



Arts Council England

Grant-in-Aid and Lottery distribution annual report and accounts

15/16



Developing and improving the knowledge, understanding and practice of the arts. Increasing the accessibility of the arts to the public throughout Great Britain. Advising and co-operating with departments of government, local authorities and other bodies. 48th annual report and accounts 1992/93

The arts matter

12|13

THE ARTS COUNCIL OF GREAT BRITAIN
3RD ANNUAL REPORT 1947-8

STATE OF PLAY

annual review 2004

The Arts Council of Great Britain
Twenty third annual report and accounts year ended 31 March 1968

ARTS COUNCIL

ANNUAL REPORT 1996/97 THE ARTS COUNCIL OF ENGLAND

41st Annual Report and Accounts 2015/16



Arts Council England
70 years celebrating
great art and culture

On 9 August 2016 the Arts Council turns 70.
All images on the cover are from historic
annual report front covers.

To see more of them, and to find out more
about what we're doing to mark the start
of our seventieth year, please visit:

www.artscouncil.org.uk/70

**Arts Council England Grant-in-Aid and
Lottery distribution annual report and
accounts 2015/16**

Presented to Parliament pursuant to sections
34(3) and 35(5) of the National Lottery Act
1993 (as amended by the National Lottery
Act 1998 and National Lottery Act 2006).

Ordered by the House of Commons to be
printed 11 July 2016

HC 185



© Arts Council England copyright 2016

The text of this document (this excludes, where present, the Royal Arms and all departmental or agency logos) may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as Arts Council England copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

Any enquiries related to this publication should be sent to National Director, Advocacy & Communications, Arts Council England, The Hive, 49 Lever Street, Manchester M1 1FN

This publication is available at
www.gov.uk/government/publications

Print ISBN 9781474128193

Web ISBN 9781474128209

ID 11021601 07/16

Printed on paper containing 75 per cent recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

Contents

1.	Chair's report	2
2.	Chief Executive's report	6
3.	Achieving great art & culture	10
4.	Remuneration report 1 April 2015 – 31 March 2016	22
5.	Environmental sustainability	28
6.	Trustees' report and management commentary	38
7.	Strategic report	54
8.	Grant-in-Aid accounts	62
9.	Lottery distribution accounts	100
10.	National Lottery report	124

1. Chair's report

1 Chair's report

2 Chief Executive's report

3 Achieving great art and culture

4 Remuneration report 1 April 2015 – 31 March 2016

5 Environmental sustainability

6 Trustees' report and management commentary

7 Strategic report

8 Grant-in-Aid accounts

9 Lottery distribution accounts

10 National Lottery report

When I came to the Arts Council, three years ago, it was with a mission to put the arts in England on a stronger footing, to ensure that we made the best use of the resources we had, both human and financial, and to make a convincing case for continued public investment in art and culture as part of a mixed funding model.

I wanted it to be understood that art and culture make an irreplaceable contribution to all our lives, to our local communities and to the nation as a whole. And looking back, I think that the Arts Council and the arts and culture sector as a whole have made considerable progress in getting this message across.

Art and culture are precious national resources. They drive the vitality of our education system, the life of our communities and the influence of our nation. And their economic importance is ever more apparent. This was recognised by the Chancellor in the last Autumn Statement, when he said: "One of the best investments we can make as a nation is in our extraordinary arts, museums, heritage, media and sport".

Art and culture are no longer viewed as luxuries, but as essential parts of the economic mixture. I'm delighted that the Government has backed this up with a commitment to continued public funding and a raft of other measures, including tax breaks for theatre and orchestras, with the possibility of more to come.

This economic equation works only if the art is there. And the role of the Arts Council is to ensure that everyone, everywhere has the opportunity to have their imagination and talent fired, so that the creative industries will thrive.

In the last year I've again been fortunate to attend many events and performances of exceptional quality all over England. From the *Oresteia* at the Almeida, to the Lumiere Festival in Durham; from the MOBO awards in Leeds to *In the Realm of Others* at the De La

Warr Pavilion, Bexhill – the latter a remarkable exhibition of work by people with complex neurological conditions. Everywhere I've gone, I've been excited, challenged and consoled.

