it champions the interests of readers across the country. Increased funds for 2008-11 will enable the Agency to further extend this pioneering work.

Finally, a 75 per cent funding increase will be a major boost to Arc Publications in developing its critically acclaimed list of contemporary poetry in translation. ”

Antonia Byatt, Director, Literature Strategy

Dance

“ 2007/08 saw many landmark moments in the development of dance. British Dance Edition took place at Liverpool 2008, Youth Dance England was funded to become the National Agency for Youth Dance, and the 3rd Place Prize was launched in London.

Audience interest continued to escalate. Audience figures for Sadler's Wells have increased by 40 per cent over the last five years. There has been an 83 per cent increase in engagement over the same period through the performance and participation work produced by dance agencies ranging from Brighton's Dance South East, Danceworks UK in Sheffield and Cheshire Dance.

English choreographers continue to achieve world-class acclaim with companies like DV8, Wayne McGregor's Random, Michael Clark, Akram Khan, Vincent Dance Theatre and Hofesh Shechter all maintaining a high profile across the globe. ”

Janet Archer, Director, Dance Strategy



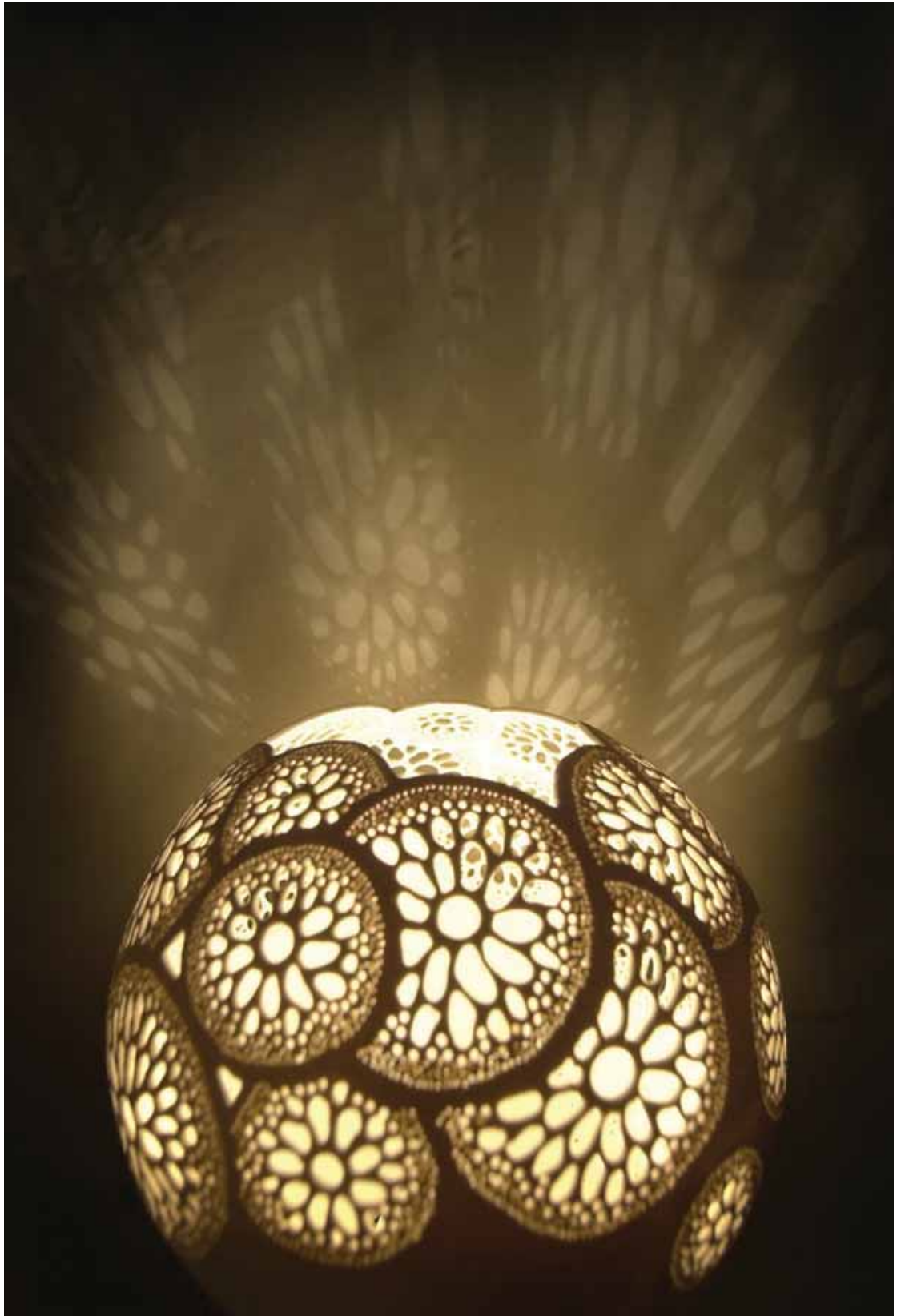
The following eight pages showcase a range of work we have funded in 2007/08.

Plunge #2,
Valentine Schmidt.
Courtesy of The
Photographers
Gallery



Performers during
the Greenwich
and Docklands
International
Festival,
London, 2007.
Photo: Bradley
Hemmings

Porcelain table
lights by Linda
Stevens, 2007.
Photo: Theo Moye





The Exchange,
lighting display
by Peter Freeman,
Penzance, 2008.
Photo: Peter
Freeman





**Inside Out
Festival 2007**
across various
locations in
Dorset. Photo:
Roy Riley



DaDaLesque,
North West
Disability Arts
Forum, 2007.
Photo: Leila
Romaya



**Serpentine
Gallery Pavilion**
by Olafur Eliasson
and Kjetil
Thorsen, Hyde
Park, London
2007. Photo:
John Offenbach



Cultivating the arts

It's five years since we launched our Grants for the arts programme – a simple way for individuals and organisations to apply for funding to help develop arts activities. Since then we have distributed more than £350 million – mainly from the National Lottery – to a wide range of artists and arts organisations throughout England.

Grants for the arts is our open application programme for individuals, organisations and national activities. It provides funding for anyone involved in arts-related activity – from artists working alone who want help to develop a piece of work, to arts organisations that require funding for specific projects. The programme celebrated its fifth year in April 2008.

Sculptor Marcus Vergette received a £5,000 Grants for the arts award to help him research and make a bell that will be placed on the beach at Appledore in Devon, the first of 12 at tidal locations around the country. The bell sounds when the tide reaches it, which means rising tides will make the strikes more frequent, making a comment on the effects of global warming on communities. ‘Support from Grants for the arts made a huge difference to this project,’ said Marcus. ‘It meant I was able to carry out very thorough research.’ Marcus’s work has clearly connected with people. He has been endorsed by Liberal Democrat peer Baroness Miller, who said ‘such a beautiful reminder of the importance of tides and sea levels is truly inspirational’.

Many organisations benefit too. The Indian Association in Manchester promotes good relations between communities in a multicultural, multiracial and multi-faith environment. Grants for the arts has supported the association’s Hindu Diwali Mela festivals for three successive years – spectacular street events that are enjoyed by the whole community. This project has also made a real contribution to community cohesion.

Grants for the arts has supported many other activities across the country, including:

- a monthly podcast, Book Slam, which extended the success of a literary club night in west London (that has featured a cast of luminaries such as Will Self, Kate Nash, Dave Eggers and Toby Litt). Led by writer Patrick Neate, the podcast won Best Internet Programme in the Sony Radio Academy Awards in 2008
- photojournalist Lee Karen Stow from Beverley, who went to Sierra Leone in West Africa to document through art the lives of the women in a country trying to rise from the ashes of a brutal civil war

- the Tyne Salmon Trail – a sculpture trail of ten cubes inspired by the textures, changing colours, movement and journey of the salmon that migrate along the River Tyne
- the Foresight Project in Grimsby, which represents blind and visually impaired groups across north east Lincolnshire – they used a £10,500 Grants for the arts award to refurbish and equip a ceramics studio

An important part of our work is helping to develop artists, arts organisations and the creative economy and improving the performance and productivity of the arts sector. As well as direct funding for artistic projects, Grants for the arts can fund small scale capital development, equipment, marketing, research and professional development.

Lottery funding

In the first four years, Grants for the arts awards for individuals were funded by government money distributed by the Arts Council, but since 2007, all Grants for the arts awards have been funded by the National Lottery.

‘In 2007/08, we made over 2,800 grants totalling nearly £57 million. We have funded just under half of the 43,000 applications we have received since the programme was launched, with average grants last year of around £5,900 for individuals, £26,000 for organisations and £46,000 for national activities,’ said Matthew Ramsey, Head of Reporting and Compliance at the Arts Council.

While the 2012 Olympics provide a host of opportunities for Britain, the re-allocation of funds has had a knock-on effect on Grants for the arts funding. ‘The government’s decision to divert some National Lottery money from the arts to the 2012 Olympics and a general decline in lottery sales have both affected funding for the Grants for the arts programme,’ said Matthew.





Streamlined application process

With a new application pack, introduced in April 2008, it's now easier than ever to apply for a Grants for the arts award. Our new pack includes a simpler application form, better guidance on how to apply and full information on how applications are assessed, as well as information about other sources of funding. The minimum application amount is £1,000 and there's a ceiling of £200,000 for national activities and £100,000 for organisations.

We listened to feedback from applicants and revised the application pack to make it even more straightforward for people to apply, to understand what they can apply for and how applications are assessed,' said Audrey Roy, Director of Grants for the arts.

ArtisanCam

A Grants for the arts award is helping to bring a graphic novel about the life of Nelson Mandela to UK school children through the ArtisanCam website.

ArtisanCam is a free interactive website devised by Artists@work that introduces young people to the world of contemporary visual art. It features live and recorded footage of artists working and encourages young people to learn how they do it and have a go themselves. A grant of more than £15,600 helped Artists@work set up and develop the site, which has been nominated for several major awards, including the BAFTAs.

Until recently, all the artists featured have been from the UK, but the grant enabled Keith Alexander of Artists@work to travel to South Africa to film the Umlando Wezithombe artists' group writing and drawing the eight instalment graphic novel about Mandela's life. The film will be available free on the ArtisanCam website. The grant will also pay for some of the South African artists to come to England.

'It's a fantastic project that was suggested by Nelson Mandela. Having the story in a colourful graphic novel form will make it very accessible in South Africa and also to school students here,' said Keith.

'Our Grants for the arts award was invaluable. Without it we could not have developed the project or leveraged more funding. There's a certain kudos to being funded by the Arts Council that can help secure help from other funders.'

www.artisancam.org.uk



07

Right and below:
Arts in Parliament
2007



April

Four new directors appointed
We announce the appointment of four new directors. Barbara Matthews, Director, Theatre Strategy; Antonia Byatt, Director, Literature Strategy; Anna Jobson, Director, Arts Strategy; and Laura Gander-Howe, Director, Learning and Skills Strategy

June

Southbank Centre reopens
A weekend of celebrations mark the reopening of Southbank Centre, including a refurbishment of the Royal Festival Hall that transforms all public, stage and backstage areas



Above:
Jarvis Cocker,
The Overture
celebrations and
launch of the
reopening of the
Southbank Centre,
2007. Photo:
Sheila Burnett



Right:
Refurbished Royal
Festival Hall, June
2007, London.
Photo: Johnny Ladd

July

First ever Arts in Parliament
Our first ever Arts in Parliament event gives MPs the opportunity to enjoy and discuss the arts at Westminster

Take it away launched
Take it away, our scheme to enable individuals to apply for a loan of up to £2,000 for the purchase of a musical instrument, is launched

New Secretary of State at the Department for Culture, Media and Sport
James Purnell is announced as the new Secretary of State for Culture, Media and Sport, replacing Tessa Jowell

October

More money for the arts – £50 million extra for the Arts Council
We receive an above-inflationary increase in funding from the Department for Culture, Media and Sport – our income will rise by £50 million to £467 million in 2010/11

08

November

Arts debate findings published

The final report on the arts debate, our comprehensive inquiry into the arts and arts funding, is published

Living Places launches

Living Places, an alliance between the national culture agencies and two government departments, launches. It aims to create thriving, vibrant communities through culture and sport

December

Review of arts funding

Letters to our regularly funded organisations are sent out, advising of proposed changes to their funding

January

Liverpool becomes European Capital of Culture 2008

A 12-month celebration of the best in the arts, sport, music, heritage and culture begins

Alan Davey joins the Arts Council

Alan Davey becomes our chief executive, replacing Peter Hewitt, who held the position for 10 years

McMaster review of the arts published

Sir Brian McMaster's review of the arts is published, with wide-reaching proposals on excellence, risk-taking and innovation

New Secretary of State at the Department for Culture, Media and Sport

Andy Burnham replaces James Purnell as Secretary of State for Culture, Media and Sport

February

The Arts Council's new funding portfolio confirmed

We complete the most comprehensive review of arts funding in our history, including 185 non-renewals of funding. Our new regularly funded organisation portfolio includes an increase in funding for 76 per cent of organisations, and 81 new organisations

The Cultural Offer announced

The Cultural Offer is launched through the Find Your Talent pilot programme in 10 regions. It aims to ensure that all children and young people have the chance to engage in at least five hours of high quality culture a week

Government's creative industries strategy paper published

The Department for Culture, Media and Sport publishes *Creative Britain: New Talents for a New Economy*, which puts forward 26 commitments for the creative economy

Right:
Liverpool Capital of Culture
Over 40,000 people gathered on St George's Plateau, January 2008. Photo: Christian Smith





Children and young people

The arts have an extraordinary power to deepen, broaden and transform the lives of children and young people. The country's long-term aspirations as a creative economy depend on providing opportunities now for children and young people to participate in arts and creativity.

Opening doors in theatre

Throughout November 2007, theatre venues across the country opened their doors to young people wanting to find out more about working in backstage, technical and front of house roles.

Open Doors, the first-ever national initiative of its kind, is part of our Young People's Participatory Theatre project. It aims to make young people aged 14 and over aware of employment and participatory opportunities in theatre.

In total, 200 theatre professionals delivered 340 events and workshop sessions, involving over 1,000 young people. More than half of the young people had not visited their chosen venue before, and the vast majority were keen to return. For theatres, Open Doors revealed the benefits of working closely with young people, rather than seeing this kind of work as the exclusive domain of the education department.

“ They say that you learn something new every day – I've learnt something new every hour today. ”

Participant, Barbican Theatre, Plymouth

Artsmark – going for gold

Artsmark is our national award scheme that recognises schools committed to the arts. Now in its eighth year, it has ensured that millions of children and young people have enjoyed a wide range of experiences in dance, drama, music, art and design.

An Artsmark award, won by around 15 per cent of schools around England including primary, secondary and special schools as well as pupil referral units, demonstrates that a school has met high standards in arts education.

This year, 1,441 schools were awarded an Artsmark, 85 achieving the top standard of Artsmark Gold for the third time.

“ We are delighted that Arts Council England has recognised Medina's progressive arts education programme, which enables students to develop skills and confidence across the curriculum. ”

Stephen Lines, Director of Arts, Medina High School



Letters to the future

With £7,087 of Arts Council funding, artists Lou Armitt and Bev Evans led *Letters to the future*. This activity helped children and their parents in a deprived area of Corby to focus on hopes and aspirations for their futures.

Families created individual DVD 'letters' containing past family stories, and hopes and aspirations for the child's future. The artists helped the children to learn simple scripting techniques and showed them how to work with an animation system, in order to turn their family stories into short animated films.

The project proved a marked success – for example five boys demonstrated a turnaround from extreme behavioural difficulties in the early sessions to a focus, enthusiasm and dedication to the work by the end of the project. The parents' attendance also demonstrated the value of the activity to them – over three-quarters joined in the second part of the activity, which involved looking at the child's future and creating and animating *Letters to the future, part 2*. 'One parent I have only ever seen in school when discussing his child's behaviour turned up for every session and stayed much longer than other parents. I do feel that this has given him the chance to see his son and school in a completely different light', commented one teacher, Jocelyn Hole, of Exeter Primary School.

Left: Blagdon Hill Primary School – Artsmark 2007. Photo: Jim Wileman/Apex

Centre: YPPT Open Doors, Piccadilly Theatre, November 2007. Photo: Paul Thompson

Right: Year 1 pupils from Artsmark Gold school perform, 2008

“ The activity simply wouldn't have happened without financial support. Arts Council England was the only funding body able to support our criteria and needs. ”

Lou Armitt and Bev Evans

The creative economy

At a five per cent growth rate per year, the creative industries is one of the fastest growing sectors in the UK, outperforming the rest of the economy as a whole. We have a role in developing the creative economy in England by investing in innovative work and new talent, and stimulating connections between the publicly-funded and commercial sectors.

The South West capitalises on visual arts

This year saw the opening of a range of exciting building projects in the South West, including the largest artists' workspace studio in Europe, at Spike Island in Bristol. All of these received significant funding from the Arts Council.

A £2.5 million redevelopment of a former tea-packing factory, Spike Island opened in May 2007, and features over 700 square metres of new gallery spaces and extended facilities for artists and designers within the studio complex.

“ Spike Island has long been a respected centre for contemporary visual arts, but the latest development marks an exciting turning point. We will now have a major gallery space in which we can showcase artists of national and international importance. ”

Lucy Byatt, Artistic Director, Spike Island

In Cornwall, the Penzance Exchange – the biggest single gallery space south of Bristol – opened this year. The renovation was made possible with funding of over £1.5 million from Arts Council England and the National Lottery.

These developments, plus a refurbished gallery in Newlyn, and a redeveloped Stroud Valley Artspace in Gloucester (both also supported by the Arts Council) are giving artists the opportunity to present work on a scale never before seen in the South West region. The Artspace was a key site for Stroud's Site07 festival, for example – it brought over 250 artists to the town for a busy programme of exhibitions, workshops, walking tours and screenings.

Adding lustre to crafts

Arts Council funding enables creative businesses to expand their horizons and invest in their futures. Support and funding of £41,875 for Lustre, a leading Midlands contemporary craft event, enabled it to reach new audiences and exhibitors in 2007.

With our support, Lustre was able to increase the number of its exhibitors and drive up the profile of the event both regionally and nationally with a dedicated marketing campaign. It also expanded into the Djanogly Art Gallery for the first time. Fifty-three exhibitors had the opportunity to showcase and sell their work, and audiences increased by 28 per cent from the previous year.



Helping the cultural sector to thrive

Unique to the north east, the Cultural Sector Development Initiative (CSDI) helps artists and arts organisations to benefit from European Union funding for high quality training and support.

By December 2008, CSDI will have committed £32.2 million to culture sector development. In practical terms this means that more than 6,660 businesses and 3,431 people in the North East will have benefited directly from the project.

The CSDI programme has been developed in partnership with key agencies such as the regional development agency One NorthEast, and the Government Office for the North East.

Projects that received funds in 2006–8 include Commissions North, which helps artists to secure commissions for bespoke design, and DanceCity, which offers practical support such as mentoring, apprenticeships, subsidised rehearsal space and one-to-one advice to dancers.

Left: Preeti Gilani's work for Lustre 07, Nottingham, 2007. Photo: Duncan Loughrey

Top: Aran D. Higgs's Salver, for Lustre 07, Nottingham 2007. Photo: David Higgs

Centre: Stroud Valleys Art Space, June 2007. Photo: Arts Council England, South West

Right: Katrin Moye's work for Lustre 07, Nottingham 2007. Photo: Honey Read



Internationalism



Our ambition is to internationalise the arts. Our approach begins with artists themselves, as we support artists from this country to work abroad, and international artists to work here. We aim to empower the arts community to work internationally, and to help internationalise England culturally.

Bollywood comes to Sheffield

In June 2007, Sheffield hosted the prestigious International Indian Film Awards, Bollywood's equivalent of the Oscars.

We ensured that art was at the heart of the event: the spectacular three-minute opening was led by one of our regularly funded organisations, Pilot Theatre – an award-winning company based at York Theatre Royal. The performance showcased the region's creativity and diversity and was watched by over 500 million TV viewers worldwide.

For the first time, the main award event was accompanied by a fringe festival, which was packed with arts events across Yorkshire and enjoyed by people of all ages and from many communities.

