


## ARTS COUNCIL OF WALES

### LOTTERY ACCOUNTS DIRECTION GIVEN BY THE SECRETARY OF STATE FOR CULTURE, MEDIA AND SPORT, WITH THE CONSENT OF WELSH MINISTERS AND THE APPROVAL OF THE TREASURY IN ACCORDANCE WITH SECTION 35(3) OF THE NATIONAL LOTTERY ETC ACT 1993

1. The Arts Council of Wales shall prepare accounts for the financial year ended 31 March 2015 and subsequent financial years in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual issued by HM Treasury ("the FReM") which is in force for the financial year for which the accounts are being prepared as well as any other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view.
2. The accounts shall be prepared so as to:
  - a) give a true and fair view of the financial position as at 31 March 2015 and subsequent financial year-ends, and of the comprehensive income and expenditure, cash flows for the financial year then ended; and
  - b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them;
  - c) follow the additional accounting and disclosure requirements set out in Annex A, and in doing so shall have due regard to the DCMS guidance therein, on accounting for grant awards
3. This Direction applies to the Arts Council of Wales' Lottery distribution activities.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. Any material departure from the FReM should be discussed with HM Treasury.

Signed by the authority of the Secretary of State for Culture, Media and Sport:



Peter Mues  
Date: 16/3/15

**Additional Accounting and Disclosure Requirements**

The following paragraphs detail the additional requirements as agreed by the Treasury, the Department for Culture, Media and Sport and the Arts Council of Wales with the consent of Welsh Ministers, over and above those disclosures required by the FReM.

1. The **Statement of Net Comprehensive Income/Expenditure** shall include as separate items, where material:
  - a. the share of Lottery proceeds attributable to the Arts Council of Wales;
  - b. the share of investment income of the National Lottery Distribution Fund attributable to the Arts Council of Wales;
  - c. interest receivable on Lottery funds;
  - d. repayment of grants;
  - e. any other income;
  - f. grants made from Lottery funds;
  - g. lapsed or revoked grants previously recorded as grants made from Lottery funds;
  - h. the total operating costs incurred in respect of National Lottery distribution activities.
  
2. The **Statement of Financial Position** shall include:
  - a. under the heading "Current assets": shown as an investment, the balance held on behalf of the Arts Council of Wales at the National Lottery Distribution Fund;
  - b. grants falling due for payment within one year should be disclosed separately under the heading "Current Liabilities";
  - c. grants falling due for payment after more than one year should be separately disclosed under the heading "Non current liabilities".
  
3. The **Cash Flow Statement** shall use the indirect method when presenting "Cash flow from Operating Activities";

4. The **Notes to the Accounts** should meet the requirements of the FReM and include:

- a. a statement that the Accounts 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, and the consent of Welsh Ministers;
- b. a statement of the accounting policies. This must include a statement explaining the nature of the balances held on the Arts Council of Wales' behalf in the National Lottery Distribution Fund as follows:

“Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Culture, Media and Sport. However, the share of these balances attributable to the Arts Council of Wales is as shown in the Accounts at market value and, at the Statement of Financial Position date, has been certified by the Secretary of State for Culture, Media and Sport as being available for distribution by the Arts Council of Wales in respect of current and future commitments.”

- c. the value of grant commitments at the year-end which the Arts Council of Wales has made but which have not been included as liabilities in the Statement of Financial Position because they did not meet the criteria for being treated as liabilities at that date;
- d. where grant commitments exceed available resources as shown in the Statement of Financial Position, a note explaining the rationale for the over-commitment taking into account any advice received from the Department as appropriate;
- e. a note reconciling the opening and closing balance of investments held at the National Lottery Distribution Fund. This should disclose proceeds received from the National Lottery, investment income, unrealised gains and losses on investment, and cash drawn down from the National Lottery Distribution Fund;
- f. a breakdown of the total grant liabilities (current and non current) in the Statement of Financial Position to show:
  - liability brought forward;
  - grant commitments in the year;
  - decommitments;
  - grant commitments paid;
  - liability carried forward;
  - a breakdown of the liability for each year up to and including 5 years and over 5 years.