There have been important new creative partnerships. This is a sign of a more general spirit of collaboration. One of the themes of my tenure has been partnership. We must make more of shared resources and collaborate rather than compete wastefully. That approach is taking hold; we've seen better relations with funding bodies, more partnerships with digital and broadcasting networks and a growing relationship with universities, who know the contribution art and culture make to academic outcomes, to student life and to the businesses they work with. The higher education sector is a major player in the cultural life of such cities as Derby, Durham, Norwich, Lancaster, Plymouth, Warwick, on Teesside and in the West of England.

Partnership can play an important part in a resilient cultural sector – but we won't achieve resilience without greater diversity. We need the talent, ideas and energy of the whole of our society. In November 2014 we launched the Creative Case for Diversity – an arts-driven approach that will attract a more diverse cultural workforce by making our art and culture representative of its diverse constituencies.

We followed up with another diversity event last autumn – the first in a regular series of reviews at which we'll discuss progress. There was good news to announce around workforce data, which saw steady improvements, but the

figure for deaf and disabled workers remains disappointing. To ensure lasting change, we will need to improve on diversity within our leadership. We've ring fenced strategic funds to continue the good work.

All our funded organisations are now rated on the contribution their programming makes to the Creative Case. We've made those ratings more robust and we want our major funded arts organisations to take a lead.

Our efforts with diversity highlight how important data is. The experience so far with data has been mixed – it's vital to secure the widest participation in surveys. This reflects what we're seeing overall with technology. Event cinema and digital streaming by major companies are flourishing. We know that the majority of organisations value digital marketing. But the picture is more varied in its details; organisations move in and out of digital engagement. It is a fast moving world. We need better sharing of skills and resources. And we need to become smarter about technology. It's something we are looking at, working for example with Google on platforms for skills sharing.

Our arts and culture organisations should be recognised for the way in which they have grown their commercial revenues in the past three years. Typically, Arts Council funding now accounts for just over a fifth of the income of one of our National Portfolio Organisations. While there has been year-on-year growth in donations from private individuals, fundraising continues to be harder outside London. The Catalyst programme has achieved a great deal, but we need to make organisations more market-savvy. The next round of Catalyst funding will bring a more targeted approach along these lines.

Partnership working has brought fresh ideas and new funding models, including "social impact" loans. Our *Arts Impact Fund*, delivered in partnership with the Bank of America, Merrill Lynch, NESTA and the Esmée Fairbairn Foundation, has a £7 million fund and made its first investments at the beginning of 2016.

So, encouraging progress – but, as ever, much remains to be done.

The most important challenge art and culture in England now face is the loss of local authority funding. I cannot overstate the importance of this. Local authorities are our most important strategic funding partners. The latest figures we have show that local authority investment in art and culture has declined by 17 per cent since 2010 – which amounts to £236 million. The Arts Council cannot fill this gap.

Cutting art and culture means losing the very spirit of a place; the long term cost outweighs the immediate convenience to the balance sheet.

The picture is not the same everywhere. We know the significance that cultural investment is playing in the Northern Powerhouse project, and this is being widely supported from Teesside to Manchester and back across to Hull. Cultural investment is intrinsic to the devolution agenda. And in many cities, towns and rural areas, art and culture are understood as vital to education, community values, health and wellbeing, tourism and economic growth.

Up and down the country, local authorities are finding ways to maintain their support for art and culture, whether through shared services, like the Libraries West Consortium in the South West, the use of trusts and mutuals – a route taken by Harrow and East Lindsey among many others – or partnering with Local Enterprise Partnerships, which Suffolk and Norfolk Councils are doing, working with the New Anglia LEP Cultural Board, alongside the Arts Council.

The importance of art and culture as a catalyst for national prosperity was highlighted in the White Paper, published in March. This made cultural place making one of its key priorities. We look forward to launching the *Great Place Programme*, working with the Heritage Lottery Fund and the Department for Culture, Media and Sport.

And underpinning our work is a commitment to a fairer balance of spending nationally;

we're making progress on that and investing in imaginative programmes to stimulate cultural growth across the country – *Creative People and Places*, the *Cultural Destination Fund* and the *Creative Local Growth Fund*.