Highlights included: Bollywood Boulevard in Rotherham; a day of performances, live music, stalls and workshops; a performance and workshop by Bombay Baja Bollywood brass band at the National Centre for Early Music in York; and Bollywood Jane at West Yorkshire Playhouse. The event created a surge in tourism, generating an estimated £10 million for the region.

A Hawk and a Hacksaw

In April 2007, the Arts Council's Contemporary Music Network commissioned a tour featuring New Mexico's alternative folk musicians A Hawk and a Hacksaw (multi-instrumentalist Jeremy Barnes and violinist Heather Trost) with the Hun Hangár Ensemble. The tour was produced by Bristol-based collective Qu Junktions, who worked with eight promoters across the country and successfully brought together a range of diverse audiences. The tour achieved 2,384 ticket sales, doubling A Hawk and a Hacksaw's previous UK sales and selling out in advance at many venues.

Plan China

The Arts Council's Creative Partnerships programme for schools and young people involves a wide range of projects in over 2,400 schools in areas across England. In November 2007, a group of five young people were selected from a number of Creative Partnerships projects to visit Guangzhou in southern China as part of Plan China.

The group collaborated with a filmmaker and a teacher to produce a film documenting their experiences. This was showcased at the Arnolfini in Bristol, one of Europe's leading contemporary arts centres.



Top: Plan China, 2007. Photo: Creative Partnerships



Far Left: A Hawk and a Hacksaw. Photo: Adam Faraday

Left: Bollywood Jane, West Yorkshire Playhouse, 2007. Photo: Keith Pattison

Excerpts from the film will be used as part of Bristol's City Art Museum's China show in 2008. There will also be a presentation of the trip at a Cultural Olympiad planning event.

As well as blogging about their journey, the group have exhibited photography and samples from their travel diaries. As a result, they have been asked to contribute to the *Far West (Trading Company)* art project, which explores the changing economic relationship between East and West. The project has brought together the local community as well as developing links with cultural institutions and Bristol's Chinese community.



Vibrant communities

The arts breathe life and energy into communities, creating a sense of belonging and pride. Communities with the arts at their centre are more creative, productive and enjoyable places to live and their quality of life is tangibly better than places with no artistic or creative activity.

Folke art

A £200,000 grant from the Arts Council is reinventing Folkestone's historic old town into a new creative quarter, where more than 120 artists will live and work in cutting edge studio spaces, creative shops and galleries.

The funding, one of the largest Grants for the arts awards the Arts Council has ever made, is part of an ambitious project that aims to reinvigorate the seaside resort and turn it into a hub for the arts and creative industries.

Contemporary artists such as Tracey Emin, Mark Dion, Jeremy Deller, Tacita Dean and 2007 Turner Prize winner Mark Wallinger have been commissioned to create new artwork for the first Folkestone Triennial, an exhibition in public spaces throughout the town that launches in June 2008.

Panopticons

The Panopticons programme creates 21st century landmarks in the hills of East Lancashire – symbols of the area's regeneration and pride.

Panopticons took place over five years from 2003 to 2008 and created four large-scale permanent structures on high-point sites across the rural countryside. The artworks include *Singing Ringing Tree*, a sculpture made from galvanised steel which pipes harmonised notes across Burnley.

The final structure built is *Halo*, an 18-metre diameter steel lattice supported on a tripod five metres above the ground. It was completed in September 2007.

The Arts Council awarded £120,000 to this programme, which involved over 22,700 local people and employed 139 artists, architects, designers and arts organisations.

Wysing Arts Centre

Wysing Arts Centre was relaunched in January 2008 with new state-of-the-art facilities, following a £1.7 million redevelopment programme that has seen it transform into a key visual arts centre for the east of England.

Designed by London-based architects Hawkins\Brown and supported by the Arts Council, Wysing Arts Centre now boasts 24 artist studio spaces alongside a new media suite, an education space and gallery, all within an inspirational setting that will host and develop the talent of its resident artists.

“ This new building is hugely symbolic for our organisation. It represents externally what has been happening to Wysing internally – a process of consolidation; of ideas, of ethos, and of artistic vision. ”

Donna Lynas, Director,
Wysing Arts Centre



Above: Singing Ringing Tree, Burnley, 2007. Photo: Ian Lawson

Left: Halo, Pennine Lancashire, 2007. Photo: Ian Lawson

Celebrating diversity

The debates around race, ethnicity, faith, disability and sexuality remain major preoccupations in this country. We celebrate diversity, and the artistic and creative opportunities it offers. We have a role to play in removing any social or institutional barriers that prevent people from participating in and enjoying the arts.

DaDaFest

DaDaFest is the UK's largest celebration of disabled and deaf art. The annual showcase, encompassing poetry, theatre, sculpture, visual arts, film and music, is delivered by the North West Disability Arts Forum and supported by the Arts Council.

Six festivals have taken place so far, with a total of 65,000 people participating. In November and December 2007, the sixth DaDaFest spread across Manchester and Liverpool with events including Bold and Beautiful, which showcased the work of disabled young people, and DaDaLesque, a burlesque comedy examining issues around sexuality in disabled performance.

Rivington Place

In October 2007, a new gallery for contemporary art and photography opened in Shoreditch, east London.

Rivington Place was designed by leading architect David Adjaye and is the first new purpose built, public sector funded contemporary visual arts space in London since the Hayward Gallery in 1968. Funded with £5.9 million from the Arts Council and the National Lottery, it is dedicated to work by artists from different cultural backgrounds, and aims to create a centre for the presentation of ideas and practices in contemporary visual arts that have been marginalised by mainstream cultural institutions. It opened with a group show called *London is the place for me* that explored identity and migration in London.

“It's been a long time coming and will do much for many worldwide. Rivington Place, through both its architecture and curatorial programming, will provide a hub for the ever-rotating world of visual arts. It's a necessary project for our present and future.”

Chris Ofili, artist



Decibel's final year

2007/08 saw the fifth and final year of decibel, an Arts Council series of initiatives dedicated to addressing the under-representation of Black and minority ethnic artists and arts organisations in the arts.

In September 2007, decibel held a Performing Arts Showcase in Birmingham to raise the profile of Black and minority ethnic artists. Over five days, more than 400 promoters, artistic directors, venue managers, agents and producers from all over the world came to see performances by 51 of the UK's most talented and cutting-edge African, Asian and Caribbean artists and companies. 'We've already been booked by a number of venues as a result of the showcase,' said choreographer Gail Parmel.

“ This was a fantastic opportunity to establish new relationships with some key programmers and arts managers, many of whom hadn't come across our work before. ”

Gail Parmel, choreographer

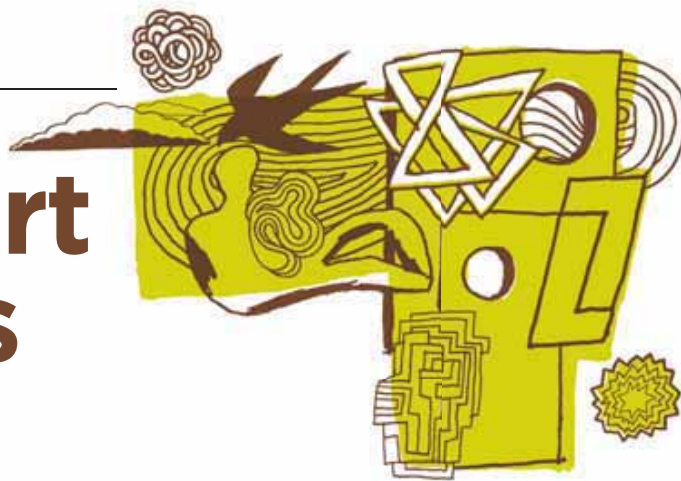
Above left: Akademi South Asian Dance UK perform Dreaming Nowin, Victoria Square, Birmingham at the finale of the Showcase, 2007. Photo: Jonathan Lee

Top right Rivington Place, London, 2007. Photo: George Torode

Above left: DaDaLesque, North West Disability Arts Forum, 2007. Photo: Leila Romaya



Taking part in the arts



We want as many people as possible to engage with the arts. As well as funding a range of participatory arts projects, we research the factors that may be limiting people's involvement with artistic activity, and the challenges and opportunities for the arts sector in countering these.

Big Art Project

The Big Art Project will create different pieces of public art in sites across the UK. Delivered by the Arts Council, Channel 4 and independent arts charity The Art Fund, the project matches communities with curators who support local people to choose which artists they want to commission and the kind of art they want to create.

Seven UK communities have now been selected and in March 2008, Burnley unveiled *Invisible* by the acclaimed UK arts collective greyworld – a series of paintings that can only be seen when lit from an ultraviolet source.

“It has been a fantastic experience for us to work with such an inspiring and creative group of young people.”

Andrew Shoben, greyworld

greyworld artist Andrew Shoben worked with 15 local teenagers to create 19 paintings and projections all over the town – on shop fronts, the cinema, the bus station, chimneys, street lamps and an underground car park. The colourful images range from movie-style posters, to animals, birds, insects and comic scenes, to a series of 'local heroes' – Burnley people nominated by their peers for their work in the community. 'We have all learnt so much about public art and it has been a once-in-a-lifetime opportunity,' said one participant, 14-year-old Sam.

Also part of the project is Big Art Mob (www.bigartmob.com), a website aimed at creating the first comprehensive map of public art across the UK – based entirely on pictures from the camera phones of art-lovers nationwide. The website won the Royal Television Society Innovation Award in 2007 and the Media Guardian Innovation Award for community engagement in 2008.

Yorkshire Sculpture Park

In January 2008, the Arts Council funded Yorkshire Sculpture Park won the Visual Arts Award in the prestigious South Bank Show Awards for its popular Andy Goldsworthy exhibition, set in the park's 500 acres of historic landscape.

One of our regularly funded organisations, the park is an internationally significant centre for the promotion and understanding of sculpture. The accolade caps a remarkable exhibition that has mesmerised hundreds of thousands of visitors over 2007/08.

“This is a richly deserved award for such an important British artist.”

Peter Murray, Executive Director, Yorkshire Sculpture Park



Left: Gallery 37 Plus, 2007 summer programme. Photo: Matt Squire

Above: Jaime Plensa with his art work for St Helens, Big Art project. Photo: Stuart Rayner

Right: Feast on the Bridge, Mayor's Thames Festival, London 2007. Photo: Hayley Madden.

Gallery 37 Plus

Gallery 37 Plus supports young people by giving them the opportunity to explore their creative talents. Supported by the Arts Council and the National Lottery, Youth Music ran an intensive arts apprenticeship scheme in summer 2007 with skills development and an Arts Council Arts Award qualification for young people between 16 and 24 who are not in education, employment or training.

The results were impressive – of the 220 young people that attended on the first day, 210 completed the four-week course, of whom 118 are now going into higher or further education, nine are entering employment and three are engaged in other projects. 'I have loved every minute of it and would have liked to have done it for longer. It has been truly amazing,' said one participant.

“ I have learnt not to care what people think of me and to put my whole self into dance. ”

Participant, Newark and Sherwood

Thames Festival

One million people flocked to the Thames Festival in September 2007, a huge success for the event's tenth anniversary.

Supported by the Arts Council, the festival also won a Grants for the arts award for its flagship event, *Feast on the Bridge*. This closed Southwark Bridge to traffic for the first time in its history – cars were replaced with a unique riverside experience, including a wide variety of food stalls, themed areas created by artists, and the Al Fresco Ballrooms, which presented Bollywood brass, British country dancing and surf guitar to enchanted audiences.

Reporting against our official commitments

The Arts Council has a funding agreement with our sponsoring department, the Department for Culture, Media and Sport (DCMS). This section reports on our performance on our funding agreement objectives for the period April 2007 to March 2008.

Participation and attendance

Our objective is to increase the number of adults and young people aged 16 and above from priority groups who participate in arts activity at least twice a year by 2% and to increase the number who attend arts events at least twice a year by 3% by 2008.

This target is the Arts Council's Public Service Agreement (PSA) 3 target.

PSA target 3 (2005-08)

The aim of this target is, by 2008, to:

- increase the number of people aged 16 and over from priority groups who participate in arts activity at least twice a year by 2%
- increase the number of people aged 16 and over from priority groups who attend arts events at least twice a year by 3%

The priority groups are defined as:

- Black and minority ethnic groups
- people with a limiting disability
- people in lower socio-economic groups

For this PSA target, arts participation activities are defined as:

- ballet
- other dance (not for fitness)
- singing to an audience or rehearse for a performance (not karaoke)
- playing a musical instrument to an audience or rehearse for a performance
- playing a musical instrument for your own pleasure
- writing music
- rehearsing or performing in play/drama
- rehearsing or performing in opera/operetta
- painting, drawing, printmaking or sculpture
- photography as an artistic activity (not family or holiday 'snaps')
- making films or videos as an artistic activity (not family or holidays)
- using a computer to create original artworks or animation
- textile crafts such as embroidery, crocheting or knitting

- wood crafts such as wood turning, carving or furniture making
- other crafts such as calligraphy, pottery or jewellery making
- writing any stories or plays
- writing any poetry

Arts attendance events are defined as:

- exhibition or collection of art, photography or sculpture
- event which includes video or electronic art
- culturally-specific festival (for example Mela, Baisakhi, Navratri)
- play/drama
- other theatre performance (for example musical, pantomime)
- opera/operetta
- classical music performance
- jazz performance
- other live music event
- ballet
- contemporary dance
- African people's dance or South Asian and Chinese dance
- other live dance events

Table 1: Arts engagement targets 2005-08

Participation Priority Group	Baseline 05/06	Actual 06/07	Target
Black and minority ethnic	21%	20%	23%
Limiting disability	19%	20%	21%
Lower socio-economic	15%	14%	17%
Attendance Priority Group	Baseline 05/06	Actual 06/07	Target
Black and minority ethnic	24%	23%	27%
Limiting disability	24%	24%	27%
Lower socio-economic	17%	14%	20%

PSA3 is measured using data from the Taking Part survey. The baseline (our starting point) for the targets was set in December 2006, using 12 months of data. We will report on progress towards these targets annually.

The Arts Council has been reviewing work to achieve the PSA3 target and has developed an action plan. This project plan includes details of key actions and how they will be implemented, monitored and evaluated.

Reporting against our official commitments

During this year we have:

- launched place-focused campaigns in London and the West Midlands (www.inthebigpicture.co.uk) designed to engage priority groups
- launched a website which will bring together case studies and advice for arts organisations on how to reach a broader audience www.takingpartinthearts.com
- commissioned research in partnership with the DCMS into the scale and impact of the voluntary and amateur arts sector
- published insight into the patterns of arts attendance and participation www.takingpartinthearts.com

Education sessions delivered by regularly funded organisations

Our objectives are to:

- increase attendance at formal education sessions delivered by regularly funded organisations for the 4–19 age group by 2% year on year, from 2,020,000 in 2004/05 to 2,060,000 in 2005/06, 2,100,000 in 2006/07 and 2,140,000 in 2007/08
- increase attendance at informal education sessions delivered by regularly funded organisations for the 4–19 age group by 2% year on year from 530,000 in 2004/05 to 540,000 in 2005/06, 550,000 in 2006/07, and 570,000 in 2007/08

Targets are set within our funding agreement with DCMS for the number of education sessions delivered by regularly funded organisations. Based on data for 2006/07,¹ attendance at our regularly funded organisation education sessions was as follows:

Attendance at formal² education sessions

Target	2006/07	2,100,000
Actual	2006/07	2,050,700

Attendance at informal³ education sessions

Target	2006/07	550,000
Actual	2006/07	1,250,768

Informal figures are based on sessions delivered by regularly funded organisations in receipt of more than £100,000 of regular funding from the Arts Council.

¹ Data collected from regularly funded organisations is a year behind the current financial year, so the most recent set of analysed data is for the 2006/07 year.

² Formal education sessions relate to education work connected to the school curriculum.

³ Informal education sessions relate to education work outside the school curriculum. Sessions delivered to the 4–19 age group only relate to organisations in receipt of £100,000 or more of regular grant-in-aid funding from the Arts Council.

Young People's Arts Award

Our objective is to roll out the Young People's Arts Award to register 10,000 young people by 2007/08.

The Arts Award is a national qualification which supports young people aged 11–25 to develop as artists and arts leaders. On 31 March 2008, nearly 20,000 young people were registered to take part in the award and our accreditation partner, Trinity Guildhall, had made 5,500 awards.

The award runs successfully in every region and is now available in most local authority areas. The award has been approved as a unit of Additional/Specialist Learning for all specialist 14–19 diplomas, and we hope it will play a key role within the Diploma for Creative and Media as well as acting as a pathway to Creative Apprenticeships during 2008/9.

Regularly funded organisations

Our objective is for at least 55% of the portfolio of regularly funded organisations to meet the criteria 'met strong' or 'met outstanding' in terms of artistic quality as measured by the annual assessments.

Sixty per cent of regularly funded organisations in our portfolio were assessed as 'strong' or 'outstanding' during the 2006/07 annual assessment of regularly funded organisations. Assessments for 2007/08 will be available in November 2008.

Public value and evaluation

Our objectives are to:

- complete the public value inquiry by October 2007
- incorporate the findings of the public value inquiry into the Arts Council plan from 2008, by March 2008

The findings of the arts debate, which were published in November 2007, informed the development of the Arts Council plan 2008-11. Further work will be undertaken to assess the long-term implications of the arts debate on the development of future Arts Council strategy during 2008-11.

Organisational delivery

Our objectives are to:

- confirm the outcome of the support services review (end September 2007)
- determine the location of the new service centre (October 2007)
- establish an application logging team (March 2008)

Confirm outcome of the support services review (end September 07)

Changes to the Arts Council's structure and delivery for support services (finance and business support, human resources, information technology and enquiries) were agreed in September 2007, and introduced to staff together with the milestone plan for implementation of the changes in October.

The new set up is designed to achieve the following benefits:

- consistency in ways of working
- support services operating in line with agreed processes and best practice
- improved customer focus and standards of service
- clarity of roles, eradicating duplication
- improved efficiency – services delivered at lower cost
- maximised use of technology in which the Arts Council has invested

The new arrangements should also deliver value for

money, meeting the expectations of the government's efficiency agenda for support services, allowing:

- operational benefits, including consistency in the way in which staff access servers across all offices
- recurrent savings of £750,000 a year
- in the longer term, the changes will enable a reduction in the Arts Council's central London office space and therefore considerable savings in operating costs

Concrete evidence of the benefits of the changes will follow implementation. We plan to have the new service centre in place by September 2009, starting with the opening of the national support centre in Manchester in April 2008. Enquiries and the national finance support team will continue to be located in London until 2009 when they will join HR, IT and application logging colleagues in Manchester.

Determine location of new service centre (October 07)

The location of the new service centre was determined through a detailed options appraisal, completed in September 2007. That appraisal demonstrated that for long-term operational reasons, the service centre should be co-located with an Arts Council regional office. The decision was taken in September to co-locate the new service centre with the Arts Council's office in Manchester.

Establish application logging team (March 08)

Appointments to the application logging team were in place by March 2008. The team started work in April 2008 with a four-week induction and training programme. Applications for the new Grants for the arts programme were received from 20 May 2008.

Remuneration report

1 April 2007 – 31 March 2008

The Remuneration Committee

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

Council members' remuneration

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

We paid the nine members of Council who are also chairs of regional councils remuneration of £6,338 each during 2007/08 (2006/07: £6,170). The chair and remaining members of Council received no remuneration during 2007/08 (2006/07: £nil).

Executive directors' remuneration

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

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

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

Executive Directors share the same employment rights as all permanent staff of the Arts Council, including procedures for contract termination and redundancy pay. In common with all senior graded staff there is a three-month notice period.