## **Notes to accompany Annex A giving Guidance on the Accounting Policy for Grant Commitments**

Grant awards are accounted for as expenditure in the SCNE and, until paid, as liabilities in the SOFP if they meet the definition of liabilities in IAS37 whether arising from legal or constructive obligations.

Grant awards which have been formally decided upon by Council or under delegated authority, which do not meet the definition of liabilities are not included in expenditure in the SCNE or as liabilities in the SOFP but are disclosed as grant commitments in the Notes to the Accounts.

## **COMMON GUIDANCE NOTES ON ACCOUNTING FOR GRANT AWARDS**

### **Basic principles for recognition**

1. Grant awards will be treated as expenditure, and, if unpaid, as liabilities if a constructive obligation to make payment exists at the year end, which will be the case if:
  - a. the award has been formally decided upon by the Arts Council of Wales, whether by the Council or under a delegated authority; and
  - b. the award has been communicated to the intended recipient; and
  - c. the award is free from any conditions under the control of the distributor.
2. Awards which have been formally decided upon by the year end but which do not meet either or both of criteria 1b and 1c above will not give rise to a constructive obligation and so will not be treated as liabilities, but will be disclosed by way of note as grant commitments.

### **Communication to recipient**

3. Grant awards will be treated as communicated to the intended recipient when a formal written notification (including email or other electronic communication) has been issued by the Arts Council of Wales. Oral communication or informal communication by staff which is stated to be non-binding on the Arts Council of Wales will not be treated as communication.

### **Conditions**

4. The Arts Council of Wales will not treat any of the following conditions as being under their control:
  - a. requirements for planning permission or other regulatory approvals;

- b. requirements to obtain match funding from other sources;
- c. a general condition relating to the availability of lottery funds.

## **Recognition of particular types of grant award**

### **Development awards**

- 5. Development awards are those where the Arts Council of Wales provides funds for the grant recipient to develop an application for a larger subsequent award. The Arts Council of Wales retains complete discretion over whether to make the subsequent award. While there may be a high probability that the subsequent application will be successful, the potential subsequent award will not be treated as a liability until a further formal decision is taken to proceed with it. If funds for the potential subsequent award have been set aside by the Council this will be disclosed by way of a note.

### **Performance based awards**

- 6. Where payment of all or part of an award is subject to a performance condition, any part of the award subject to the condition will not be treated as a liability until the condition is met. Performance conditions include:
  - a. requirements that the grant recipient delivers specified objective outcomes, or achieves a level of objective performance (such as sporting achievements);
  - b. requirements that the grant recipient satisfies the judgment of the Arts Council of Wales that they have met satisfactory standards of performance, where there is a realistic possibility that the condition will not be met.
- 7. An award is not performance based simply because the recipient is required to carry out the activity for which the award is made prior to receiving payment, or to comply with other requirements which are under the effective control of the recipient.

### **Multi-year and multi-stage awards**

- 8. Where an award is made which is payable across multiple years or stages, and continuation of the award in later periods is conditional on a further decision of the Arts Council of Wales which there is a realistic possibility will not result in continuation of the award, then only the earlier stages of the award will be treated as a liability.
- 9. For example, where the Arts Council of Wales makes an award that covers three years, but with a proviso that the amount, if any, to be paid in the second and

third years will be subject to an annual review before being confirmed, then the awards in the later years :

- a. will be treated as a liability from the initial award, if the review is in the nature only of confirmation that the project is progressing satisfactorily, and there is no realistic prospect of the Arts Council of Wales changing its initial decision if this is the case;
- b. will only be treated as a liability for the period up to the next review, if the review entitles the Arts Council of Wales to reduce or withdraw funding because of a reduced availability of funds, or changed priorities for funding, and there is a realistic prospect of this occurring.

**Classification of liabilities as accruals or provisions**

10. Grant liabilities at the SOFP date will be classified:

- a. as Provisions where they meet the recognition criteria as defined in IAS37;
- b. as accruals in all other cases.