We understand that local authorities are under pressure. We hope that they will think strategically about their cultural assets. In turn, arts and culture organisations need to demonstrate how they can support their local authorities' strategic needs. Dialogue is crucial. We must communicate a positive message of what *more* art and culture can do for a place.

No-one has worked harder at getting this message across than our new chief executive, Darren Henley. In his first year, Darren visited every corner of England, supporting the work of arts and culture organisations, and talking about how the arts make a difference in the lives of everyone, everywhere. Our thanks to him and to all my colleagues on National and Area Councils.

We cannot fill the gap in funding. But where local authorities stand by art and culture, the Arts Council will stand by them. We're in, if you're in. Right now, the arts and cultural sector has the talent, confidence and opportunity to make a significant contribution to a revival of our communities. That's the vision; let's come together and make it a reality.

Sir Peter Bazalgette

2. Chief Executive's report

1	Chair's report	6	Trustees' report and management commentary
2	Chief Executive's report	7	Strategic report
3	Achieving great art and culture	8	Grant-in-Aid accounts
4	Remuneration report 1 April 2015 – 31 March 2016	9	Lottery distribution accounts
5	Environmental sustainability	10	National Lottery report

This has been a busy and rewarding first year as Chief Executive, a year of challenge and excitement as I explored the scale and richness of the work that the Arts Council supports.

Much has happened, and much has moved forward. I was fortunate to come into an organisation that was stable, that had a clear sense of direction and a transparency and willingness to learn, leading to much improved relations across the sector.

This entrance was prepared by the assured touch of my preceding acts, Alan Davey and Althea Efunshile (who served as interim CEO). An important part of their legacy is the 10-year strategy, *Great Art and Culture for Everyone*, which has kept us on course and focused on ensuring that the work we support is the best of its kind. And I am committed to championing artistic excellence for everyone, everywhere – just as I am a firm believer in the vital importance of public investment in the arts, which brings us all such wonderful benefits.

In the past year I been getting to know our national arts and culture ecology. When not in the office, I have travelled the length and breadth of the country, and talked with some 5,000 artists, administrators and funding partners, actual or potential.

There has been one consistent topic – how we can work together to communicate the value of what we do and ensure the life and growth of an artistic ecology that sustains work of so many scales and kinds, from international orchestras to small local museums. This ecology has profoundly human effects, felt in the development of our children, in the sustaining passions of our own lives, in the prosperity of our communities, and in the status of our nation.

The year had many inspirational moments. There were extraordinary performances at

our flagship national companies. But I have also seen world-class theatre in a barn on the cliffs of Cornwall and the streets of Sheffield. And I met the two inspirational British Asian women who founded the Bradford Literature Festival – it's the first literary festival in the UK to be programmed for all its communities, and is also promoting international partnerships with Japan based around Yorkshire's own Brontë family, and a Sufi programme that takes in Pakistan and Turkey. It has also brought in new investment from the private sector.

I've listened to young brass band players nearly blow the roof off Manchester's Bridgewater Hall and seen how music changes young lives through the work of West Everton Children's Orchestra. I've been shown how galleries, museums and libraries – the Whitworth in Manchester, the National Glass Centre in Sunderland and the Hive in Worcester – provide vital resources for education, recreation, employment and wellbeing in their communities. And I've also seen magical results when we encourage communities to explore their cultural life through the *Creative People and Places* programme that supports companies like Bait in Northumberland and Left Coast in Blackpool.

The passion I've seen in audiences confirms for me that art and culture belong to the widest and the most diverse constituency. They should be there for everyone. It is only through the widest possible access that we can reach all our talent and produce the best art. That's not the case yet, but we are making progress.

A fairer distribution of funding is a big step: it will ensure investment reaches into more

communities. That is happening. In my first year, I announced a commitment to invest 75 per cent of Lottery funds outside London by 2018. This is set against a historic split of 60/40 – and last year’s 70/30 divide. In addition, our Grant-in-Aid investment is now around 60/40 in favour of work outside London – again, part of a trend that we will be building on. These funds will be a stimulus to the whole arts ecology, and will make a big difference to the future of our cities.