The remuneration of our executive directors for the year ended 31 March 2008 was:

	Salary £000s	Pension £000s	Bonus £000s	Total remuneration 2007/08 £000s	Total remuneration 2006/07 £000s
Alan Davey (Chief Executive) *	30	5	0	35	0
Peter Hewitt (Chief Executive)	149	27	0	176	176
Nick Capaldi (South West)	79	12	0	91	91
Andy Carver (Yorkshire)	79	12	4	95	88
Gus Casely-Hayford (Arts Strategy) *	67	14	0	81	10
Laura Dyer (East Midlands)	87	21	0	108	96
Michael Eakin (North West)	87	13	4	104	101
Althea Efunshile (Arts Planning and Investment)	120	28	4	152	23
Keith Harrison (Resources) *	78	19	0	97	114
Liz Bushell (Resources) *	18	5	0	23	0
Felicity Harvest (South East)	79	19	0	98	96
Sally Luton (West Midlands)	79	12	0	91	91
Mark Robinson (North East)	71	11	0	82	77
Andrea Stark (East)	87	22	0	109	109
Sarah Weir (London) *	74	18	0	92	112
Moira Sinclair (London) *	26	6	0	32	0
Andrew Whyte (Advocacy and Communications)	104	26	0	130	123

* Part year figures

Peter Hewitt was on a fixed term contract which expired in March 2008, and as such was entitled to a severance payment at the end of his contract. He therefore received a contractual payment of £128,655 at the end of his term. All other executive directors are on permanent contracts. Alan Davey joined the organisation as Chief Executive in January 2008 on a permanent contract. Sarah Weir left the organisation in December 2007, and Moira Sinclair took up the role of Executive Director, London from December 2007. Keith Harrison left the organisation in January 2008, with Liz Bushell taking up the role of Interim Executive Director, Resources from January 2008. Gus Casely-Hayford left the organisation in November 2007, with Andrew Whyte (Executive Director, Advocacy and Communications) covering the role of Executive Director, Arts Strategy in the interim.

Remuneration report

1 April 2007 – 31 March 2008

Details of the pension entitlements for our executive directors for the year ended 31 March 2008 were:

	Accrued pension at 31 March 2008 £000s	Pension increase in the year (net of inflation) 2007/08 £000s	Cash equivalent transfer value at 31 March 2008 £000s	Increase in cash equivalent transfer value (net of inflation) 2007/08 £000s	Cash equivalent transfer value at 31 March 2007 £000s
Alan Davey (Chief Executive)	1	1	3	3	0
Elizabeth Bushell (Resources) **	29	n/a	50	n/a	n/a
Nick Capaldi (South West)	76	3	263	19	235
Andy Carver (Yorkshire)	62	4	248	25	215
Laura Dyer (East Midlands)	76	3	179	41	133
Michael Eakin (North West)	123	5	470	32	422
Althea Efunshile (Arts Planning and Investment)	6	6	19	19	0
Felicity Harvest (South East) *	64	49	269	214	53
Sally Luton (West Midlands)	114	3	495	25	453
Mark Robinson (North East)	32	4	101	15	83
Moira Sinclair (London) **	11	n/a	28	n/a	n/a
Andrea Stark (East) *	56	43	151	122	28
Andrew Whyte (Advocacy and Communications)	10	5	29	17	12

Alan Davey,
Chief Executive,
7 July 2008

Sir Christopher Frayling
Chair
7 July 2008

* During the year a transfer value was paid into the Arts Council Retirement Plan in respect of benefits from the West Yorkshire Pension Fund

** Comparative figures not disclosed from 2007

Arts Council England grant-in-aid accounts 1 April 2007–31 March 2008 Trustees’ report and management commentary

Reference and administrative details of the charity

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

National Council

Council members are responsible for ensuring the achievement of Arts Council England’s objectives, which are to develop and improve the knowledge, understanding and practice of the arts, and to increase the accessibility of the arts to the public. They do this by deciding on policy and priorities, and retain overall responsibility for the investment strategy of Arts Council England.

Our Council members are the trustees of Arts Council England. The National Council consists of 15 members, nine of whom also chair one of the regional councils as detailed opposite.



	Member	Regional arts board original appointment (pre merger)	National Council appointment (post merger)	Renewal	End of appointment	Region – Chair
1	Sir Christopher Frayling (Chair)		2 February 2004	1 February 2008	31 January 2009	
2	Diran Adebayo		20 October 2004		19 October 2008	
3	Janet Barnes		1 February 2005		31 January 2009	Yorkshire
4	Tom Bloxham MBE	April 2000	1 June 2002	31 May 2006	31 May 2010	North West
5	Professor Andrew Brewerton		6 August 2007		5 August 2010	South West
6	Kentaké Chinyelu-Hope		1 October 2005		30 September 2009	South East
7	Keith Khan		1 May 2006		30 September 2010	
8	Professor Alan Livingston	October 1999	1 June 2002	31 May 2006	31 May 2007	South West
9	François Matarasso		1 October 2005		30 September 2009	East Midlands
10	Sir Brian McMaster CBE		1 June 2002	31 May 2004	31 May 2008	
11	Elsie Owusu OBE		1 June 2002	31 May 2005	31 May 2009	
12	Alice Rawsthorn		27 February 2007		31 January 2011	
13	Dr Tom Shakespeare		1 October 2004		30 September 2008	North East
14	Professor Stuart Timperley	September 1998	1 June 2002	31 May 2004 31 May 2006	31 May 2008	East
15	Dorothy Wilson		1 June 2002	31 May 2005	31 May 2009	West Midlands
16	Lady Sue Woodford Hollick	September 2000	1 June 2002	31 May 2006	31 May 2008	London

Trustees' report and management commentary

National Council continued

Members of our National Council are appointed by the Secretary of State for Culture, Media and Sport. In February 2008 the Privy Council agreed an amendment in the Royal Charter, which granted the Mayor of London power to appoint the Chair of Arts Council England, London. The Secretary of State for Culture retains the power of veto over the appointment. In the same round of amendments to the Charter, the Privy Council also agreed to an amendment, first agreed by the Charity Commission, which provides that future chairs of the National Council may be remunerated.

Council members are usually appointed for four years, and may be reappointed for a further term of four years. Council meets approximately five times during the year.

In August 2007 Alan Livingston retired as the Chair of Arts Council England, South West at the end of his term of appointment and Andrew Brewerton was appointed to fill the vacancy.

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

Policies and procedures adopted for the induction of trustees

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

All newly appointed trustees of the Council have an induction process. This includes meeting with the Chief Executive and Chair to discuss the role of the members and functions of Arts Council England, and a range of meetings with staff about the policies, strategies and activities of the Arts Council. Members who are also appointed to chair a regional council receive a further induction to that role, led by the relevant regional Executive Director.

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

In 2008 Council commenced performance assessment for National Council and in 2009 regional councils will be performance assessed.

Executive Board

The Executive Board is Arts Council England's strategic and executive decision-making body and comprises the Chief Executive and all national and regional Executive Directors. It provides the executive link between the national and regional offices. It is responsible for developing the long-term strategy for the Arts Council and for ensuring delivery of the corporate plan.



Member	Job title	Region
1 Peter Hewitt	Chief Executive until 27 January 2008	National Office
1 Alan Davey	Chief Executive from 28 January 2008	National Office
2 Andrea Stark	Executive Director	East
3 Laura Dyer	Executive Director	East Midlands
4 Sarah Weir	Executive Director until 14 December 2007	London
4 Moira Sinclair	Executive Director from 17 December 2007	London
5 Mark Robinson	Executive Director	North East
6 Michael Eakin	Executive Director	North West
7 Felicity Harvest	Executive Director	South East
8 Nick Capaldi	Executive Director	South West
9 Sally Luton	Executive Director	West Midlands
10 Andy Carver	Executive Director	Yorkshire
Keith Harrison	Executive Director, Resources until 11 January 2008	National Office
11 Liz Bushell	Interim Executive Director, Resources from 2 January 2008	National Office
12 Althea Efunshile	Executive Director, Arts Planning and Investment	National Office
Gus Casely-Hayford	Executive Director, Arts Strategy until 30 November 2008	National Office
13 Andrew Whyte	Executive Director, Advocacy and Communications	National Office

Trustees' report and management commentary

Responsibilities of trustees, the Chief Executive, Executive Board and Management Committee

Council members, as trustees, retain overall responsibility for the work and conduct of the organisation. The Council is invited to consider and approve major matters of policy development, including the overall framework for the strategic delivery of those policies. In addition, approval of financial transactions over £5 million has been reserved for the Council.

The Council has approved the delegation of powers for delivery of the agreed policies and strategies to the Executive Board. Written terms of reference and procedures for the Executive Board have been agreed by the Council. The Executive Board held 11 formal business meetings in the year.

The Council has approved the further delegation of powers to a Management Committee as a sub-committee of the Executive Board. Management Committee is responsible for overseeing the workload and programme of national office, operational issues delegated by executive board, monitoring organisation wide financial performance and management issues, taking an overview of HR issues, the overview of risk management, and monitoring the managed funds budget and contingency. Management Committee comprises two national Executive Directors, three non-London regional Executive Directors and the London regional Executive Director.

The Chief Executive has been authorised by the Council to undertake the day-to-day administration and management of the business and staff of the organisation. He is responsible to the Council for those matters. The Council has agreed and issued guidelines to the Chief Executive.

Overall, the Council has approved a scheme of financial delegations and authorities, which provides a comprehensive scheme for determining an appropriate level of approval or authorisation for financial commitments, which is dependent upon the level of expenditure proposed.

Governance

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 objects of the Arts Council as stated in the Royal Charter, our governing document, are:

- to develop and improve the knowledge, understanding and practice of the arts
- to increase accessibility of the arts to the public
- to advise and cooperate with other government departments, local authorities and the Arts Councils for Scotland, Wales and Northern Ireland (or their successors)

To this end, we make grants to artists and arts organisations and engage in other activities on behalf of the sector.

Arts Council England was granted a Supplemental Charter on 18 March 2002. Its purpose was 'to give effect to new arrangements for regionalisation of its structure and activities'. There were no changes to the objects of the Arts Council and the main changes relate to powers to establish and to delegate powers and functions to regional councils. The Charter sets out the new composition of the Council, which includes the chairs of the regional councils. A number of amendments were made to the Charter in 2008 granting the Mayor of London the power of appointment for the Chair of the Arts Council England, London and the remuneration of future chairs of the National Council.

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

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 2007/08, 77% of undisputed grant-in-aid invoices were paid within 30 days (2006/07: 76%).

Structure

Arts Council England has nine regional offices, matching the government's regional boundaries, and a national office. Each region has a Council and the 15-strong National Council (details on pages 52 to 53) includes the chair of each of the regional councils.

We maintain a register of interests of our members, which is available for public inspection by appointment at our Great Peter Street address.

Principal advisers

Banker:

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

Auditor:

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria, London
SW1W 9SS

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

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

Solicitors:

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

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. It runs the Arts Council's two interest free credit schemes Own Art and Take it away.

Grant-in-aid funding for these two schemes (2007/8: £1,091,000) goes directly to Artco Trading Limited from DCMS. As at 31 March 2008, there are four Arts Council employees on the Artco Trading Limited board.

During 2007/08, the Tabernacle Centre Limited, registered address 2 Pear Tree Court, London EC1R 0DS, was a wholly owned subsidiary of Arts Council England. It was a company limited by the guarantee of its directors. It held a small repairs and renewals fund for a community arts centre in preparation for its transfer to new ownership. As at 31 March 2008 the company has no remaining assets, and the two directors, both Arts Council employees, have applied for its dissolution.

Responsibility towards the environment and sustainable development

Building on previous work and investments, we have supported initiatives and tools that will help the arts, and Arts Council England itself, move to a lower carbon economy. We have also developed initiatives that demonstrate the value of artists' creative insights in innovative ways.

Specific pieces of work that occurred during 2007/08 are detailed below:

- contributing to DCMS initiatives, including its carbon footprint benchmarking exercise for funded bodies, the Sustainable Development Forum and the Climate Change Project
- building on a report commissioned with the Carbon Trust to improve the understanding of our own buildings and processes, putting in place processes to measure and reduce our own carbon footprint
- development of an improved staff travel policy, due for completion autumn 2008
- introduction of a series of staff training sessions to implement and share energy management best practice across all our offices
- production and launch (due May 2008) of an energy management toolkit made available to arts organisations in England to help them understand and manage their energy use. The toolkit is available at www.artsenergy.org.uk
- contribution to the Greater London Authority's Greening London Theatre initiative
- working in partnership with the Royal Society for the Encouragement of Arts on an Arts and Ecology partnership supporting debate, access to resources and opportunities for new work in innovative contexts

Trustees' report and management commentary

- funding projects helping the arts develop their understanding, opportunities and responses in the context of climate change. Notable initiatives include: Cape Farewell, profiling artists' responses to the warming of the Arctic; Julie's Bicycle that is calculating and cutting the greenhouse gas emissions of the music industry; and Tipping Point, facilitating conversations between artists and scientists

Approach to diversity

Championing diversity is one of the Arts Council's core ambitions. We want to create an environment where the arts reflect the full range and diversity of contemporary English society. The diversity team in the national office leads this work, and with all regions and departments making this work a success. Key areas of work include:

- **race equality scheme (RES)** – this was implemented with a three-year action plan to ensure race equality was acted on internally and externally through our regularly funded organisations. We provided workshops, seminars and other support materials to our clients to help them devise their own race equality or diversity action plans. With the first RES action plan having been completed, work is now in progress to produce its successor for the period 2008–11. RES 2 will focus on taking strategic leadership and development of Black and minority ethnic artists and organisations. RES 2 will be informed by the evaluation of RES 1 and by consultation with Black and minority ethnic artists throughout the country.
- **disability equality scheme (DES)** – our disability equality scheme and action plan sets out Arts Council England's vision for disability equality in the arts. It seeks to change the way Arts Council approaches disability equality both internally and externally, as well as asking our clients and the arts industries that we fund to do the same. The DES has spearheaded Arts Council's approach to equality impact assessment ensuring that equality considerations are built into the development of all our policies, practices and procedures. Since undertaking the DES, the Arts Council has increased its performance in the Employers Forum on Disability's Disability Standard Survey by over 50%. Through the DES Action Plan 2007–2010 we will provide our clients with support and guidance to help them develop their own disability equality action plans to ensure that the barriers, which prevent access and participation to the arts are removed. Additionally we will ensure that disability arts and Deaf arts are supported through the production of a Deaf arts strategy and a disability arts strategy.

- **a model for diversity** – our diversity agenda has been evolving over time in response to social changes and changes in contemporary discrimination. There is increasing evidence of widening inequality in life chances and opportunities related to social background, economic status and educational experience. The future will see diversity defined in a broader way that recognises there are a whole set of social and institutional barriers (whether race, faith, ethnicity, age, gender, disability, sexual orientation, social origin or class based) that prevent meaningful access, inclusion and participation in the arts for all groups and communities in England.

In recognition of our approach to recruiting and managing disabled staff, we have been awarded the 'Two Ticks' symbol by The Employment Services. Our commitment to equality for gay, lesbian and bisexual employees has also been recognised externally and we have achieved a place in the Stonewall Workplace Equality Index as one of 100 top employers for gay people in Britain.

In 2007 we received some positive ratings in relation to our role as an employer for both lesbian, gay and bisexual staff and staff with disabilities.

We retained our position in the Stonewall Workplace Equality Index (WEI), which measures employers' equality practices in relation to employees who identify as lesbian, gay or bisexual. In 2008 the Arts Council was ranked joint 67th place with a number of organisations including Avon and Somerset Probation Area, Leeds City Council, and Nottinghamshire City Council. This was a significant achievement because recognition through the Index has become much more competitive as it has grown in size since previous years, with nearly 250 employers entering the 2008 index who together employ over 4 million people in the UK.

Also, we significantly improved our performance in the annual Employers' Forum on Disability Standard Benchmark Survey 2007, with our percentage rating increasing from 38% to 58%. This takes us to joint 57th, out of 116 employers surveyed. Effectively, this means our performance in these areas has improved by over 50% recently. This survey provides an effective way to audit our progress around disability employment issues. The Disability Standard provides information to support us to design and deliver disability action plans for the coming year, as well as sending a clear message about our commitment to disability equality in the workplace.

Transforming our support services

In 2007/08 there was a major review of the organisation's professional support services in finance, information technology, human resources, facilities management, public enquiries and grant applications initial processing. The aim of the review was to explore how these functions could best deliver high quality services at strategic, policy and operational levels for the Arts Council, value for money and the Government's efficiency agenda. The change programme following the review is now under way, and reshaped services in IT, HR, grant applications logging, facilities management, and regional finance and business services will be in place by July 2008. A national support centre for some HR and IT staff, and the grant applications logging team, has been set up in Manchester. Finance processing services and our public enquiries service will be delivered from Manchester from April 2009. This change programme will produce significant efficiency improvement and cost savings over the next few years.

Approach to human resources

In preparation for the transformation of the Human Resources function alongside other professional support services in 2008, during 2007/08 the Human Resources Team worked to ensure that all employment related systems and technology were fully embedded into the organisation. This included the continued development of our employee self service HR system and database, which has streamlined a range of HR processes; the introduction of a highly effective e-recruitment system and the expansion of our delivery of employee training through e-learning packages, supported by a state-of-the-art learning management system. We are hoping to share the benefits of these developments in learning resources with arts organisations over the next year.

Development is well underway for the Arts Council's first ever three year People Strategy which will underpin the Arts Council plan 2008–11 and address issues raised in the findings of Express Yourself!, the all staff survey conducted early in 2007. The new HR Service will be responsible for leading on the implementation of this strategy in partnership with Senior Management and people managers across the Arts Council.

Internally, there are arrangements to promote effective consultation and communication with staff. Executive Board and Council activities are disseminated through a system of team briefing meetings, the intranet and regularly emailed updates, supplemented from time to time by organisation-wide, region-wide and departmental meetings.

More formally, Arts Council England recognises the trade unions Unite and Unison for consultation and collective bargaining, with well-established consultative arrangements. The National Joint Consultative and Negotiating Committee (NJCNC) handles all core pay, terms and conditions of employment and human resources policies and procedures across the whole organisation. The NJCNC is supported by Local Joint Consultative and Negotiating Committees in each of the 10 workplaces.

We actively engage with Black and minority ethnic employees through a recognised Black Workers Group and employees with disabilities through the Disabled Workers Group. We have set Black and minority ethnic staff profile targets for recruitment and retention. Currently, 15% of staff classify themselves as Black or minority ethnic and 3% classify themselves as disabled.

Arts Council England seeks to ensure that the requirements of health and safety legislation are met in the workplace. Health and safety issues of general concern are discussed with Unite and Unison. During 2007/08, a new corporate health and safety policy has been agreed which will be implemented across all Arts Council England offices in 2008/09.

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 £424 million for the year (2006/07: £427m). Ring-fenced funding is as stated in the table below.

	2007/08 £ms
Creative Partnerships	34.8
Young People's Arts Awards	0.4
Youth Theatre	0.1
Cultural Leadership Fund	4.9
Cultural Hubs	1.4
Other capital funds	1.0

In addition, we received £10 million of grants and donations for specific strategic projects from a number of other organisations.

During the year we awarded grants to our regularly funded arts organisations of £326 million, and made awards worth £1 million under Grants for the arts – individuals, our open application programme for individual artists. Funding for this programme transferred to the National Lottery during 2007/08. In addition, we spent £52 million directly on strategic initiatives including our Creative Partnerships programme.

The statement of financial activities funded from grant-in-aid shows net incoming resources for the year of £4 million on unrestricted funds after exceptional items. This surplus was planned to finance the refurbishment of our national office, which was completed in April 2008.

At 31 March 2008, Arts Council England had unrestricted reserves of £16 million. Our policy on reserves is 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. Our use of reserves, however, is restricted by the Government's end-of-year flexibility

regulations, which in particular mean that we are not currently allowed to use our historic reserves brought forward from 2001/02 of £9 million.

In December 2007, DCMS announced that our funding for the financial years 2008/09, 2009/10 and 2010/11 would be £430.9 million, £445 million and £468.5 million respectively. These figures include an undesignated capital allocation of £2 million in 2008/09, £1.5 million in 2009/10 and 2010/11, £3 million in 2009/10 and 2010/11 earmarked for pilot projects for Find Your Talent, and £0.5 million in each of the three years for the Taking Part survey and other strategic research.

Full details in relation to financial instruments are given in note 26 to the grant-in-aid accounts.

Grant-making policy

We award and monitor grants in accordance with regulations set out in our Charter and Financial Memorandum. Grant-making decisions are based on our objectives as stated in the Charter and the current funding agreement between Arts Council England and DCMS.

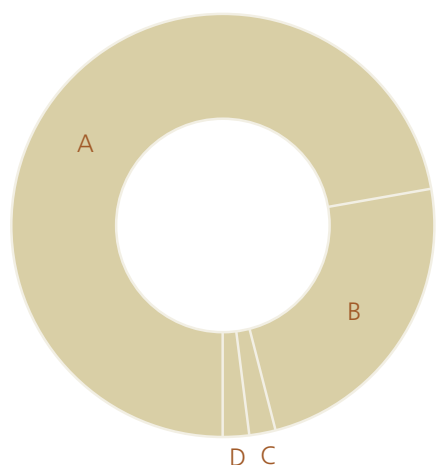
Consolidated activities

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 2007/08 and 2006/07 financial years.

	2007/08 £000s	2006/07 £000s
Income		
Grant-in-aid income	423,601	426,531
Share of proceeds from the National Lottery Distribution Fund	139,845	142,934
Investment returns on the Distribution Fund	11,614	6,396
Other income	13,898	14,112
Total income	<u>588,958</u>	<u>589,973</u>
Expenditure		
Net grant-in-aid grant commitments	377,113	373,710
Other grant-in-aid arts expenditure	26,755	30,448
Net lottery grant commitments	76,935	146,493
Operating costs	48,989	51,670
Total expenditure	<u>529,792</u>	<u>602,321</u>
Exceptional items		
Cost of fundamental reorganisation	<u>1,143</u>	<u>(62)</u>
Net (outgoing)/incoming resources	58,023	(12,410)
Profit on revaluation of fixed assets	<u>21,483</u>	<u>16,169</u>
Net movement in funds	79,506	3,759
Consolidated reserves brought forward	16,254	12,495
Consolidated reserves carried forward	<u>95,760</u>	<u>16,254</u>

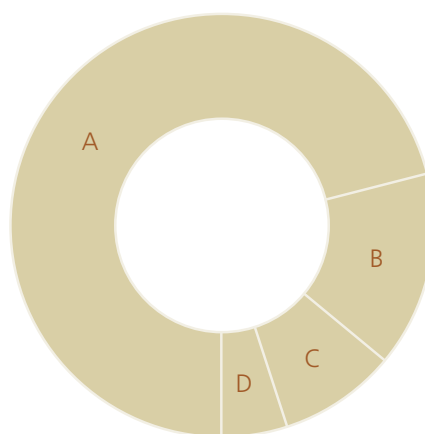
Trustees' report and management commentary

Income:



A	Grant-in-aid income	72%
B	Share of National Lottery Distribution	24%
C	Investment returns on the Distribution Fund	2%
D	Other income	2%

Expenditure:



A	Net grant-in-aid grant commitments	71%
B	Net lottery grant commitments	15%
C	Operating costs	9%
D	Other grant-in-aid arts expenditure	5%

The above figures for net lottery grant commitments include an accounting policy adjustment to reflect grant-in-aid accounting policies (note 1). This has the effect of decreasing net grant commitments compared with the figures in the lottery distribution accounts by £14 million in 2007/08 (2006/07: an increase of £18.3 million). Operating costs have reduced by £2.7 million in the year.

In response to the outcome of the 2004 Spending Review, the Arts Council agreed with DCMS that we would cap our core administration costs in 2006/07 and 2007/08 at the 2005/06 level. This was achieved in 2007/08, as the following table shows:

	2007/08 £000s	2006/07 £000s	2005/06 £000s
Total operating costs per summary above	48,989	51,670	54,121
Less one-off development costs (Arena IT system)	0	(1,943)	(4,364)
Adjusted on-going operating costs	48,989	49,727	49,757

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, and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by HM Treasury.

Alan Davey
Chief Executive
7 July 2008

Sir Christopher Frayling
Chair
7 July 2008

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

Statement on internal control

1 Scope of responsibility

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

2 The purpose of the system of internal control

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

Arts Council England's policy on risk can be summarised as follows. The organisation will at all times ensure that it meets its statutory reporting and regulatory obligations, is accountable to the public, and will maintain systems to ensure that it protects its resources. Against this background, risk-taking is acceptable where it helps to deliver the organisation's core objectives.

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

3 Capacity to handle risk

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

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

During 2007/08, the organisation started to align risk assessment with the corporate planning process.

4 The risk and control framework

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

- a) A national Council, made up of the trustees of Arts Council England, which has a code of practice which includes a policy on declaration and registration of interests. Its defined responsibilities include:
 - strategic planning and control, including approval each year of a corporate plan and approval of the overall budget allocation on a three-year basis
 - delegating responsibility for specific matters to the regional councils
 - being accountable for public funds, ensuring that Arts Council England conducts operations economically, efficiently and effectively

- approving the annual report and accounts
- ensuring that Arts Council England fulfils its obligations as an employer and complies with all relevant legislation

b) An Audit Committee with agreed terms of reference which include:

- reviewing Arts Council England’s internal and external financial statements to ensure they reflect best practice
- considering internal and external audit reports and reviewing Arts Council England’s relationship with its internal and external auditors
- reviewing the effectiveness of Arts Council England’s internal control system, including the review of the risk management policy and risk register
- reporting to the national Council on the above duties

c) An Executive Board and Management Committee sub-group with defined terms of reference, which include:

- developing the corporate policy on high-level issues and overseeing the implementation of nationally agreed policies and plans
- receiving and monitoring financial information relevant to Arts Council England’s overall management responsibilities
- taking decisions within delegated powers and approving further delegation as appropriate

d) An internal audit function that operates to standards defined in the Government Internal Audit Standards and whose programme of work is agreed and monitored by the Audit Committee. Internal auditors base their annual internal audit plans on an analysis of the risk to which Arts Council England is exposed. This analysis of risk and plans is endorsed by Arts Council England’s Audit Committee and approved by us. At least annually, the head of internal audit reports on internal audit activity in Arts Council England. The report includes the head of internal audit’s independent opinion on the adequacy and effectiveness of Arts Council England’s system of internal control.

5 Review of effectiveness

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

During the year further work on our key business IT system ‘Arena’ enhancing both functionality and reporting capacity has improved internal control in a number of areas. The National Office Arts Planning and Investment department has established its role as the functional lead for our key investment programmes. In particular it is leading the revised corporate planning process currently underway to develop our plans for 2008–11, which will improve internal control at the strategic and operational level. During the year a major review of support services – Finance and business support, IT, HR and Enquiries was undertaken. The implementation in 2008/09 will further enhance our systems of internal control through a refocused and consistent approach to support services across the Arts Council.

Alan Davey
Chief Executive
7 July 2008

Sir Christopher Frayling
Chair
7 July 2008

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 2008. These financial statements have been prepared in the form directed by the Secretary of State and approved by HM Treasury. These comprise the statement of financial activities, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. 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

The Trustees and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Review, the remuneration report and the financial statements in accordance with the Charities Act 1993 and the directions made thereunder by the Secretary of State and for ensuring the regularity of financial transactions funded by Parliamentary grant (grant-in-aid). These responsibilities are set out in the statement of Trustees' and Chief Executive'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 Charities Act 1993 and the directions made thereunder by the Secretary of State. I report to you whether, in my opinion, certain information given in the Annual Review, which comprises the Trustees' Report and the Management Commentary, is consistent with the financial statements. I also report whether in all material respects the expenditure, income and resources funded by grant-in-aid have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if Arts Council England has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed. I review whether the statement on internal control reflects

Arts Council England'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 Arts Council England's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinions

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 judgements made by the Trustees and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to Arts Council England's circumstances, consistently applied and adequately disclosed.

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

In forming my opinion, I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the remuneration report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Charities Act 1993 and directions made thereunder by the Secretary of State, of the state of Arts Council England's affairs as at 31 March 2008 and of its incoming resources and application of resources for the year then ended
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Charities Act 1993 and Secretary of State directions made thereunder
- information given within the Annual Review, which comprises the Trustees' Report and the Management Commentary, is consistent with the financial statements

Opinion on Regularity

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

T J Burr
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria, London SW1W 9SS
10 July 2008

Statement of financial activities

For the year ended 31 March 2008

	Note	Unrestricted funds £000s	Restricted funds £000s	Total 2007/08 £000s	Total 2006/07 £000s
Incoming resources					
Incoming resources from generated funds					
Voluntary income	2	382,046	41,555	423,601	426,531
Investment income		2,388	0	2,388	1,232
Incoming resources from charitable activities	3	755	10,191	10,946	12,496
Total incoming resources		385,189	51,746	436,935	440,259
Resources expended					
Charitable activities	4	379,047	54,666	433,713	433,807
Governance costs		1,816	0	1,816	1,743
Total resources expended		380,863	54,666	435,529	435,550
Net incoming / (Outgoing) resources before exceptional items		4,326	(2,920)	1,406	4,709
Exceptional items					
Cost of fundamental reorganisation	27	(720)	0	(720)	0
Net incoming / (Outgoing) resources after exceptional items		3,606	(2,920)	686	4,709
Notional costs					
Cost of capital	8	(965)	0	(965)	(877)
Net incoming resources after notional costs		2,641	(2,920)	(279)	3,832
Reversal of notional costs		965	0	965	877
Net incoming / (Outgoing) resources for the year	9	3,606	(2,920)	686	4,709
Gain on revaluation of tangible fixed assets	10	21,483	0	21,483	16,169
Net movement in funds		25,089	(2,920)	22,169	20,878
Balance brought forward at 1 April		88,984	6,546	95,530	74,652
Balance carried forward at 31 March		114,073	3,626	117,699	95,530

The notes on pages 71 to 88 form part of these accounts

Balance sheet

As at 31 March 2008

	Note	Unrestricted funds £000s	Restricted funds £000s	Total 31 March 2008 £000s	Total 31 March 2007 £000s
Heritage assets					
Works of art	10	<u>89,016</u>	<u>851</u>	<u>89,867</u>	<u>68,220</u>
Fixed assets					
Tangible assets	10	<u>8,593</u>	<u>0</u>	<u>8,593</u>	<u>5,250</u>
Current assets					
Debtors	12	1,798	2,069	3,867	8,948
Due from Arts Council lottery accounts		0	0	0	3,001
Grants paid in advance	13	6,041	0	6,041	20,666
Cash at bank and in hand		<u>29,891</u>	<u>22,499</u>	<u>52,390</u>	<u>30,891</u>
		<u>37,730</u>	<u>24,568</u>	<u>62,298</u>	<u>63,506</u>
Creditors: amounts falling due within one year					
Grants outstanding		10,762	18,644	29,406	31,964
Due to Arts Council lottery accounts		2,475	0	2,475	0
Creditors	14	7,818	2,279	10,097	9,044
Provisions for liabilities and charges	15	<u>1,062</u>	<u>19</u>	<u>1,081</u>	<u>438</u>
		<u>22,117</u>	<u>20,942</u>	<u>43,059</u>	<u>41,446</u>
Net current assets		<u>15,613</u>	<u>3,626</u>	<u>19,239</u>	<u>22,060</u>
Total assets less current liabilities		<u>113,222</u>	<u>4,477</u>	<u>117,699</u>	<u>95,530</u>
Represented by income funds					
Unrestricted fund	21	15,613	0	15,613	15,515
Restricted fund		0	3,626	3,626	6,546
Represented by capital funds					
Designated fund	21	89,326	0	89,326	67,678
Donated asset reserve		0	851	851	851
Capital reserve		8,283	0	8,283	4,940
		<u>113,222</u>	<u>4,477</u>	<u>117,699</u>	<u>95,530</u>

The notes on pages 71 to 88 form part of these accounts

Alan Davey
Chief Executive
7 July 2008

Sir Christopher Frayling
Chair
7 July 2008

Cash flow statement

For the year ended 31 March 2008

	Note	2007/08 £000s	2006/07 £000s
Operating activities			
Grant-in-aid received		423,601	428,405
Other cash receipts		16,027	9,857
Grants paid to arts organisations and other bodies		(365,046)	(376,820)
Cash paid to and on behalf of employees		(34,190)	(33,942)
Net cash movements relating to the Arts Council lottery accounts		3,001	(1,084)
Other cash payments (net)		(19,251)	(27,148)
Net cash inflow from operating activities	22	<u>24,142</u>	<u>(732)</u>
Interest received on short-term cash deposits		2,388	1,232
Net cash inflow from returns on investments		<u>2,388</u>	<u>1,232</u>
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(5,031)	(874)
Sale of tangible fixed assets		0	0
Net cash (outflow) from capital expenditure		<u>(5,031)</u>	<u>(874)</u>
Increase (decrease) in cash	23,24	<u>21,499</u>	<u>(374)</u>

The notes on pages 71 to 88 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 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 2007/08, the values of fixed assets expressed in current cost terms, with the exception of the works of art collection and freehold land and buildings, are not materially different to historic costs. Therefore these fixed assets are shown at historic cost on the balance sheet. Freehold land and buildings are revalued periodically to current market value and are included at this valuation on the balance sheet. Separate accounts have been prepared for the Arts Council's lottery activities, in accordance with the directions issued by the Secretary of State, which follow different accounting policies. Grant commitments are recognised in the lottery accounts once grant offers are accepted. Grant commitments in the grant-in-aid accounts are recognised when the offer is issued. Consequently, in the opinion of the trustees, it is not possible to prepare full consolidated accounts covering both grant-in-aid and lottery activities as it would not provide a fair view of the application of the Arts Council's resources. In this respect, we have not been able to comply with paragraph 381 of the SORP issued by the Charity Commission in 2005. However, we have included a summary of the consolidated figures for our combined activities and an estimate of the impact of the change in accounting policy on the lottery accounts in the management commentary on page 61.

We have two fully owned subsidiary companies as detailed in note 27 to the accounts. We do not consider that these companies are material enough to require us to produce separate consolidated accounts, therefore the grant-in-aid accounts include both these subsidiary companies' 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 in which it is received. 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

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

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

Notes to the grant-in-aid accounts

A full year's depreciation is provided in the year of an asset's acquisition, and none in the year of its disposal. Software costs are written off in full in the year of acquisition. Donated fixed assets are capitalised and included as income at market value in the year in which they are received. All individual assets valued greater than £2,000 are capitalised, except our freehold interests in the Southbank Centre and National Theatre as described in notes 19 and 20 of these accounts.

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

e) Leases

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

f) Taxation

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

g) Pensions

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

h) Apportioned costs

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

The notes to the statement of financial activities are shown before costs apportioned to the Arts Council lottery distribution accounts.

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

i) Notional costs

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

2 Voluntary and investment income

	Unrestricted funds £000s	Restricted funds £000s	Total 2007/08 £000s	Total 2006/07 £000s
Voluntary income				
Cash grant-in-aid voted by Parliament and paid in full				
Core funding	376,050	0	376,050	375,400
End year flexibility agreed	5,996	0	5,996	6,600
Capital funds for Southbank Centre	0	0	0	3,000
Capital funds for Capital of Culture	0	0	0	2,000
Other ringfenced funds	0	6,755	6,755	7,405
Creative Partnerships	0	34,800	34,800	34,000
	<u>382,046</u>	<u>41,555</u>	<u>423,601</u>	<u>428,405</u>
Less: grant-in-aid receivable at 31 March 2007	0	0	0	(1,874)
	<u>382,046</u>	<u>41,555</u>	<u>423,601</u>	<u>426,531</u>
Plus: grant-in-aid receivable outstanding as at 31 March 2008	0	0	0	0
Grant-in-aid as shown in the statement of financial activities	<u>382,046</u>	<u>41,555</u>	<u>423,601</u>	<u>426,531</u>

Investment income relates to interest received on an interest bearing deposit account.

Notes to the grant-in-aid accounts

3 Incoming resources from charitable activities

	Unrestricted funds £000s	Restricted funds £000s	Total 2007/08 £000s	Total 2006/07 £000s
Grants, sponsorship and donations received	37	9,938	9,975	11,333
Local authority subscriptions	44	0	44	383
Sundry	674	253	927	780
Net incoming / (Outgoing) resources for the year	<u>755</u>	<u>10,191</u>	<u>10,946</u>	<u>12,496</u>
Grants, sponsorship and donations are analysed as follows:	£000s	£000s	£000s	£000s
Arts Council of Northern Ireland	0	150	150	150
Arts Council of Wales	0	150	150	150
Arts Investment Funding	0	0	0	60
Association of Greater Manchester Authorities	0	0	0	170
Bolton Metropolitan Borough Council	0	0	0	143
Cannon (UK)	0	0	0	75
Department for Children, Schools and Families	0	2,853	2,853	0
Department for Culture, Media and Sport	0	2,041	2,041	510
Department for Education and Skills	0	0	0	2,589
Deutsche Bank	0	50	50	38
East of England Development Agency	0	0	0	498
East Midlands Development Agency	0	60	60	150
European Regional Development Fund	0	946	946	800
European Social Fund	0	569	569	904
Kent County Council	0	160	160	124
Lancashire County Council	0	0	0	69
Land Securities plc	0	50	50	0
Learning & Skills Council	0	60	60	0
Liverpool City Council	0	49	49	63
London Development Agency	0	0	0	100
McLaren Group Ltd	0	0	0	50
Museums, Libraries and Archives Council	0	60	60	0
Northumberland Strategic Partnership	0	40	40	0
One NorthEast	0	150	150	220
Scottish Arts Council	0	175	175	175
South East England Development Agency	0	119	119	162
South West Regional Development Agency	0	352	352	214
The Innovation Unit	0	43	43	0
Yorkshire Forward	0	905	905	1,873
Other	37	956	993	2,046
	<u>37</u>	<u>9,938</u>	<u>9,975</u>	<u>11,333</u>

4a Charitable activities

	Activities undertaken directly £000s	Grant funding of activities £000s	Net support costs £000s	Total 2007/08 £000s	Total 2006/07 £000s
Regularly funded organisations	0	325,725	12,091	337,816	320,615
Grants for the arts - individuals	0	890	331	1,221	13,583
Strategic funding and activity	10,834	18,961	9,568	39,363	41,817
Creative partnerships	11,239	19,859	6,135	37,233	39,161
Other restricted funds	4,682	13,322	1,720	19,724	19,782
Lapsed and revoked commitments	0	(1,644)	0	(1,644)	(1,151)
	<u>26,755</u>	<u>377,113</u>	<u>29,845</u>	<u>433,713</u>	<u>433,807</u>

- regularly funded organisations are those organisations of strategic importance with which the Arts Council has long term, multi-year funding agreements
- Grants for the arts – individuals are awards for activities that benefit people in England or help artists from England to carry out their work. The programme transferred to being lottery funded in 2007/08
- strategic funding and activities are those specific projects funded by grants and direct arts expenditure
- they provide essential leverage for national, regional and local partnerships, and act as investment in seed funding, research and development for the arts in England
- Creative Partnerships are projects through which the Arts Council encourages schools to explore new ways to improve learning and attainment through creativity
- other restricted funds are those specific projects delivered through funds provided by partners as detailed in note 3

4b Analysis of grant funding by office

	Regularly funded organisations £000s	Grants for the arts individuals £000s	Other £000s	Total 2007/08 £000s	Total 2006/07 £000s
East	8,818	107	1,410	10,335	11,212
East Midlands	9,924	0	901	10,825	12,141
London	170,525	0	3,722	174,247	169,550
North East	13,788	163	4,181	18,132	16,557
North West	22,777	83	4,133	26,993	26,770
South East	13,866	283	553	14,702	15,298
South West	15,415	80	1,047	16,542	17,453
West Midlands	45,313	20	508	45,841	44,953
Yorkshire	25,188	154	1,556	26,898	28,205
National	111	0	14,272	14,383	15,261
Creative Partnerships	0	0	19,859	19,859	17,461
	<u>325,725</u>	<u>890</u>	<u>52,142</u>	<u>378,757</u>	<u>374,861</u>

Notes to the grant-in-aid accounts

4c Analysis of grants by recipient

	Grants to institutions £000s	Grants to individuals £000s	Total 2007/08 £000s	Total 2006/07 £000s
Regularly funded organisations	325,725	0	325,725	314,916
Grants for the arts	0	890	890	9,729
Strategic funding and activity	18,314	647	18,961	16,273
Creative partnerships	14,599	5,260	19,859	17,461
Other restricted funds	12,726	596	13,322	16,482
	<u>371,364</u>	<u>7,393</u>	<u>378,757</u>	<u>374,861</u>

4d Analysis of support costs

	Unrestricted £000s	Restricted £000s	Less recharge to lottery £000s	Total 2007/08 £000s	Total 2006/07 £000s
Staff costs	22,314	3,440	(8,424)	17,330	16,611
Agency staff costs	1,714	386	(639)	1,461	1,101
Depreciation	1,160	14	(429)	745	538
Travelling, subsistence and entertainment	1,351	386	(525)	1,212	1,154
Rent and rates	3,726	742	(1,451)	3,017	3,189
Professional fees	2,284	89	(966)	1,407	1,251
Office and sundry	4,575	703	(1,762)	3,516	3,428
IT project *	0	0	0	0	1,153
Irrecoverable Value Added Tax	1,289	376	(509)	1,156	1,224
	<u>38,413</u>	<u>6,136</u>	<u>(14,705)</u>	<u>29,844</u>	<u>29,649</u>
Corporate governance costs				<u>1,816</u>	<u>1,743</u>
				<u>31,660</u>	<u>31,392</u>

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. Separately the proportion of support costs chargeable to the Lottery accounts is based on the proportion of payments made for lottery funded programmes.