But, as our Chair writes, we are now facing a serious challenge in terms of local authority funding. So it is vital that we talk about the great things that are happening, from Plymouth to Leeds, wherever enlightened local leaders are prepared to put their weight behind a strong cultural agenda. Art and culture ought to be built into plans for urban and rural revival. This will be more important as the devolution agenda gathers pace.

If you want to see what can be done, look at Hull – where I was delighted to make my first speech as Chief Executive. Hull has invested in art and culture to help change public perceptions, and this has in turn increased the confidence of businesses, which translates into jobs for younger generations – and the belief that they can enjoy and contribute towards their cultural life, no matter where they start in life. Hull has come a long way from being a byword for post-industrial decay. It is City of Culture for 2017 and on the Rough Guide’s list of “must visit” world destinations.

While we can use our investment to help shape the cultural ecology, more needs to be done to provide opportunities for individual talent to come through. At the end of 2015, we launched the *Cultural Education Challenge*, which calls a better joined-up cultural offer for all children and young people in and out of school. Other initiatives – such as apprenticeships, which under the Government levy will become mandatory for some of our funded organisations – should also play a valuable part in servicing the “talent pipeline”. There has been progress, not least in understanding the needs, but it will take time. When talent

blossoms, we have to ensure it can be retained in the places that have inspired it, and which it can in turn, inspire.

We have great people at the Arts Council. Another aspect of my travels last year was that I was able to meet so many of the dedicated and knowledgeable staff. We will need your knowledge and skill in the year ahead.

All of us have to think how we can make effective use of resources, whatever they are. Diversity, of all sorts, will be key to our future, alongside the ability to recognise and work together to promote our common purpose – the value of art and culture in all our lives. We did this prior to the spending review, and we must now do it again at a local level. And already, with one investment process freshly resolved, we have begun consulting on proposals for the next investment process. We do not stand still.

In this context, we are immensely sad that in the course of the next year we will be saying goodbye to our Chair, Sir Peter Bazalgette – forever Baz to his colleagues – and to our Deputy Chief Executive Althea Efunshile CBE.

There will be time for many thanks and tributes. Baz and Althea have done a remarkable job for the Arts Council, the arts world, and the public. I promise that we will treasure and build on their achievements, and I look forward to welcoming and working with their successors.

Darren Henley OBE

3.

Achieving great art and culture

1	Chair's report
2	Chief Executive's report
3	Achieving great art and culture
4	Remuneration report 1 April 2015 – 31 March 2016
5	Environmental sustainability

6	Trustees' report and management commentary
7	Strategic report
8	Grant-in-Aid accounts
9	Lottery distribution accounts
10	National Lottery report

Goal 1: Excellence is thriving and celebrated in the arts, museums and libraries

This year we have continued to work hard with the sector to ensure that we not only invest in and support excellence, but that our processes are more transparent and our progress is measurable.

Our artistic and quality assessment programme continues to grow and diversify its pool of assessors. We've broadened the programme to capture the breadth of work that we fund; 96 per cent of our National Portfolio Organisations are now eligible for assessment.

In 2015/16 we made 827 assessments against a target of 1000 – a significant increase on previous years. We capture and share learning as we progress and have had a number of successful feedback events. Our National Portfolio Organisations tell us that the assessment reports are a useful tool for self-reflection on the quality of their work and of the experience.

I just wanted to say how useful it is for us to have such an in-depth, thoughtful assessment... but there is also some valuable constructive criticism which we will certainly consider when looking at future development. (Feedback from a National Portfolio Organisation)

As the assessor was new to the organisation, the staff were delighted that the experience had been so positive and that that she had fully understood and appreciated not only the individual pieces of work assessed, but how they represented the organisation's aspirations, profile and identity in the region. (Feedback from a Relationship Manager)

Our Manchester-based quality metrics pilot has now been developed into a national pilot

involving 153 National Portfolio Organisations across England. The high uptake suggests that this is an important opportunity for the sector as a whole to talk about quality in a more consistent way. Artsadmin say that they "are interested in understanding the deeper value of the data that we gather, and also in getting some consistency across how we evaluate our work." Mahogany Opera Group thinks that it will create "similar dialogues with audiences and peers across our touring network". Find out more about why people want to take part. The programme ends in June 2016, and we look forward to the subsequent evaluation. We've responded to and learned from sector concerns and we've captured our own learning with regards to communication and delivery to shape this work in the future.