* This reflects costs incurred in 2006/07 on the development of the new 'Arena' system for finance, grants and management information to replace the different IT systems which were in place until October 2006 in each office.

5 Staff costs

	2007/08 £000s	2006/07 £000s
Salaries and wages	25,278	25,250
Employer's National Insurance	2,017	2,131
Employer's pension contributions	4,422	4,704
Agency staff	2,473	1,857
	<u>34,190</u>	<u>33,942</u>

Included within salaries and wages are the redundancy costs not related to fundamental re-organisation which fell due during the year of £764,000 (2006/07: £4,000).

These costs arose following the closure of programmes, and other contractual payments falling due for those leaving the organisation, not as a result of fundamental reorganisation. Staff costs include £5,407,000 (2006/07: £4,970,000) for staff involved in direct delivery of programmes included in activities undertaken directly in note 4.

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

	2007/08	2006/07
Direct delivery of programmes	36	42
Creative Partnerships	193	185
Support and corporate governance	599	645
	<u>828</u>	<u>872</u>

Included within the average number of employees are 83 contracted as agency staff (2006/07: 73).

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

Emoluments for the year

	2007/08	2006/07
£60,000–£69,999	11	12
£70,000–£79,999	2	2
£80,000–£89,999	3	2
£90,000–£99,999	1	0

6 Council members' expenses

It is part of Council members' duties to assess artistic work. The cost of their tickets for attendance at performances and events is met by the Arts Council. In 2007/08, the total cost of tickets purchased for this purpose was £4,000 (2006/07: £3,000). All our Council members are able to claim back their travel and subsistence costs. The total amount reimbursed in the year is shown in note 9.

Notes to the grant-in-aid accounts

7 Pensions

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

Arts Council Retirement Plan (1994)

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

The scheme is financed by payments by Arts Council England and employees into a trustee-administered fund independent of Arts Council England's finances. These contributions are invested by a leading fund management company. The net market value of the scheme's assets at 31 March 2007 was £58.5 million.

An actuarial valuation of the pension fund takes place at least every three years. At the last valuation on 31 March 2007 the actuarial value of the assets using the projected unit method was sufficient to cover 75% of the value accrued to members, a deficit of £18,800,000. As a result, and on the advice of the actuary, we are now paying employer's contributions of 25% of pensionable salary or 23% for staff who started after 1 April 2006.

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

Price inflation rate	3.2%
Rate of pay increases	4.7%
Rate of pension increases	3.2%

Amounts due to the fund at 31 March 2008 were £nil (31 March 2007 £nil).

West Yorkshire Pension Fund

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

The net market value of total scheme assets at 31 March 2008 was £7.26 billion.

An actuarial valuation of the pension fund takes place every three years. At the last valuation on 31 March 2007, the actuarial value of the assets using the projected unit method was sufficient to cover 90% of the value accrued to members. From 1 April 2007, employer contributions were set at 15%.

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

Rate of inflation	2.75%
Rate of pay increases	4.50%
Rate of pension increases	2.75%

Amounts due to the fund at 31 March 2008 were £nil (31 March 2007: £nil).

Legacy Regional Arts Board pension schemes

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

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

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

8 Notional costs

Notional cost of capital is calculated as £965,000 (2006/07: £877,000) – 3.5% of the average net assets employed by the Arts Council in the year.

9 Net incoming resources for the year

	2007/08 £000s	2006/07 £000s
Net incoming resources of £686,000 (2006/07 £4,709,000) are stated after charging:		
(a) auditors' remuneration	55	80
(b) operating leases	4,028	4,261
(c) Council members' travel, subsistence and hospitality for the 12 serving members during the year	63	47
(d) insurance: trustees' and senior officers' indemnity	14	14

10 Heritage assets and tangible fixed assets

	Buildings £000s	Equipment fixtures and fittings £000s	Vehicles £000s	Heritage assets: works of art £000s	Total £000s
Costs at 1 April 2007	7,605	3,003	18	68,220	78,846
Additions	4,045	469	0	164	4,678
Revaluations	0	0	0	21,483	21,483
Less: disposals	0	(28)	0	0	(28)
Cost at 31 March 2008	<u>11,650</u>	<u>3,444</u>	<u>18</u>	<u>89,867</u>	<u>104,979</u>
Depreciation at 1 April 2007	2,979	2,388	9	0	5,376
Less: Depreciation on disposals	0	(28)	0	0	(28)
Revaluations	0	0	0	0	0
Provided for 2007/08	967	199	5	0	1,171
Depreciation at 31 March 2008	<u>3,946</u>	<u>2,559</u>	<u>14</u>	<u>0</u>	<u>6,519</u>
Net book value at 31 March 2008	<u>7,704</u>	<u>885</u>	<u>4</u>	<u>89,867</u>	<u>98,460</u>
Net book value at 31 March 2007	<u>4,626</u>	<u>615</u>	<u>9</u>	<u>68,220</u>	<u>73,470</u>

	31 March 2008 £000s	31 March 2007 £000s
Freehold	797	811
Short leasehold improvements	6,907	3,815
	<u>7,704</u>	<u>4,626</u>

Our freehold property in Dewsbury was professionally revalued at 31 March 2005 by Drivers Jonas to an open market value of £600,000. On a historic cost basis the net book value at 31 March 2008 would have been £393,000. During the year, the majority of the work to refurbish our National Office in London was completed accounting for the change in leasehold improvements.

Notes to the grant-in-aid accounts

Works of art and poetry collection

The Arts Council Collection has been valued by the curator at £89,687,000 at 31 March 2008 (31 March 2007: £68,220,000). The two most valuable paintings in the collection were revalued in line with a sale of the artist's work in New York. This accounted for £17.5 million of the £21,483,000 increase in value in the year. The purpose of the collection is to increase the understanding and appreciation of contemporary art and to widen the audience for contemporary art through loans to other galleries, public institutions and exhibitions. It is not held for investment or resale.

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

11 Costs apportioned to Arts Council England lottery distribution accounts

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

12 Debtors

	31 March 2008 £000s	31 March 2007 £000s
Trade debtors	2,227	7,100
Other debtors	701	770
Prepayments and accrued income	939	1,078
	<u>3,867</u>	<u>8,948</u>

13 Grants paid in advance

The Arts Council does permit organisations to draw down cash from a future year's funding agreement to cover short term cash flow problems. In 2007/08, no such payments were permitted until after National Council had agreed regularly funded organisations 2008–11 allocations on 29 January 2008. Interim funding agreements were issued to each organisation granted an advance on 2008/09 funding. Advances were only made where there was sufficient evidence from cash flows that an advance was necessary.

14 Creditors: amounts falling due within one year

	31 March 2008 £000s	31 March 2007 £000s
Trade creditors	959	1,065
Other creditors including taxes and social security	102	285
Accruals and deferred income	9,036	7,694
	<u>10,097</u>	<u>9,044</u>

15 Provisions for liabilities and charges

	31 March 2008 £000s	31 March 2007 £000s
Legal cases and challenges	210	0
Employment entitlements	126	0
Redundancies	192	0
Building dilapidations	191	194
Cost of Fundamental Reorganisation	362	244
	<u>1,081</u>	<u>438</u>
Prior year provision was held within accruals		

16 Grant offers

	31 March 2008 £000s	31 March 2007 £000s
Forward funding:		
2007/08	n/a	324,509
2008/09	332,336	0
2009/10	339,186	0
2010/11	348,709	0
	<u>1,020,231</u>	<u>324,509</u>

Forward funding at 31 March 2008 mainly represents allocations for regularly funded organisations for the three year funding cycle 2008/09 to 2010/11 that were announced before the year end.

17 Leases

At 31 March 2008 the Arts Council had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings 31 March 2008 £000s	Land and buildings 31 March 2007 £000s
Operating leases which expire:		
within one year	130	865
within two and five years inclusive	343	412
over five years	2,397	2,444
	<u>2,870</u>	<u>3,721</u>

18 Capital commitments

There were contracted capital commitments at 31 March 2008 of £332,000 (31 March 2007: £685,000)

Notes to the grant-in-aid accounts

19 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.

20 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.

21 Reconciliation of movements in funds

	At 1 April 2007 £000s	Income £000s	Expenditure £000s	Transfers £000s	At 31 March 2008 £000s
Income funds					
Unrestricted funds	14,628	385,189	(384,926)	(165)	14,726
Revaluation reserve	887	0	0	0	887
Restricted funds					
Creative Partnerships	187	38,546	(36,978)	0	1,755
Other restricted funds	6,359	13,200	(17,688)	0	1,871
Capital funds					
Designated funds	3,901	0	0	165	4,066
Donated asset reserve	851	0	0	0	851
Capital Reserve	4,940	0	3,343	0	8,283
Revaluation reserve	63,777	21,483	0	0	85,260
	<u>95,530</u>	<u>458,418</u>	<u>(436,249)</u>	<u>0</u>	<u>117,699</u>

Description of funds

Income funds

a) Unrestricted funds

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

b) Revaluation reserve

This relates to the unrealised surplus on revalued freehold properties, and the revaluation of the Arts Council Collection.

c) Restricted funds

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

	31 March 2008 £000s	31 March 2007 £000s
Department for Culture, Media and Sport (Creative Partnerships)	1,755	187
Department for Culture, Media and Sport (other)	161	2,701
European Regional Development Fund	0	849
European Social Fund	0	837
Other	1,710	1,972
	<u>3,626</u>	<u>6,546</u>

Capital funds

a) Designated funds

This fund relates to capital expenditure on works of art allocated from the unrestricted fund. The transfer figure of £165,000 relates to additions to the collection purchased during the year from unrestricted funds less disposals in the year.

b) Donated asset reserve

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

c) Revaluation reserve

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

22 Cash flow reconciliation

Reconciliation of operating surplus to net cash inflow from operating activities	2007/08 £000s	2006/07 £000s
Operating surplus	22,169	20,878
Interest receivable	(2,388)	(1,232)
Depreciation charges	1,171	1,063
(Profit) on disposal of fixed assets	0	0
Revaluation of fixed assets	(21,483)	(16,169)
Fixed assets written off in year	0	0
Decrease/(increase) in debtors and prepayments	8,082	(1,849)
Decrease/(increase) in grants paid in advance	14,625	(8,191)
Decrease/(increase) in grants outstanding	(2,558)	5,082
(Decrease)/increase in creditors	4,524	(314)
Net cash (outflow)/inflow from operating activities	<u>24,142</u>	<u>(732)</u>

Notes to the grant-in-aid accounts

23 Reconciliation of net cash flow to movement in funds

	2007/08: £000s	2006/07: £000s
Increase/(decrease) in cash in the year	21,499	(374)
Funds at 1 April	30,891	31,265
Funds at 31 March	<u>52,390</u>	<u>30,891</u>

24 Analysis of net cash

	1 April 2007: £000s	Cash flow: £000s	31 March 2008: £000s
Cash	30,891	21,499	52,390

25 Related parties

25a) Council members

We maintain publicly available registers in which Council members declare their interests, including any direct interests in grant applications made to and commercial relationships with the Arts Council. These are the interests in grant recipients declared for the year ended 31 March 2008:

Grant for the year ended at 31 March 2008 £000s	Balance unpaid 31 March 2008 £000s	Organisation	Council member	Relationship
159	0	Cardboard Citizens Group	Diran Adebayo	Family member is employee
255	3	The Book Trust		Former director
5	1	The X Press		Family member is employee
70	35	York Museums and Gallery Trust	Janet Barnes	Chief Executive
2,760	1,285	Capital of Culture/Liverpool Culture Company	Tom Bloxham MBE	Board member
60	19	The Manchester International Festival		Board member
125	30	Royal College Of Art	Sir Christopher Frayling	Employee
650	3	Rich Mix	Keith Khan	Ex-Chief Executive
19,277	25	Southbank Centre*		Ex-employee
55	0	Artsreach	François Matarasso	Adviser/consultant
569	50	Big Arts Trust		Board member
57	0	City Arts		Family member on Board
744	289	Clore Leadership		Other (Fellow 07–08)
63	28	Culture East Midlands		Adviser/consultant
458	80	Engage		Adviser/consultant
425	9	Shape		Adviser/consultant
122	39	Sound Sense		Adviser/consultant
27	0	Villages in Action		Adviser/consultant

Grant for the year ended at 31 March 2008 £000s	Balance unpaid 31 March 2008 £000s	Organisation	Council member	Relationship
174	0	National Opera Studio	Sir Brian McMaster	Chair
60	19	Manchester International Festival	CBE	Board member
8	0	Young Concert Artists Trust		Board member
200	0	Yaa Asantewaa Arts & Community Centre	Elsie Owusu OBE	Adviser/consultant
100	3	Royal Society Of Arts		Fellow
3	0	Elsie Owusu Architects Ltd		Board member
3	0	Royal African Society		Trustee
84	0	Arcadea	Dr Tom Shakespeare	Practice
405	106	Dance City		Practice
144	3	East London Dance		Family member on Board
13	0	Fiona Wright		Other
875	3	Live Theatre		Other
67	0	Monster Theatre Company		Member
140	1	Newcastle University (and Hatton Gallery)		Employee
5	0	Platform North East		Practice
122	0	Aliss	Dorothy Wilson	Co-director
25	13	Culture West Midlands		Board member
36	0	Music Leader West Midlands		Board member
526	148	Audiences Central		Ex-board member
256	0	Motionhouse Dance Company		Board member
904	0	New Victoria Theatre		Ex-board member
793	7	Midlands Arts Centre*		Chief Executive
284	16	Nitro	Lady Sue Woodford Hollick	Family member is employee
19,277	25	Southbank Centre*		Partner is former Chair
50	5	Tate Modern Advisory Council		Council member
3	0	Dartington College of Arts	Professor Andrew Brewerton	Director
633	158	Dartington Plus		Other
466	0	Artangel	Alice Rawsthorn	Other (Patron)
316	263	British Council		Adviser
1,168	0	Whitechapel Gallery		Trustee

* In addition to the above in the year ended 31 March 2008 advance payments on grants are included in the balance sheet for the following:

	Debtor balance at 31 March 2008 £000s
Southbank Centre	4,000
Midlands Arts Centre	188

Grants for the year exclude the decisions made by National Council in January 2008 for the Regularly Funded Organisations programme for 2008–11.

Notes to the grant-in-aid accounts

25b) Directors and senior managers

Executive directors and senior managers in Arts Council England are also required to declare any direct interests in grant applications made to and commercial relationships with the Arts Council. These are the interests in grant recipients declared for the year ended 31 March 2008:

Grant for the year ended at 31 March 2008 £000s	Balance unpaid at 31 March 2008 £000s	Organisation	Executive Director/ Senior Manager	Relationship
44	0	Leeds Metropolitan University	Adrian Friedli	Partner is employee
29	0	Sheffield Hallam University Students' Union		Employee
45	45	The Community Channel	Andrew Whyte	Non-pecuniary board member and trustee
5	0	The Media Trust		Non-pecuniary-board member and trustee
744	289	Clore Leadership Programme	Augustus Casely-Hayford	Fellowship/lecturer
80	8	Birkbeck University		Lecturer
7	0	Institute of Education		Lecturer
267	0	New Writing North	Mark Robinson	Other
181	0	Arc Publishing		Other
43	3	Bristol Cultural Development Partnership	Nick Capaldi	Board Member
50	14	Culture South West		Board Member
10	1	Hastings Borough Council	Felicity Harvest	Family member is elected member
50	50	Kent County Council		Partner is employee
3,711	0	Sage, Gateshead – aka North Music Trust	Paul Collard	Partner is employee
2,065	0	Halle Concerts Society	Hilary Boulding	Partner is employee
206	0	Actors Touring Company	Henry Little	Partner is board member
17,479	0	English National Opera		Ex-employee
135	35	Allways Learning	Barbara Matthews	Ex-board member
668	0	Hampstead Theatre		Ex-board member
53	0	National Student Drama Festival		Ex-board member
21	2	London Arts Health Forum	Moira Sinclair	Ex-board member
5	0	Vital Arts		Ex-employee
85	20	The Stables in Wavendon		Partner is employee
38	30	Maverick TV	Sally Luton	Ex-board member
43	0	Creative Kernow	Christopher Humphrey	Member
43	3	Bristol Cultural Development Partnership		Adviser/consultant
17	2	Department of Communities & Local Government	Sarah Weir	Board member

Grant for the year ended at 31 March 2008 £000s	Balance unpaid at 31 March 2008 £000s	Organisation	Executive Director/ Senior Manager	Relationship
106	0	Ixia	Margaret Bolt	Board member
21	0	Georgian Theatre	Alison Clark-Jenkins	Ex-board member
234	0	Stockton Borough Council		Ex-employee
235	0	Angel Row Gallery Nottingham	Philip Cave	Ex-employee

25c) 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 2008 £000s	Debtor 31 March 2008 £000s
Balances with other central government bodies	477	549
Balances with local authorities	8,946	1
Balances with NHS Trusts	25	0
Balances with public corporations and trading funds	486	108

26 Financial instruments

FRS 13, *Derivatives and other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period, in creating or changing the risks the entity faces in undertaking its activities. As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months of the balance sheet date have been omitted from this note.

a) Liquidity risk

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

b) Interest rate risk

The cash balance of £52,390,000 at 31 March 2008 was held in instant access variable rate bank accounts which carried an average interest rate of 0.22% below base rate.

c) Foreign currency risk

Our exposure to foreign currency risk is not significant.

27 Exceptional items

In June 2007 we announced a major restructuring of our support services. Provision has been made for the redundancy cost associated with implementation of these changes.

	2007/08: £000s	2006/07: £000s
Redundancy costs	720	0
	<u>720</u>	<u>0</u>

Notes to the grant-in-aid accounts

28 Subsidiary undertakings

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

	2007/08: £000s	2006/07: £000s
Cash at bank and in hand	337	429
Other debtors	0	255
Current assets	337	684
Other creditors	131	34
Amounts due to Arts Council England	28	474
Current liabilities	159	508
Net assets	178	176
Reserves	178	176
Summary Profit and Loss		
Income		
Income from DCMS	1,091	
Other income	8	
	1,099	
Expenditure		
Staff costs	199	
Operating costs	722	
	921	
Surplus for year	178	

During 2005/06, the Tabernacle Centre Limited became a wholly owned subsidiary of Arts Council England. It is a company limited by the guarantee of its directors. It runs a community arts centre. As at 31 March 2007, there were two Arts Council employees on the board. As at 31 March 2008 the company had been wound up.

	2007/08: £000s	2006/07: £000s
Fixed assets	0	17
Cash at bank and in hand	0	23
Other debtors	0	0
Current assets	0	40
Other creditors	0	3
Current liabilities	0	3
Net assets	0	37
Reserves	0	37

29 Post balance sheet event

These accounts were authorised for issue on 10 July 2008.

Arts Council England lottery distribution accounts 1 April 2007–31 March 2008 Trustees' report and management commentary

Reference and administrative details of the charity

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

National Council

Council members are responsible for ensuring the achievement of Arts Council England's objectives, which are to develop and improve the knowledge, understanding and practice of the arts, and to increase the accessibility of the arts to the public. They do this by deciding on policy and priorities, and retain overall responsibility for the investment strategy of Arts Council England.

Our Council members are the trustees of Arts Council England. The National Council consists of 15 members, nine of whom also chair one of the regional councils as detailed opposite.



	Member	Regional arts board original appointment (pre merger)	National Council appointment (post merger)	Renewal	End of appointment	Region – Chair
1	Sir Christopher Frayling (Chair)		2 February 2004	1 February 2008	31 January 2009	
2	Diran Adebayo		20 October 2004		19 October 2008	
3	Janet Barnes		1 February 2005		31 January 2009	Yorkshire
4	Tom Bloxham MBE	April 2000	1 June 2002	31 May 2006	31 May 2010	North West
5	Professor Andrew Brewerton		6 August 2007		5 August 2010	South West
6	Kentaké Chinyelu-Hope		1 October 2005		30 September 2009	South East
7	Keith Khan		1 May 2006		30 September 2010	
8	Professor Alan Livingston	October 1999	1 June 2002	31 May 2006	31 May 2007	South West
9	François Matarasso		1 October 2005		30 September 2009	East Midlands
10	Sir Brian McMaster CBE		1 June 2002	31 May 2004	31 May 2008	
11	Elsie Owusu OBE		1 June 2002	31 May 2005	31 May 2009	
12	Alice Rawsthorn		27 February 2007		31 January 2011	
13	Dr Tom Shakespeare		1 October 2004		30 September 2008	North East
14	Professor Stuart Timperley	September 1998	1 June 2002	31 May 2004 31 May 2006	31 May 2008	East
15	Dorothy Wilson		1 June 2002	31 May 2005	31 May 2009	West Midlands
16	Lady Sue Woodford Hollick	September 2000	1 June 2002	31 May 2006	31 May 2008	London

Management commentary

National Council (continued)

Members of our National Council are appointed by the Secretary of State for Culture, Media and Sport. In February 2008 the Privy Council agreed an amendment in the Royal Charter, which granted the Mayor of London power to appoint the Chair of Arts Council England, London. The Secretary of State for Culture retains the power of veto over the appointment. In the same round of amendments to the Charter, the Privy Council also agreed to an amendment, first agreed by the Charity Commission, which provides that future chairs of the National Council may be remunerated.

Council members are usually appointed for four years, and may be reappointed for a further term of four years. Council meets approximately five times during the year.

In August 2007 Alan Livingston retired as the Chair of Arts Council England, South West at the end of his term of appointment and Andrew Brewerton was appointed to fill the vacancy.

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

Executive Board

The Executive Board is Arts Council England's strategic and executive decision-making body and comprises the Chief Executive and all national and regional Executive Directors. It provides the executive link between the national and regional offices. It is responsible for developing the long-term strategy for the Arts Council and for ensuring delivery of the corporate plan.



Member	Job title	Region
1 Peter Hewitt	Chief Executive until 27 January 2008	National Office
1 Alan Davey	Chief Executive from 28 January 2008	National Office
2 Andrea Stark	Executive Director	East
3 Laura Dyer	Executive Director	East Midlands
4 Sarah Weir	Executive Director until 14 December 2007	London
4 Moira Sinclair	Executive Director from 17 December 2007	London
5 Mark Robinson	Executive Director	North East
6 Michael Eakin	Executive Director	North West
7 Felicity Harvest	Executive Director	South East
8 Nick Capaldi	Executive Director	South West
9 Sally Luton	Executive Director	West Midlands
10 Andy Carver	Executive Director	Yorkshire
Keith Harrison	Executive Director, Resources until 11 January 2008	National Office
11 Liz Bushell	Interim Executive Director, Resources from 2 January 2008	National Office
12 Althea Efunshile	Executive Director, Arts Planning and Investment	National Office
Gus Casely-Hayford	Executive Director, Arts Strategy until 30 November 2008	National Office
13 Andrew Whyte	Executive Director, Advocacy and Communications	National Office

Management commentary

Responsibilities of trustees, the Chief Executive, Executive Board and Management Committee

Council members, as trustees, retain overall responsibility for the work and conduct of the organisation. The Council is invited to consider and approve major matters of policy development, including the overall framework for the strategic delivery of those policies. In addition, approval of financial transactions over £5 million has been reserved for the Council.

The Council has approved the delegation of powers for delivery of the agreed policies and strategies to the Executive Board. Written terms of reference and procedures for the Executive Board have been agreed by the Council. The Executive Board held 11 formal business meetings in the year.

The Council has approved the further delegation of powers to a Management Committee as a sub-committee of the Executive Board. Management Committee is responsible for overseeing the workload and programme of national office, operational issues delegated by executive board, monitoring organisation wide financial performance and management issues, taking an overview of HR issues, the overview of risk management, and monitoring the managed funds budget and contingency. Management Committee comprises two national Executive Directors, three non-London regional Executive Directors and the London regional Executive Director.

The Chief Executive has been authorised by the Council to undertake the day-to-day administration and management of the business and staff of the organisation. He is responsible to the Council for those matters. The Council has agreed and issued guidelines to the Chief Executive.

Overall, the Council has approved a scheme of financial delegations and authorities, which provides a comprehensive scheme for determining an appropriate level of approval or authorisation for financial commitments, which is dependent upon the level of expenditure proposed.

Governance

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 objects of the Arts Council as stated in the Royal Charter, our governing document, are:

- to develop and improve the knowledge, understanding and practice of the arts
- to increase accessibility of the arts to the public
- to advise and cooperate with other government departments, local authorities and the Arts Councils for Scotland, Wales and Northern Ireland (or their successors)

To this end, we make grants to artists and arts organisations and engage in other activities on behalf of the sector.

Arts Council England was granted a Supplemental Charter on 18 March 2002. Its purpose was 'to give effect to new arrangements for regionalisation of its structure and activities'. There were no changes to the objects of the Arts Council and the main changes relate to powers to establish and to delegate powers and functions to regional councils. The Charter sets out the new composition of the Council, which includes the chairs of the regional councils. A number of amendments were made to the Charter in 2008 granting the Mayor of London the power of appointment for the Chair of the Arts Council England, London and the remuneration of future chairs of the National Council.

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

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 2007/08, 62% of undisputed lottery invoices were paid within 30 days (2006/07: 77%).

Structure

Arts Council England has nine regional offices, matching the government's regional boundaries, and a national office. Each region has a Council and the 15-strong National Council (details on pages 90 to 91) includes the chair of each of the regional councils.

We maintain a register of interests of our members, which is available for public inspection by appointment at our Great Peter Street address.

Principal advisers

Banker:

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

Auditor:

Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria, London
SW1W 9SS

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

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

Solicitors:

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

Responsibility towards the environment and sustainable development

Building on previous work and investments, we have supported initiatives and tools that will help the arts, and Arts Council England itself, move to a lower carbon economy. We have also developed initiatives that demonstrate the value of artists' creative insights in innovative ways.

Specific pieces of work that occurred during 2007/08 are detailed below:

- contributing to DCMS initiatives, including its carbon footprint benchmarking exercise for funded bodies, the Sustainable Development Forum and the Climate Change Project
- building on a report commissioned with the Carbon Trust to improve the understanding of our own buildings and processes, putting in place processes to measure and reduce our own carbon footprint
- development of an improved staff travel policy, due for completion autumn 2008
- introduction of a series of staff training sessions to implement and share energy management best practice across all our offices
- production and launch (due May 2008) of an energy management toolkit made available to arts organisations in England to help them understand and manage their energy use. The toolkit is available at www.artsenergy.org.uk
- contribution to the Greater London Authority's Greening London Theatre initiative
- working in partnership with the Royal Society for the Encouragement of Arts on an Arts and Ecology partnership supporting debate, access to resources and opportunities for new work in innovative contexts
- funding projects helping the arts develop their understanding, opportunities and responses in the context of climate change. Notable initiatives include: Cape Farewell, profiling artists' responses to the warming of the Arctic; Julie's Bicycle that is calculating and cutting the greenhouse gas emissions of the music industry; and Tipping Point, facilitating conversations between artists and scientists

Management commentary

Approach to diversity

Championing diversity is one of the Arts Council's core ambitions. We want to create an environment where the arts reflect the full range and diversity of contemporary English society. The diversity team in the national office leads this work, and with all regions and departments making this work a success. Key areas of work include:

- **race equality scheme (RES)** – this was implemented with a three-year action plan to ensure race equality was acted on internally and externally through our regularly funded organisations. We provided workshops, seminars and other support materials to our clients to help them devise their own race equality or diversity action plans. With the first RES action plan having been completed, work is now in progress to produce its successor for the period 2008–11. RES 2 will focus on taking strategic leadership and development of Black and minority ethnic artists and organisations. RES 2 will be informed by the evaluation of RES 1 and by consultation with Black and minority ethnic artists throughout the country.
- **disability equality scheme (DES)** – our disability equality scheme and action plan sets out Arts Council England's vision for disability equality in the arts. It seeks to change the way Arts Council approaches disability equality both internally and externally, as well as asking our clients and the arts industries that we fund to do the same. The DES has spearheaded Arts Council's approach to equality impact assessment ensuring that equality considerations are built into the development of all our policies, practices and procedures. Since undertaking the DES, the Arts Council has increased its performance in the Employers Forum on Disability's Disability Standard Survey by over 50%. Through the DES Action Plan 2007–2010 we will provide our clients with support and guidance to help them develop their own disability equality action plans to ensure that the barriers, which prevent access and participation to the arts are removed. Additionally we will ensure that disability arts and Deaf arts are supported through the production of a Deaf arts strategy and a disability arts strategy.
- **a model for diversity** – our diversity agenda has been evolving over time in response to social changes and changes in contemporary discrimination. There is increasing evidence of widening inequality in life chances and opportunities related to social background, economic status and educational experience. The future will see diversity defined in a broader way that recognises there are a whole set of social and institutional barriers (whether race, faith, ethnicity, age, gender, disability, sexual orientation, social

origin or class based) that prevent meaningful access, inclusion and participation in the arts for all groups and communities in England.

In recognition of our approach to recruiting and managing disabled staff, we have been awarded the 'Two Ticks' symbol by The Employment Services. Our commitment to equality for gay, lesbian and bisexual employees has also been recognised externally and we have achieved a place in the Stonewall Workplace Equality Index as one of 100 top employers for gay people in Britain.

In 2007 we received some positive ratings in relation to our role as an employer for both lesbian, gay and bisexual staff and staff with disabilities.

We retained our position in the Stonewall Workplace Equality Index (WEI), which measures employers' equality practices in relation to employees who identify as lesbian, gay or bisexual. In 2008 the Arts Council was ranked joint 67th place with a number of organisations including Avon and Somerset Probation Area, Leeds City Council, and Nottinghamshire City Council. This was a significant achievement because recognition through the Index has become much more competitive as it has grown in size since previous years, with nearly 250 employers entering the 2008 index who together employ over 4 million people in the UK.

Also, we significantly improved our performance in the annual Employers' Forum on Disability Standard Benchmark Survey 2007, with our percentage rating increasing from 38% to 58%. This takes us to joint 57th, out of 116 employers surveyed. Effectively, this means our performance in these areas has improved by over 50% recently. This survey provides an effective way to audit our progress around disability employment issues. The Disability Standard provides information to support us to design and deliver disability action plans for the coming year, as well as sending a clear message about our commitment to disability equality in the workplace.

Transforming our support services

In 2007–08 there was a major review of the organisation's professional support services in finance, information technology, human resources, facilities management, public enquiries and grant applications initial processing. The aim of the review was to explore how these functions could best deliver high quality services at strategic, policy and operational levels for the Arts Council, value for money and the Government's efficiency agenda. The change programme following the review is now under way, and reshaped services in IT, HR, grant applications logging, facilities management, and regional finance and business services will be in place by July 2008. A national support centre for some HR and IT staff, and the grant applications logging team, has been set up in Manchester. Finance processing services and our public enquiries service will be delivered from Manchester from April 2009. This change programme will produce significant efficiency improvement and cost savings over the next few years.

Approach to human resources

In preparation for the transformation of the Human Resources function alongside other professional support services in 2008, during 2007/08 the Human Resources Team worked to ensure that all employment related systems and technology were fully embedded into the organisation. This included the continued development of our employee self service HR system and database, which has streamlined a range of HR processes; the introduction of a highly effective e-recruitment system and the expansion of our delivery of employee training through e-learning packages, supported by a state-of-the-art learning management system. We are hoping to share the benefits of these developments in learning resources with arts organisations over the next year.

Development is well underway for the Arts Council's first ever three year People Strategy which will underpin the Arts Council plan 2008–11 and address issues raised in the findings of Express Yourself!, the all staff survey conducted early in 2007. The new HR Service will be responsible for leading on the implementation of this strategy in partnership with senior management and people managers across the Arts Council.

Internally, there are arrangements to promote effective consultation and communication with staff. Executive Board and Council activities are disseminated through

a system of team briefing meetings, the intranet and regularly emailed updates, supplemented from time to time by organisation-wide, region-wide and departmental meetings.

More formally, Arts Council England recognises the trade unions Unite and Unison for consultation and collective bargaining, with well-established consultative arrangements. The National Joint Consultative and Negotiating Committee (NJCNC) handles all core pay, terms and conditions of employment and human resources policies and procedures across the whole organisation. The NJCNC is supported by Local Joint Consultative and Negotiating Committees in each of the 10 workplaces.

We actively engage with Black and minority ethnic employees through a recognised Black Workers Group and employees with disabilities through the Disabled Workers Group. We have set Black and minority ethnic staff profile targets for recruitment and retention. Currently, 15% of staff classify themselves as Black or minority ethnic and 3% classify themselves as disabled.

Arts Council England seeks to ensure that the requirements of health and safety legislation are met in the workplace. Health and safety issues of general concern are discussed with Unite and Unison. During 2007/08, a new corporate health and safety policy has been agreed which will be implemented across all Arts Council England offices in 2008/09.

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). This licence was renewed during 2006 and runs until 2019.

New lottery grant commitments (offers made and accepted, less de-commitments) in the year totalled £91 million (2006/07: £128 million). At year-end, a total of £163 million (2006/07: £202 million) accepted grant commitments remained outstanding and awaiting payment together with £20 million (2006/07: £34 million) commitments offered but not accepted. This compares with a balance in the National Lottery Distribution Fund

Management commentary

(NLDF), plus bank balances, of £158 million (2006/07: £155 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 2012 games. 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 first transfer of funds is expected to take place on or after 1 February 2009 when the Arts Council will contribute up to £8 million.

At 31 March 2008, our balance in the NLDF account was £156 million. The Arts Council sets additional commitments at a level to ensure that our National Lottery Distribution Fund balance continues to reduce but does not fall below an acceptable limit. This limit is based on our assessment of the risks and uncertainties involved in forecasting ticket income, payments on existing commitments and the need to manage the impact of the diversion of funds to the Olympics. This projection of ticket income is informed by forecasts provided by DCMS. Our current forecasts show that the balance is predicted to fall below £100 million by 31 March 2009.

Further details of the activities and policies of Arts Council England are included in the National Lottery report 2007/08 (see pages 120 to 129).

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

Fees paid to the National Audit Office (NAO) for lottery external audit services during 2007/08 were £52,000 (2006/07: £60,000). So far as the Chief Executive is aware, there is no relevant audit information of which the NAO is unaware.

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 resources and resources expended and cash flows for the financial year. In preparing the accounts, the accounting officer must comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

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

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

Alan Davey
Chief Executive
7 July 2008

Sir Christopher Frayling
Chair
7 July 2008

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

Statement on internal control

1 Scope of responsibility

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

2 The purpose of the system of internal control

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

Arts Council England's policy on risk can be summarised as follows. The organisation will at all times ensure that it meets its statutory reporting and regulatory obligations, is accountable to the public, and will maintain systems to ensure that it protects its resources. Against this background, risk-taking is acceptable where it helps to deliver the organisation's core objectives.

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

3 Capacity to handle risk

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

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

During 2007/08, the organisation started to align risk assessment with the corporate planning process.

4 The risk and control framework

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

- a) A national Council, made up of the trustees of Arts Council England, which has a code of practice which include a policy on declaration and registration of interests. Its defined responsibilities include:
 - strategic planning and control, including approval each year of a corporate plan and approval of the overall budget allocation on a three-year basis
 - delegating responsibility for specific matters to the regional councils
 - being accountable for public funds, ensuring that Arts Council England conducts operations economically, efficiently and effectively

Statement on internal control

- approving the annual report and accounts
 - ensuring that Arts Council England fulfils its obligations as an employer and complies with all relevant legislation
- b) An Audit Committee with agreed terms of reference which include:
- reviewing Arts Council England's internal and external financial statements to ensure they reflect best practice
 - considering internal and external audit reports and reviewing Arts Council England's relationship with its internal and external auditors
 - reviewing the effectiveness of Arts Council England's internal control system, including the review of the risk management policy and risk register
 - reporting to the national Council on the above duties
- c) An Executive Board and Management Committee sub-group with defined terms of reference, which include:
- developing the corporate policy on high-level issues and overseeing the implementation of nationally agreed policies and plans
 - receiving and monitoring financial information relevant to Arts Council England's overall management responsibilities
 - taking decisions within delegated powers and approving further delegation as appropriate
- d) An internal audit function that operates to standards defined in the Government Internal Audit Standards and whose programme of work is agreed and monitored by the Audit Committee. Internal auditors base their annual internal audit plans on an analysis of the risk to which Arts Council England is exposed. This analysis of risk and plans is endorsed by Arts Council England's Audit Committee and approved by us. At least annually, the head of internal audit reports on internal audit activity in Arts Council England. The report includes the head of internal audit's independent opinion on the adequacy and effectiveness of Arts Council England's system of internal control.

5 Review of effectiveness

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

During the year further work on our key business IT system 'Arena' enhancing both functionality and reporting capacity has improved internal control in a number of areas. The National Office Arts Planning and Investment department has established its role as the functional lead for our key investment programmes. In particular it is leading the revised corporate planning process currently underway to develop our plans for 2008–11, which will improve internal control at the strategic and operational level. During the year a major review of support services – Finance and business support, IT, HR and Enquiries was undertaken. The implementation in 2008/09 will further enhance our systems of internal control through a refocused and consistent approach to support services across the Arts Council.

Alan Davey
Chief Executive
7 July 2008

Sir Christopher Frayling
Chair
7 July 2008

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

I certify that I have audited the Arts Council England's lottery distribution accounts for the year ended 31 March 2008 under the National Lottery etc Act 1993. These comprise the income and expenditure account, the balance sheet and 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, Chief Executive and Auditor

The Council and Chief Executive, as accounting officer, are responsible for preparing the Annual Review, the remuneration report and the financial statements in accordance with the National Lottery etc Act 1993 and Secretary of State directions made thereunder, with the consent of HM Treasury, and for ensuring the regularity of financial transactions. These responsibilities are set out in the statement of the Council's and Chief Executive's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the National Lottery etc Act 1993 and Secretary of State directions made thereunder. I report to you if, in my opinion, certain information given in the Annual Review, which comprises management commentary, 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 Arts Council England has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding

remuneration and other transactions is not disclosed. I review whether the statement on internal control reflects Arts Council England'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 Arts Council England's corporate governance procedures or its risk and control procedures.

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

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 judgements made by the Council and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to Arts Council England's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the remuneration report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure 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.