This year, we've worked hard to embed how we promote and measure progress in the Creative Case for Diversity. We've met with staff up and down the country in order to shape the framework used to assess Creative Case performance ratings, and we've taken this feedback and used it to commission Zendah (one of our National Portfolio Organisations) to develop an online Creative Case learning resource for staff and National Portfolio Organisations, to be launched in spring/summer 2016. This will support us and our funded organisations to better understand how to evaluate delivery of the Creative Case.

As technology continues to change our world, and boundaries between artforms, cultures and disciplines are blurred, interest in international working continues to grow.

In partnership with the British Council we invested £545,000 in 22 research and development projects for collaborations with artists and organisations through the Reimagine India fund. This opportunity met with high demand, enabling research and development into projects such as: New Art Exchange's

consortium of studios across the Midlands to explore connections between Indian and UK artists and communities; Graeae's acclaimed production of Ted Hughes' *The Iron Man*, which will be the creative catalyst for a training programme for young deaf and disabled artists in India; and the Royal Court working with Indian Ensemble Theatre to produce and tour a new play set in Tibet.

We've also more than doubled the number of awards given to artists and producers wanting to travel abroad to develop their careers through the *Artists' International Development Fund*. Taking an opportunity to increase financial resilience, we supported eight international showcases with awards worth £1.6 million in England and across the globe. An outdoor showcase delivered by Xtrax in South Korea was a particular success and *As the World Tipped* (in partnership with Wired Aerial Theatre) met with great acclaim at the Hi Seoul Festival in October 2015.

We're developing our international offer by focusing on how we can create an even more ambitious and diverse, international-facing arts infrastructure at home. Through *Ambition for Excellence*, a £35.2 million strategic fund, we've connected the local to the global and supported: international elements of the Bradford Festival of Literature; a country-wide tour of work commissioned by the London Festival of International Theatre; and East Asian collaborations which internationalise the Unlimited Festival celebrating the work of deaf and disabled artists.

Urban Development and the Tricycle Theatre will increase substantially the number of diverse artists and leaders in the sector. Others, including Sheffield Culture Consortium, will make a significant impact on place. The consortium consists of Yorkshire Artspace, Sheffield Theatres Trust, Museums Sheffield, Site Gallery, The University of Sheffield and Sheffield Hallam University; it will coordinate a visual art programme that complements the Year of Making Sheffield 2016 – a new festival and a new partnership between culture and business.

We have increased our investment to support equality and diversity to £8.5 million, and launched four new programmes to fund diversity. These will develop the resilience of diverse-led organisations outside our national portfolio and invest in diverse arts and cultural leaders across our National Portfolio Organisations and Major Partner Museums. In 2015 we made our single largest strategic touring grant of £2.3 million to support a consortium of companies to increase opportunities for disabled artists and audiences.

We published our new corporate equality action plan for 2015-18 informed by the research and equality analysis undertaken in 2014. The plan reaffirms our commitment to promoting the Creative Case for Diversity, diversifying audiences, promoting a more diverse workforce and leadership, improving the quality of our diversity data and developing our internal capacity to better respond to the equality and diversity agenda.

Goal 2: Everyone has the opportunity to experience, and be inspired by, the arts, museums and libraries.

It is essential that our commitment to excellence be complimented by increased access. We want the high-quality work we support to reach large and more diverse audiences across England.

This year we have continued to invest in long-term collaborations between local communities, arts and cultural organisations, local authorities and the private sector to encourage inspirational arts and culture programmes, particularly in places where engagement is low.

Touring remains an effective way to bring great art to new audiences, and encompasses a huge range of visual art, theatre, dance and music. Among the most ambitious projects has been *Artist Rooms* – a UK wide initiative encompassing 32 galleries and museums. The primary focus is on providing world-class visual

arts for young people where they live, whether rural Devon or Wolverhampton. Artists include Damian Hirst, Louise Bourgeois and Andy Warhol. The rooms each feature the work of one artist, and are designed to create an in-depth yet accessible experience for an estimated 1,000,000 visitors. The project is led by Tate with the Ferens Art Gallery, Hull, and supported by Anthony D'Offay, the Art Fund, and Creative Scotland, alongside the Arts Council.