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Lottery etc Act 1993 and directions made thereunder by the Secretary of State, of the state of Arts Council England's lottery distribution affairs as at 31 March 2008 and of its increase in funds, recognised gains and losses and cash flows 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 and Secretary of State directions made thereunder
- information given within the Annual Review, which comprises the management commentary, 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
National Audit Office
151 Buckingham Palace Road
Victoria, London SW1W 9SS
10 July 2008

Income and expenditure account

For the year ended 31 March 2008

	Note	2007/08 £000s	2006/07 £000s
Share of proceeds from the National Lottery Distribution Fund	7	139,845	142,934
Investment returns on the Distribution Fund	7	11,272	8,261
Unrealised gain (loss) on revaluation of the Distribution Fund	7	342	(1,865)
Interest received		421	308
Other income		143	76
Total income		<u>152,023</u>	<u>149,714</u>
Grant commitments made in the year	9	99,551	141,460
Less: lapsed and revoked commitments	9	(8,655)	(13,217)
Net grant commitments		<u>90,896</u>	<u>128,243</u>
General expenditure:			
Staff costs	2	636	635
Other operating costs	3a	1,987	2,060
Costs apportioned from grant-in-aid accounts	3b	14,705	17,583
Total operating costs		<u>17,328</u>	<u>20,278</u>
Total expenditure		<u>108,224</u>	<u>148,521</u>
Net resources gained before exceptional items and notional costs		<u>43,799</u>	<u>1,193</u>
Exceptional items			
Cost of fundamental reorganisation	21	(423)	(62)
Net resources gained after exceptional items before notional costs		<u>43,376</u>	<u>1,131</u>
Notional costs			
Cost of capital	8	0	0
Net resources gained after notional costs		<u>43,376</u>	<u>1,131</u>
Reversal of notional costs		0	0
Increase in lottery funds		<u>43,376</u>	<u>1,131</u>
Accumulated deficit brought forward		(45,612)	(46,743)
Accumulated deficit carried forward	17	<u>(2,236)</u>	<u>(45,612)</u>

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

The notes on pages 106 to 119 form part of these accounts.

Balance sheet

As at 31 March 2008

	Note	31 March 2008 £000s	31 March 2007 £000s
Fixed assets			
Tangible assets	5	<u>0</u>	<u>0</u>
		0	0
Current assets			
Debtors	6	1,065	855
Investments: balance in the National Lottery Distribution Fund	7	155,552	155,403
Due from grant-in-aid accounts		2,475	0
Cash at bank and in hand		<u>2,812</u>	<u>4,047</u>
		<u>161,904</u>	<u>160,305</u>
Creditors: amounts falling due within one year			
Grant commitments	9	73,188	91,083
Creditors	10	1,499	510
Due to grant-in-aid accounts		0	3,001
		<u>74,687</u>	<u>94,594</u>
Net current assets		<u>87,217</u>	<u>65,711</u>
Total assets less current liabilities		<u>87,217</u>	<u>65,711</u>
Creditors: amounts falling due over one year			
Grant commitments	9	89,453	111,323
		<u>(2,236)</u>	<u>(45,612)</u>
Represented by			
Reserves	17	<u>(2,236)</u>	<u>(45,612)</u>
		<u>(2,236)</u>	<u>(45,612)</u>

The notes on pages 106 to 119 form part of these accounts.

Alan Davey	Sir Christopher Frayling
Chief Executive	Chair
7 July 2008	7 July 2008

Cash flow statement

For the year ended 31 March 2008

	Note	2007/08 £000s	2006/07 £000s
Operating activities			
Funds received from the National Lottery Distribution Fund	7	151,310	147,162
Other cash receipts		143	76
Grants paid	9	(130,661)	(133,925)
Cash paid to and on behalf of employees		(636)	(635)
Other cash payments		(21,154)	(18,610)
Net cash movements relating to exceptional items		(423)	(62)
Net cash (outflow) from operating activities	14	<u>(1,421)</u>	<u>(5,994)</u>
Returns on investments and servicing of finance			
Interest received		443	287
Loans repaid by other bodies		166	925
Loans made to other bodies		(423)	(749)
Net cash inflow from returns on investments and servicing of finance		<u>186</u>	<u>463</u>
Decrease in cash	15	<u>(1,235)</u>	<u>(5,531)</u>

The notes on pages 106 to 119 form part of these accounts.

Notes to the lottery distribution accounts

1 Accounting policies

a) Basis of accounts

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

The accounts are prepared on a historic cost basis.

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

b) Recognition of income and expenditure

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

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

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

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

c) National Lottery Distribution Fund

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

d) Taxation

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

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 FRS17 Retirement Benefits, with the costs of the schemes charged to the statement of financial activities.

g) Apportioned costs

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

h) Notional costs

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

2a) Staff costs

	2007/08 £000s	2006/07 £000s
Salaries and wages	491	497
Employer's national insurance	37	49
Employer's pension contributions	66	80
Agency	42	9
	<u>636</u>	<u>635</u>

In addition to the cost of staff working directly on lottery activities in the table above, £9,063,000 (2006/07: £10,367,000) of the costs apportioned from Arts Council England's grant-in-aid accounts relate to staff costs.

The average number of staff engaged directly on lottery activities for the year ended 31 March 2008 was as follows:

	2007/08	2006/07
Management and operational	12	12

2b) Pensions

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

Arts Council Retirement Plan (1994)

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

The scheme is financed by payments by Arts Council England and employees into a trustee-administered fund independent of Arts Council England's finances. These contributions are invested by a leading fund management company. The net market value of the scheme's assets at 31 March 2007 was £58.5 million.

An actuarial valuation of the pension fund takes place at least every three years. At the last valuation on 31 March 2007 the actuarial value of the assets using the projected unit method was sufficient to cover 75% of the value accrued to members, a deficit of £18,800,000. As a result, and on the advice of the actuary, we are now paying employer's contributions of 25% of pensionable salary or 23% for staff who started after 1 April 2006.

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

Price inflation rate	3.2%
Rate of pay increases	4.7%
Rate of pension increases	3.2%

Amounts due to the fund at 31 March 2008 were £nil (31 March 2007: £nil).

West Yorkshire Pension Fund

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

The net market value of total scheme assets at 31 March 2008 was £7.26 billion.

An actuarial valuation of the pension fund takes place every three years. At the last valuation on 31 March 2007, the actuarial value of the assets using the projected unit method was sufficient to cover 90% of the value accrued to members. From 1 April 2007, employer contributions were set at 15%.

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

Rate of inflation	2.75%
Rate of pay increases	4.50%
Rate of pension increases	2.75%

Amounts due to the fund at 31 March 2008 were £nil (31 March 2007: £nil).

Notes to the lottery distribution accounts

Legacy Regional Arts Board pension schemes

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

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

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

3a Other operating costs

	2007/08 £000s	2006/07 £000s
Depreciation	0	16
Travelling, subsistence and entertainment	36	33
Professional fees	426	466
Office and sundry	59	75
Irrecoverable Value Added Tax	207	186
External assessment costs	1,259	1,284
	<u>1,987</u>	<u>2,060</u>

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

	2007/08 £000s	2006/07 £000s
Staff costs	8,424	9,827
Agency staff costs	639	540
Depreciation	429	388
Travelling, subsistence and entertainment	525	565
Rent and rates	1,451	1,873
Professional fees	966	912
Office and sundry	1,762	1,948
IT project *	0	790
Irrecoverable Value Added Tax	509	740
	<u>14,705</u>	<u>17,583</u>

* This reflects costs incurred in the year on the development of the new 'Arena' system for finance, grants and management information to replace the different IT systems which were in place until October 2006 in each office.

4 Decrease in lottery funds

	2007/08 £000s	2006/07 £000s
Stated after charging:		
(a) Auditors' remuneration	52	60
(b) Staff travel, subsistence and hospitality	36	33

Notes to the lottery distribution accounts

5 Tangible fixed assets

	Short leasehold improvements £000s	Total £000s
Cost at 1 April 2007	213	213
Less disposals	(213)	(213)
Cost at 31 March 2008	<u>0</u>	<u>0</u>
Depreciation at 1 April 2007	213	213
Less: depreciation on disposals	(213)	(213)
Provided for 2007/08	0	0
Depreciation at 31 March 2008	<u>0</u>	<u>0</u>
Net book value at 31 March 2008	<u>0</u>	<u>0</u>
Net book value at 31 March 2007	<u>0</u>	<u>0</u>

6 Debtors

	31 March 2008 £000s	31 March 2007 £000s
Prepayments and accrued income	66	59
Other debtors	999	796
	<u>1,065</u>	<u>855</u>

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

- Africa Centre loan was extended by £250,000 during 2007/08 to £999,000 and is repayable by 6 July 2009

7 Investments: balance in the National Lottery Distribution Fund

	2007/08 £000s	2006/07 £000s
Balance at 1 April	155,403	153,235
Share of proceeds from the National Lottery Distribution Fund	139,845	142,934
Investment returns on the Distribution Fund	11,272	8,261
Unrealised gains (losses)	342	(1,865)
Cash drawn down	<u>(151,310)</u>	<u>(147,162)</u>
Balance at 31 March	<u>155,552</u>	<u>155,403</u>

The balance in the National Lottery Distribution Fund at 31 March 2008 was unaudited at the date of signing these accounts.

Arts Council England's ongoing commitments policy can be summarised as follows.

Arts Council England will set additional commitments at a level to ensure that our National Lottery Distribution Fund balance continues to reduce but does not fall below an acceptable limit. This limit is based on our assessment of the risks and uncertainties involved in forecasting ticket income, payments on existing commitments and the need to manage the impact of the diversion of funds to the Olympics. The projection of ticket income is informed by forecasts provided by DCMS. Our current forecasts show that the balance is predicted to fall below £100 million by 31 March 2009.

The balance in the NLDF at 31 March 2008 remains static compared to 2007 due to delays in payments on major capital projects. These are often caused by delays relating to legal charges and to partnership funding.

8 Notional costs

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

Notes to the lottery distribution accounts

9 Soft and hard commitments

	31 March 2008 £000s	31 March 2007 £000s
Soft commitments brought forward	33,664	15,414
Soft commitments transferred to hard commitments	(99,551)	(141,460)
Soft de-commitments	(6)	(78)
Soft commitments made	<u>85,596</u>	<u>159,788</u>
Balance of soft commitments outstanding carried forward	<u>19,703</u>	<u>33,664</u>
Hard commitments brought forward	202,406	208,088
Hard commitments met in the last year	(130,661)	(133,925)
Hard de-commitments	(8,655)	(13,217)
Hard commitments made	<u>99,551</u>	<u>141,460</u>
Balance of hard commitments outstanding carried forward	<u>162,641</u>	<u>202,406</u>
Ageing of hard commitments:		
2007/08	n/a	91,083
2008/09	73,188	56,673
2009/10	45,540	54,650
Post 2010/11	<u>43,913</u>	n/a
Total hard commitments	<u>162,641</u>	<u>202,406</u>

During 2007/08 we paid out £650,000 (2006/07 £3 million) on grants awarded to the Southbank Centre into an ESCROW account held by the Southbank Centre. At the year end the Southbank Centre had withdrawn £2.8 million including interest (2006/07: £14 million) from this account, leaving a balance remaining of £380,000 (2006/07 £2.5 million). The Southbank Centre paid £9 million into this account during 2007/08.

10 Creditors

	31 March 2008 £000s	31 March 2007 £000s
Trade creditors	38	34
Accruals and deferred income	<u>1,461</u>	<u>476</u>
	<u>1,499</u>	<u>510</u>

11 Leases

There were no commitments under non-cancellable operating leases at 31 March 2008 (31 March 2007: £nil).

12 Capital commitments

There were no contracted capital commitments at 31 March 2008 (31 March 2007: £nil).

13 Charges on assets

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

14 Cash flow reconciliation

	2007/08 £000s	2006/07 £000s
Reconciliation of operating surplus/(deficit) to net cashflow from operating activities		
Operating surplus/(deficit)	43,376	1,131
Interest receivable	(421)	(287)
Unrealised gain on investment	(342)	1,865
Depreciation charges	0	16
(Decrease)/increase in debtors and prepayments	217	(4,066)
Increase/(decrease) in creditors	(44,251)	(4,653)
Net cash (outflow) from operating activities	<u>(1,421)</u>	<u>(5,994)</u>

15 Reconciliation of net cash flow to movement in funds

	2007/08 £000s	2006/07 £000s
(Decrease) in cash in the year	(1,235)	(5,531)
Funds at 1 April	4,047	9,578
Funds at 31 March	<u>2,812</u>	<u>4,047</u>

16 Analysis of net cash

	1 April 2007 £000s	Cash Flow £000s	31 March 2008 £000s
Cash	4,047	(1,235)	2,812
	<u>4,047</u>	<u>(1,235)</u>	<u>2,812</u>

Notes to the lottery distribution accounts

17 Movement in lottery funds

	2007/08 £000s	2006/07 £000s
Opening lottery reserve at 1 April	(45,612)	(46,743)
Transferred from the income and expenditure account	43,376	1,131
Lottery reserve at 31 March	<u>(2,236)</u>	<u>(45,612)</u>

18 Reconciliation of transactions with delegate bodies

18 a) 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:

	2007/08 £000s	2006/07 £000s
Transactions in Arts Council England accounts:		
Grant commitments in the year	10,000	10,000
NFYM creditor balance as at 31 March	0	0
This reconciles to NFYM's accounts for the year ended 31 March as follows:		
Balance at 1 April	2,566	844
Incoming funds: Arts Council England grant	10,000	10,000
other funds	10,222	3,288
Outgoing funds: grant expenditure	(16,145)	(11,222)
other expenditure	(2,730)	(344)
Balance at 31 March	<u>3,913</u>	<u>2,566</u>
Arts Council England debtor balance as at 31 March	<u>0</u>	<u>0</u>

The 2007/08 figures were unaudited at the date of signing these accounts.

Notes to the lottery distribution accounts

Grant for the year ended 31 March 2008 £000s	Balance unpaid at 31 March 2008 £000s	Organisation	Council member	Relationship
275	1	Africa Centre	Elsie Owusu OBE	Practice
121	5	Yaa Asantawaa Arts and Community Centre		Adviser/consultant
30	0	Border Crossing Ltd		Adviser/consultant
17	2	Artsreach	François Matarasso	Adviser/consultant
103	24	City Arts Trust		Family member on Board
90	45	Culture East Midlands		Adviser/consultant
38	19	Double Impact		Family member on Board
100	50	Engage		Adviser/consultant
18	2	Villages in Action		Adviser/consultant
70	7	Platform for Art	Keith Khan	Board
100	10	Create KX		Family member on Board
1,009	0	Southbank Centre		Ex-employee
1,203	20	Rich Mix		Ex-Chief Executive
59	0	Nitro	Lady Sue Woodford Hollick	Family member is Director
114	11	The October Gallery		Family member is trustee
1,009	0	Southbank Centre		Partner is Chairman
178	76	Liverpool Culture Company	Tom Bloxham MBE	Board
5	0	Manchester Contemporary Jewellers Network		Partner is member
1,060	0	The Manchester International Festival		Board
117	83	Dance City	Dr Tom Shakespeare	Practice
45	3	Fathom Project		Member
50	18	Hatton Gallery		Collaborator
79	0	Monster Productions		Board
28	2	Platform North East		Practice
65	21	PEALS Research Institute, University of Newcastle		Employee
79	0	Victoria & Albert Museum	Sir Christopher Frayling	Trustee
18	1	Shearsman Books	Professor Andrew Brewerton	Other
50	5	Dartington College of Arts		Director
1,060	0	Manchester International Festival	Sir Brian McMaster CBE	Board
44	23	York Museums Trust	Janet Barnes	Employee
750	248	Artangel	Alice Rawsthorn	Other
1,050	860	Whitechapel Gallery		Board
45	5	British Council		Adviser/consultant

19b) Directors and senior managers

Executive directors and senior managers in Arts Council England are also required to declare any direct interests in grant applications made to and commercial relationships with the Arts Council. The following interests in grant recipients were declared for the year ended 31 March 2008.

Grant for the year ended 31 March 2008 £000s	Balance unpaid at 31 March 2008 £000s	Organisation	Executive Director/ Senior Manager	Relationship
56	6	Hampstead Theatre	Barbara Matthews	Board
5	1	Maverick TV	Sally Luton	Ex-Board
5	0	Ixia	Margaret Bolt	Other
15	2	Stockton-on-Tees Borough Council	Alison Clark-Jenkins	Ex-employee
40	2	Bristol East Side Traders	Christopher Humphrey	Employee
25	0	Bristol Cultural Development Partnership		Adviser/consultant
80	8	Look ahead housing	Moira Sinclair	Board
682	74	The Stables in Wavendon		Employee
19	0	Vital Arts		Ex-employee
7	0	London Arts in Health Forum		Ex-Board
103	26	Kirklees Metropolitan Council	Andy Carver	Partner is employee
95	10	Birkbeck College	Augustus Casely-Hayford	Lecturer
157	39	Hastings Borough Council	Felicity Harvest	Family member is elected member
507	48	Kent County Council		Partner is employee
19	2	Arc Publishing	Mark Robinson	Other
121	13	New Writing North		Other
50	5	SAGE Gateshead (North Music Trust)	Paul Collard	Partner is employee
30	30	The Media Trust	Andrew Whyte	Non-pecuniary board member and trustee
25	0	Bristol Cultural Development Partnership	Nick Capaldi	Board

Notes to the lottery distribution accounts

19c) Other government bodies

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

	Creditor 31 March 2008 £000s	Debtor 31 March 2008 £000s
Balances with other central government bodies *	0	155,552
Balances with local authorities	55,006	0
Balances with NHS Trusts	140	0
Balances with public corporations and trading funds	0	0

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

20 Financial Instruments

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

Liquidity risk

In 2007/08, 92% 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 7.6%, and from bank interest and other income of 0.4%.

At the balance sheet date, Arts Council England had net liabilities of £2,236,000

Cash flow projections over the next financial year

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

Liquid assets as at 31 March 2008	£000s
Market value of NLDF investments	155,552
Cash	2,812

Interest rate risk

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

At the balance sheet date, the market value of the Arts Council's shares of the National Lottery Distribution Fund was £155,552,000. In the year, the average return on these investments was 6.05%.

Cash balances which are drawn down by Arts Council England from the National Lottery Distribution Fund to pay grant commitments and operating costs are held in an instant access variable rate bank account, which carried an interest rate of 0.22% below base rate during the year. The cash balance at the year end was £2,812,000. We consider that we are not exposed to significant interest rate risks on our cash balances.

Foreign Currency Risk

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

21 Exceptional items

In June 2007 we announced a major restructuring of our support services. Provision has been made for the redundancy cost associated with the implementation of these changes and costs have been disclosed separately in the income and expenditure accounts as an exceptional item. Costs for 2006/07 related to the restructuring of the National Office.

	2007/08 £000s	2006/07 £000s
Redundancy costs	<u>423</u>	<u>62</u>
	<u>423</u>	<u>62</u>

22 Post balance sheet event

These accounts were authorised for issue on 10 July 2008.

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 August 1998, which we must take into account in distributing National Lottery funds. These are set out below, with a short explanation of how the directions have been met.

This is the last year that we are required to take these Directions into account. In November 2007, the Secretary of State issued a revised set of Directions to apply from 2008/09.

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

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

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

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

The financial year 2007/08 was the second of two years covered by our corporate plan, *Our agenda for the arts 2006–08*. This plan lays out our six strategic objectives and represents our assessment of the needs of the arts and our current priorities. Pages 32 to 43 provide

information and examples of our performance against our strategic objectives.

We continue to deliver our lottery-funded programmes through our regional offices, which are best placed to understand the needs of the communities they serve and so ensure that our funding reaches all parts of the country.

We continue to give priority to applicants who have not received funding from us before, and activities that benefit areas of the country with social deprivation or have limited cultural opportunities.

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

By including 'celebrating diversity' as one of our six priorities, *Our agenda for the arts 2006–08* reflects our continuing commitment to promoting access to the arts for people from all sections of society.

Through Grants for the arts we continue to give priority to and place importance on broadening access and increasing opportunities for diversity in the arts. We consider diversity in all its forms including race, ethnicity, faith, disability, sexuality, class and economic disadvantage. We continue to target at least 10% of our Grants for the arts budget to applicants from Black and minority ethnic communities. In 2007/08, 12.71% of funds distributed through Grants for the arts went to Black and minority ethnic-led organisations and artists.

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

We continue to recognise the importance of the arts in having a positive influence on the development of children and young people. Children and young people remain a priority for *Our agenda for the arts 2006–8* and much activity for children and young people continues to be funded through Grants for the arts.

In 2007/08 we delegated another £10 million of lottery funds to Youth Music, to distribute on our behalf through a number of schemes that focus on the participation of children and young people in music-making activities. We have also committed to continue this arrangement for a further three years until 2011.

E The need to further the objectives of sustainable development.

We share the government's definition of sustainable development and in 2007/08, we continued to work in partnership with Department for Culture, Media and Sport (DCMS) and other lottery distributors and others to develop a common approach to sustainable development as part of the Lottery Sustainable Development Forum. During the year, the Forum fed into the DCMS Sustainable Development Action Plan for 2008/2009 – this sets targets for each of the distributors and other bodies for the forthcoming year.