This year we made the largest award in the history of strategic touring (£2.3 million) to *Ramps on the Moon*, a consortium project focused on diversity. For this, six theatres are working together with Graeae, the theatre company that champions deaf and disabled artists, to create and tour major productions featuring disabled and non-disabled performers, beginning with Roxanna Silbert directing Birmingham Rep's production of *The Government Inspector*. Each tour will aim to increase disabled audiences and each theatre has committed to making significant organisational change around integrating disability and access into its work.

Touring projects have also involved the communities they visit. *Coal* by the Gary Clarke Company is a middle scale dance production about the lives of coal miners and their families, and tells the story of the miners' strike. It is a visceral piece, which resonates powerfully with the communities it is playing to, as it tours to ex-mining towns like Barnsley and Doncaster. The show features professional dancers alongside a local brass band and community performers who play the parts of the wives.

Our investment has helped to bring in new audiences and find new ways of using familiar spaces. Leeds Museums and Galleries partnered with Universal Zulu Nation (Leeds) to host and curate an event celebrating their 42nd anniversary and the 41st anniversary of positive hip hop culture. In Cumbria, the Abandon Normal Devices festival encouraged audiences to experience Grizedale Forest anew, inviting more than 50 world-class artists to create artworks for the historical site. In Durham, Tin Hat – one of our National Portfolio Organisations

– ran a cultural volunteering programme for people over 19 with learning difficulties and disabilities, and mental health service users. The programme aims to change how the county engages those with disabilities and creates opportunities for them to contribute to the area.

Our investment has also connected art and culture to other areas of popular experience. Last year saw the conclusion of a 15-month programme of events celebrating the millionth finisher in the Great North Run. This was organised and led by Great North Run Culture with Tyne & Wear Archives and Museums; the Great North Greats exhibition engaged 140,000 people.

In Manchester, we supported Libraries Live, Manchester Libraries' cultural programme. Alongside the traditional library activities of author readings, talks and writer workshops, Manchester Central Library hosted gigs, film nights, live performances, open-mic evenings and creative courses. Since May 2014, more than 4,000 audiences and participants have engaged with the programme at Central Library.

At the other end of the country South West Libraries concluded Fantastical Feats, a two-year project funded through *Grants for the Arts Libraries*, featuring augmented reality and a digital game about the myths and legends of the South West. The project engaged 50 artists in 174 dance sessions and 28 performances. In total, 2,338 children participated. As a result of the project, 10 authorities in the region are now *Arts Award* supporters and six have trained *Arts Award* assessors for Discover/Explore awards.

An important element of our work to increase both audiences and participation is the *Creative People and Places* programme. There are 21 *Creative People and Places* projects across England, in places that often have a limited arts infrastructure and low engagement, including Boston and South Holland, Doncaster, rural Northumberland and Barking and Dagenham. We are very encouraged by the impact this programme is making. Between October 2013 and September 2015, it engaged with more than a million people. More than 75 per cent of these

were not from a traditional arts going audience. In Boston and South Holland, only 2 per cent of audience members were typical arts audiences.

Artists and arts and cultural organisations are increasingly using creative media to present and distribute their work in new ways. Digital approaches, such as the live streaming of performances and event cinema, are helping to build audiences and participants.

In September 2015, *Canvas*, a new multi-channel network for the arts was launched. Funded by the Arts Council and delivered by Rightster, it aims to be the home of the arts on social platforms including YouTube, and to help arts organisations increase audiences for their online content. By March 2016, the number of subscribers for the network and the *Canvas* core channel was 143,197.

Evidence suggests that the most successful businesses in the creative industries know most about their customers, which is why the Arts Council is committed to ensuring that publicly funded arts and cultural organisations work together to share audience data. To support this, we introduced new clauses into funding agreements to support data sharing.

We recognise that implementing these clauses can be challenging, especially for organisations that aren't currently collecting and sharing audience data on a regular basis. A new online resource called Sharing Data is now available to help negotiate data sharing agreements with partner organisations. Audience Finder is helping organisations to understand their current reach, and how and where they may find new audiences.