Further details of our responsibility towards the environment and sustainable development can be found on page 95.

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

DCMS has issued new Policy Directions to the Arts Council that come into effect in 2008/09. In conjunction, DCMS has agreed that we will no longer need to take this direction into account.

G The needs of projects relating to crafts.

Crafts-based projects, organisations and artists continue to benefit from funding through Grants for the arts and our other programmes. These activities are assessed on their merits alongside other visual arts-related activities, as well as activity involving other art forms.

DCMS has issued new Policy Directions to the Arts Council that come into effect in 2008/09. In conjunction, DCMS has agreed that we will no longer need to take this direction into account.

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

We have only ever used lottery funding for specific time-limited projects. We use our grant-in-aid funding from the Treasury to support our portfolio of regularly funded organisations.

I The need:

i in all cases, for applicants to demonstrate the financial viability of the project for the period of the grant

ii where capital funding or setting up costs are sought, for a clear business plan beyond the period of the grant incorporating provision for associated running and maintenance costs

iii in other cases, for consideration to be given to the likely availability of other funding to meet any continuing costs for a reasonable period after completion of the period of the lottery award, taking into account the size and nature of the project, and for lottery funding to be used to assist progress towards viability beyond the period of the grant wherever possible

All Grants for the arts applicants are required to provide us with a balanced budget that demonstrates clearly and realistically how they will fund their project to a successful conclusion.

With capital projects, the viability of the ongoing business plan is central to our assessment and decision to provide funding. We scrutinise plans in great detail and work closely with other stakeholders to ensure that sufficient funding is in place to ensure the long-term operation and success of projects.

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

We welcome applications to Grants for the arts from organisations wishing to undertake capacity building and other activities that will strengthen their long-term viability. In addition, a number of organisations have benefited from support and funding through our stabilisation and recovery programmes that are now drawing to a close. These programmes are dedicated to ensuring that arts organisations are fit to meet the challenges of the 21st century.

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

All our funding programmes require applicants to demonstrate their ability to attract partnership funding

National Lottery report

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.

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

We continue to work with the Big Lottery Fund, Heritage Lottery Fund and Sport England to deliver the Awards for All England programme to provide a quick, simple and efficient opportunity for small-scale community-based groups to access lottery funding.

The assessment process for Grants for the arts involves us in regular consultations with local authority partners on applications that we receive, in order that we can benefit from their local knowledge as well as coordinating jointly funded activities.

With large-scale projects, we believe it is essential for all the major stakeholders involved to share a common approach and understanding to maximise the likelihood of successful delivery.

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

During 2007/08, we and our delegate bodies only used our powers to solicit applications when pursuing objectives set out in our corporate plan.

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

We design our application materials and assessment processes to ensure that we receive the information necessary for us to assess thoroughly each application for funding. Between July and October 2007, we undertook a review of Grants for the arts. Following feedback from potential applicants we redesigned our application pack to improve its clarity and ease of use. Our assessment process allows us to ask for further information from applicants if we think it necessary to reach a decision.

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.

We describe how we approached this for each of our programmes below.

Awards for All

Awards for All in England is a joint-distributor lottery scheme funded by Arts Council England, Big Lottery Fund, Heritage Lottery Fund and Sport England. Overall management of the scheme is the responsibility of a programme board made up of representatives of the contributing distributors. The Big Lottery Fund undertakes day-to-day operations of the scheme, including monitoring and evaluation. The programme board receives regular reports on the operation of the scheme that have informed its development.

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 £200 to £200,000 and can cover activities lasting up to three years; 2007/08 was the fifth full year of operation.

An appropriate level of monitoring for each project is determined during the assessment stage of each application. Our assessors consider what likely risks a project may face and, if thought necessary, additional conditions are attached to our offer of funding. These conditions require projects to demonstrate either before or during their activities that they have taken appropriate steps to mitigate the risks that we have identified. We undertake an ongoing training programme for our assessing staff to ensure consistency in how we apply our monitoring principles.

Further details on how we assess and monitor applications and awards can be found on our website.

Youth Music (National Foundation for Youth Music)

Youth Music distributes £10 million of lottery funds on our behalf through a number of schemes that focus on the participation of children and young people in music-making activities. Youth Music monitors and evaluates these schemes in a number of ways.

Officers or external experts make visits to one in 20 projects funded and produce a written progress report. Projects are selected on the basis of the level of risk identified during the assessment of applications. In addition, projects identified as having the potential for exceptional good practice are also selected so that they may be used as examples.

Further information on Youth Music's activities is available from Youth Music's website www.youthmusic.org.uk

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:

- Capital programmes
- Stabilisation and recovery
- Urban Cultural Programme

Details of how we monitor 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 2007/08. A copy of the Statement of Financial Requirements is available from us.

Performance against targets for administrative efficiency

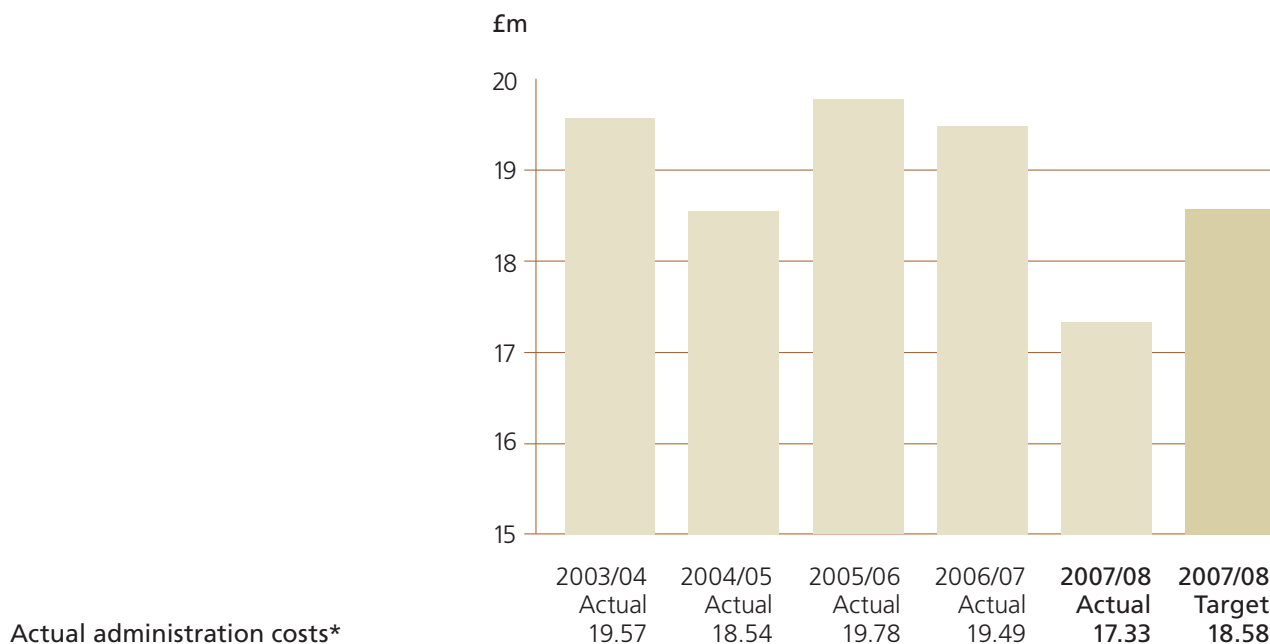
In accordance with the Financial Directions issued by the Secretary of State, we operate a system of performance measures and targets for analysing our administrative efficiency. In 2006/07, we introduced a new grants management system that enables us to monitor and report on our performance on a wider range of areas and in greater detail. The new system is reflected in our figures for 2007/08 in the tables below.

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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



*Excludes exceptional items and one-off IT development costs

2) Adjusted lottery administration costs

	2003/04 £m	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m
Adjusted administration costs*,**	19.57	18.02	18.71	18.04	15.62

*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 2007/08 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
Actual administration costs as % of lottery income*	12.15%	10.96%	11.5%	13.05%	11.44%

*Excludes exceptional items and one-off IT development costs

The figures in this table are for illustration only. The amount of lottery income we receive each year varies for a number of factors that are beyond our control.

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 £5,000:	6 weeks
Applications for funding for £5,001 and above:	12 weeks

The chart below shows how we've performed against these turnaround times in the last five years.

	2003/04 Actual	2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual £m
% of applications for up to £5,000 processed in 6 weeks or less	85.5%	88.8%	93.2%	92.9%	89.2%
% of applications for £5,001 and above processed in 12 weeks or less	88.5%	90.9%	92.8%	94.7%	93.8%
Overall % of applications processed within target time	86.5%	89.6%	93.0%	93.6%	92.5%

For 2008/09 and future years, we have adopted a target of processing 90% of all applications within the stated turnaround times.

National Lottery report

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.

We have reviewed our activities and confirm that we have adhered to our policy on additionality.

Performance against strategic objectives

The financial year 2007/08 was the second of two years covered by our corporate plan, *Our agenda for the arts 2006–08*. This plan lays out our six strategic objectives.

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

These priorities have been central to all of our lottery-funded activities.

Pages 32 to 43 provide information and examples of our performance against our strategic objectives.

Customer service charter

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

Progress report on major lottery awards over £5 million

This section reports on projects that have received awards totaling over £5 million, even if they involve a number of separate awards. It includes any projects that were active at 1 April 2007 but fully paid during 2007/08 and those with outstanding balances at 31 March 2008. 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 2008
- B projects completed and opened during 2007/08
- C projects completed and opened in previous years but with final payments still outstanding at 1 April 2007

The awards are all for capital projects except for one award made under the stabilisation programme to the Royal Liverpool Philharmonic Society.

A Projects still to be completed at 31 March 2008

Colchester Borough Council

Award: £5,870,000

Colchester Borough Council is working in partnership with the firstsite art gallery towards the development of a new visual arts facility that will showcase established artists and emerging talent and meet a regional need for a large-scale, contemporary visual arts venue. It is proposed the spaces will also act as a focus for the University of Essex's Latin American art collection.
£3,639,392 paid (62% of the total award).

Leicester City Council

Award: £12,220,000

The project is a partnership between Leicester City Council, Leicester Theatre Trust (Haymarket Theatre) and the Leicester Arts Centre Trust (Phoenix). The project proposes building a new performing arts centre, a replacement venue for the old Haymarket Theatre and the performing arts elements of the Phoenix Arts Centre. It will be the first phase of a new cultural quarter in the St George's regeneration area of Leicester city centre.
£4,821,084 paid (39.4% of the total award).

National Theatre

Award: £32,090,000

The project proposes a refurbishment and redevelopment of the backstage and public areas and car park, investment in new equipment and information technology, and purchase of the lease for a new research and development space, the Studio. Front-of-house work was completed at the end of 1997. Further redevelopment work on the Studio will provide a new home for the National Theatre archive and will create a dedicated base for its education.
£31,656,536 paid (98.6% of the total award).

Nottingham City Council

Award: £5,080,000

This project will see the construction at the site known as Garners Hill of a building that will be the East Midlands' new 'flagship' contemporary arts space. The Centre for Contemporary Arts in Nottingham will have five large galleries and a flexible space to include a social area and live art performance space. The performance element will be part of a broadly described contemporary visual arts programme.

£882,392 paid (17.4% of the total award).

The Public (previously c/PLEX)

Award: £29,960,703

This development of a major landmark building will house innovative, community-focused arts practice with an emphasis on digital technologies and the central element of the regeneration strategy for West Bromwich. The operating company went into administration in March 2005 and the administrators are working with stakeholders to produce a viable operating plan for the business.

£29,920,085 paid (99.8% of the total award).

Royal Liverpool Philharmonic Society

Award: £10,793,702

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

£9,611,457 paid (89% of the total award).

Royal Shakespeare Company

Award: £50,806,540

The Royal Shakespeare Company is one of the most significant theatre production companies in the UK and has a prominent international reputation. The company focuses on the plays of Shakespeare as well as developing and producing new work. This project is the redevelopment of the Royal Shakespeare Theatre in Stratford-upon-Avon to provide better facilities for audiences, performers and staff.

£19,610,037 paid (38.6% of the total award).

Southampton City Council

Award: £5,844,000

The fit-out of the shell of a mixed-use development for the arts in the Southampton New Arts Complex (SNAC). The arts shell will house Art Asia; the John Hansard Gallery; City Eye and a performing arts organisation set to complement existing provision in the City. The current buildings housing the arts organisations are not DDA compliant, are located away from the main areas of the town and are largely inadequate in terms of providing arts space for professional artists.

£120,000 paid (2% of the total award).

Wakefield City Council

Award: £5,080,000

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

£463,002 paid (9.1% of the total award).

B Projects completed and opened during 2007/08
After a project has been completed and opened, the Arts Council retains a percentage of the award for payment until a full account for the project has been received and/or final certificates have been issued.

Rivington Place

Award: £6,035,976

The project is a new building to house two culturally diverse visual arts agencies (InIVA and Autograph ABP) with a gallery, project spaces for small-medium enterprises, expanded multimedia, a library and research facilities.

Rivington Place is situated in the heart of the diverse communities of east London, characterised by a dynamic city fringe economy and considerable deprivation.

It opened in October 2007.

£5,844,882 paid (96.8% of the total award).

Southbank Centre

Award: £37,369,643

This project consisted of the development of the Royal Festival Hall through improvement to existing foyers and renovation of the auditorium, access improvements, improved natural acoustics and improved box office facilities. It also consisted of an extension to the frontage of the Hayward Gallery including improved foyer, education, conference and outreach facilities (completed in October 2003) and improvements to external landscaping on the South Bank. It reopened in June 2007.

£37,369,643 paid (100% of the total award).

C Projects completed and opened in previous years but with final payments still outstanding at 1 April 2007
After a project has been completed and opened, the Arts Council retains a percentage of the award for payment until a full account for the project has been received and/or final certificates have been issued.

De La Warr Charitable Trust Limited

Award: £5,915,172

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

£5,815,172 paid (98.3% 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. It provides a new base and rehearsal centre for Opera North and refurbishment and modernisation of the Leeds Grand Theatre. It comprises a mix of new build development, operational improvements and heritage investment. It reopened in October 2006.
£14,681,343 paid (91.2% of the total award).

Lowry Centre (Salford City Council)

Award: £51,749,719

This project developed a major performing and visual arts centre as part of the regeneration scheme for Salford Quays. It was a joint award with the Millennium Commission (£15.65 million) and the Heritage Lottery Fund (£7.65 million). Significant partnership funding came from the European Regional Development Fund, Salford City Council and English Partnerships. The centre opened in May 2000.
£51,739,719 paid (99.9% of the total award).

Northampton Theatres Trust

Award: £7,998,725

This project is the refurbishment and reconfiguration of the Northampton Derngate and Royal Theatres. The two organisations merged in 1999 to form the Northampton Theatres Trust. The redevelopment provides an extended and renovated foyer, improved disabled access, improved air circulation, a new creativity centre (a home for the theatres' education and outreach activities) and a new rehearsal space bringing in-house produced shows into the heart of the building. It reopened in October 2006.
£7,529,687 paid (94.1% of the total award).

Rich Mix Cultural Foundation

Award: £7,040,000

Rich Mix opened for a limited programme of activity in March 2006. In its first 12 months of operation it operated the three single screens in the cinema, ran a programme of community events and commercial hires in the café and fourth floor conference rooms and co-promoted a number of arts installation projects and exhibitions. Its first year of trading has been more challenging than expected and the fit-out has yet to be completed. Work is in hand to create a more suitable business model for a building of this size and capacity.
£7,020,000 paid (99.7% of the total award).

Unicorn Theatre

Award: £5,865,000

This project created a theatre for children in Southwark and formed an administrative base for the Unicorn. The building will also receive touring shows. Accommodation includes a 500-seat performance space, a second 100-seat space, an education studio, a workshop studio, a rehearsal studio, open and accessible front-of-house spaces, back-of-house accommodation and a meeting room. The Unicorn Theatre opened in December 2005.
£5,848,000 paid (99.7% of the total award).

Young Vic Company Limited

Award: £6,321,908

The project comprises the rebuilding of the original theatre to provide an upgraded auditorium, new foyer and catering spaces, two studios and improved backstage and office spaces. There will be full access for disabled people. The new design extended the area of the original building and used the increased space to improve all facilities. It reopened in October 2006.
£6,321,908 paid (100% of the total award).

Council and regional council members April 2007 to March 2008

Council

Sir Christopher Frayling (Chair)	Keith Khan	Dr Tom Shakespeare
Diran Adebayo	Professor Alan Livingston **	Professor Stuart Timperley
Janet Barnes	Sir Brian McMaster CBE	Dorothy Wilson
Tom Bloxham MBE	François Matarasso	Lady Sue Woodford Hollick
Professor Andrew Brewerton *	Elsie Owusu OBE	* Appointed August 2007
Kentaké Chinyelu-Hope	Alice Rawsthorn	** Retired August 2007

East Regional Arts Council

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Dame Gillian Beer DBE	Cllr Paul Kirkman	Cllr Susan Wigglesworth
Graham Creelman	Anne Lavery	Jason Yarde
Cllr Tony Dodd	David Morrall	* Appointed November 2007
Susan Gunn	Cllr Penny Otton	
	Rachel Parslew	

East Midlands Regional Arts Council

François Matarasso (Chair)	Carol Leeming	Cllr N Worth
Cllr P Fawcett	Donna Munday	Mick Young **
Cllr Alan Graves *	Corey Mwamba	* Appointed January 2008
Nikki-Kate Heyes	Anette Schafer	** Retired March 2008
Mir Juma **	Emily Thrane *	
Cllr J Knight	Cllr Dr Jill Vincent	

London Regional Arts Council

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Louisa Bolch	Anupam Ganguli	Cllr Guy Nicholson
Cllr Babara Campbell	Sally Hamwee	Cllr Anjana Patel
Cllr John Coombs	Jenny Harris	Jude Woodward
	Indra Khanna	

North East Regional Arts Council

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Cllr David Budd
Eric Cross
Cllr Alex Cunningham
Maurice Dezou

Cllr Brian Ebbatson
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Cllr Mick Henry
Farah Khan
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Cllr Jim Smith
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Cheryl Martin
Peter Mearns
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Cllr Eric Plenderleath *

Howard Raynor
Cllr Eddie Sheehy ****
Cllr Andy Shine
* Appointed November 2007
** Retired July 2007
*** Appointed January 2008
**** Retired June 2007

South East Regional Arts Council

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Mike Fairclough
Simon Fanshawe
Judy Panesar Harrison
Euan Henderson

Shweta Kapadia
Penny Marcus
Andrew Nairne
Don Seale
Gavin Stride
Katie Tearle

Eckhard Theimann
Elaine Thomas
Stephen Turner
Michael Woodhall

Council and regional council members April 2007 to March 2008

South West Regional Arts Council

Professor Andrew Brewerton (Chair)*	Ms Michele Farmer	Ms Pippa Warin
Cllr Doris Ansari	Emma Flatley **	* Appointed August 2007
Olalekan Babalola	Cllr Stephen Friar	** Retired January 2008
Tim Brinkman	Alan Livingston ***	*** Retired August 2007
Cllr Robert Chapman	Jill Low ****	**** Retired April 2007
Sir Chris Clarke	Cllr Klara Sudbury	
	Mrs Mary La Trobe-Bateman	

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Cllr Martin Bennett *	Cllr Terry James	Cllr Ian Ward *
Cllr Richard Chattaway	Dr Noha Nasser	*Retired September 2007

Yorkshire Regional Arts Council

Janet Barnes (Chair)	Cllr Alan Holgate ***	Cllr Christian Vassie ****
Margaret Coleman *	Leila Jancovich	William Weston
Cllr Jane Evison	Sohail Khan	* Retired June 2007
Cllr John Fort	David Nixon	** Retired October 2007
Cllr David Gemmell *	Cllr Christine O'Sullivan ****	*** Retired May 2007
Lynne Green	Stephen Purcell ****	**** Appointed September 2007
Elaine Hirst **	Dharmabir Singh	

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We are committed to being open and accessible. We welcome all comments on our work. Please send these to Andrew Whyte, Executive Director, Advocacy and Communications, at the address above.

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