The *Digital R&D Fund for the Arts*, our three-year partnership with Nesta and the Arts and Humanities Research Council, came to a close in December 2015. An independent evaluation of the fund found that it had enabled new ways of working, opening up richer, more diverse, interactive and personalised relationships with audiences.

There is a growing understanding of the value of art and culture to health and wellbeing.

In February the first national arts and health conference and showcase was held at the Southbank Centre in London.

This is an area that arts and culture organisations have been working in for many years. One example is Hoot Creative Arts. They work with adult mental health and dementia and have a range of programmes including Out of the Blue, a cross artform participatory programme. Hoot holds an arts in health commission for adult social care, runs a referral programme and delivers creative arts plans for individuals, group sessions, staff and business training.

We know that we need a stronger evidence basis. Through our research grants programme, we supported a two-year research study called Singing the Blues, with Imperial College London and the Chelsea and Westminster Hospital. The research will be a world-first study to investigate the impact of group singing activity for mothers experiencing post-natal depression. The research will collect psychological, physiological, and biological data in a randomised control design. This will be supplemented by a national study tracking the interactions between mental wellbeing, symptoms of post-natal depression, and involvement in music interventions in women during pregnancy and the first year of motherhood.

Goal 3: The arts, museums and libraries are resilient and environmentally sustainable

In a tough economic climate, arts and cultural organisations have continued to focus on diversifying income. Earned income across the 698 National Portfolio Organisations and 16 Major Partner Museums rose 5 per cent according to the 2014/15 annual submissions and now accounts for more than 50 per cent of income across the portfolio.

To support new growth models, Arts Council England is partnering with Nesta to deliver an accelerator programme for nine projects previously supported through the *Digital R&D*

Fund for the Arts in England. We want to help projects with real development potential to capitalise on their R&D achievements, reach wider markets and stimulate culture change within arts organisations so that they are able to think more entrepreneurially. The Accelerator Network has been appointed to deliver the programme, which started in April 2016. Participants include FireStation Arts and Culture, Circus Starr, Comma Press and Ministry of Stories.

The *Arts Impact Fund*, launched last year in partnership with Esmée Fairbairn Foundation, Bank of America and NESTA, made its first investment decisions in November and offered £1.7 million in loans to four organisations, including a loan to South East Dance for their exciting new home, The Dance Space. Investment readiness remains an issue for the sector and moving to loan agreements and drawdown will be a challenge for the coming year.

Whilst we encourage organisations to look at all sources of available finance and plan for building maintenance, capital grants remain an important way to support the sector to have the right spaces to develop new practice, engage new audiences and develop sustainable business models with a reduced environmental impact.

In January 2016 we announced £57 million will be available to 16 organisations that have been successful in applying to stage one of our *Capital: Large Grants* programme. These organisations have been invited to develop their applications for stage two of the programme. Most of the projects focus on the refurbishment or extension of existing arts buildings. They range from upgrades of spaces to large-scale renovations and include Colston Hall in Bristol, Writers' Centre Norwich, Inner City Music in Manchester and Polka Theatre in Wimbledon.

In February 2016 we also announced awards of £10.8 million to 39 organisations through our *Capital: Small Grants* programme. These help organisations generate more income and invest in sustainable energy systems to reduce costs. Kala Sangam will refurbish its base in Bradford, Derby Playhouse will make essential upgrades

to its heating system, and Autograph ABP will develop its learning and archive space and secure the fabric of its building.

In November we published *Sustaining Great Art*, the report on the first three years of the partnership with Julie's Bicycle, which has set out to reduce the environmental impact of the portfolio. The impacts included an increase in engagement from 14 per cent to 98 per cent of funded organisations and savings of £2.3 million for reporting organisations. It also pointed to priorities around leadership and sharing best practice, which we've used to inform our new three-year agreement with Julie's Bicycle, running to 2018.

Through the *Museums Resilience Fund*, we aim to support a major change in approach for the museums sector nationally. Round two saw 186 expressions of interest, suggesting that demand won't be met, and very significant interest in ways to increase resilience. The continuing round one projects include Avoncroft Museum, which is focusing on improving its business planning and income generation, including a windmill and historic kitchen gardens, and Buxton Museum, which is leading a consortium of five museums and local craft makers in developing a new range of products for sale in the museum shop.

During the year, we spent £2.7 million on upgrading or installing Wi-Fi for the first time in over 1000 libraries. By the end of the project in March 2016 more than 99 per cent of English libraries will be providing free public access to Wi-Fi.

We continue to encourage the arts and culture sector to engage with supporters so that they can diversify income streams and build support in their local communities. We are developing fundraising capacity in the sector, investing in skills, encouraging data collection, sharing and analysis, and supporting the use of digital technology to engage more audiences and increase contributed income.

To multiply the impact of resources, the Arts Council increasingly works as a partner and broker of relationships across charities,

businesses, arts and culture producers, education and local government.

One such partnership is with Arts Fundraising and Philanthropy – a consortium of business, higher education and arts organisations – to deliver a programme of capacity building in fundraising and philanthropy for the sector.

The programme is now in its third and final year and has reached further into the sector with additional fundraising courses, mentoring opportunities and training future arts fundraisers through the fundraising fellowship programme. The fundraising fellowship seeks to address a significant gap in the provision of trained arts fundraising professionals and encourages the next generation of creative entrepreneurs and leaders to plan financial resilience into their core business strategies.

In 2015/16 this delivered a further 25 fundraising fellows to the sector as the programme was rolled out across England to increase the benefit of the scheme and diversify the range of host organisations which included New Writing North, Nottingham Playhouse, Wiltshire Music Centre and People United.

We continue to support the sector in their continuing need for development in fundraising. A successful way to do this is via peer-to-peer learning. Arts Fundraising and Philanthropy have now supported more than 20 new peer-to-peer networks across the country. The networks provide organisations and individuals the chance to share their fundraising experiences and challenges as a way of supporting others learning.

Catalyst concluded in summer 2015 and the evaluation indicated success for the organisations involved concerned with building capacity, confidence and skills but there is still a significant challenge in growing income from private giving and we may not see the full impact of our investment for some years.

However, we still saw our investment supported with over £49.5 million endowment funding

to be placed under management across 17 organisations including Sage Gateshead, Turner Contemporary and Old Vic. Some ambitious targets were set and not all of them were met, including some by high profile organisations, but what the research shows us is that as a result of this initiative, the organisations are now better placed to raise more income from private giving in the future.

Our Catalyst investment also realised at least £49 million of revenue support being raised for the arts sector. Whilst we recognise there is still a challenge in attracting private giving, the investment is making a difference and the report provided fresh insight into successful ways of increasing private giving.

We want to build on our investments to date in this area. There remains much to be done, and we know there is a demand for change from within the sector.

We will support organisations to progress towards a more mixed funding portfolio, to learn the lessons from our previous investments and to help shape future interventions.

This year we introduced a new matched funding, capacity-building strategic fund to follow up our previous investments. Catalyst: Evolve seeks to further support the sector to diversify its income streams by raising private income and increasing resilience. Guidance for the programme was published in October 2015; it opened for applications in January. We are now considering our decisions which will be announced late summer 2016.

We undertook to measure our success in this area by monitoring arts organisations and seeing how they increased their share of income that comes from a wider range of contributed or earned income.

Our most recent annual submission¹ data from National Portfolio Organisations shows that donations from individuals have increased by 23 per cent between 2012/13 and 2014/15. However, we know the climate for fundraising

¹ Annual Survey explained

has been difficult in the last few years and fundraising takes time to develop. We recognise it is a particular challenge for organisations outside of the capital. London is a base for large numbers of wealthy individual givers, trusts and foundations and businesses when compared with other areas of England. That's why our interventions are sector wide. We also know that more data needs to be made available. Hence we commissioned MTM to undertake the Private Investment in Culture survey which seeks to identify progress in this area since 2011/12 – the last point of available data published from research commissioned by Arts & Business. The results will be published in late summer 2016.

We're conscious of the need for fundraising skills development within governance of the sector. We've responded to a Charity Commission consultation on guidance for trustees to take on a greater role in fundraising, and the Arts Fundraising & Philanthropy programme has delivered training sessions on trustee fundraising capacity building.

We've continued to work for Gift Aid reforms and will continue to engage with future consultations. In recent years, we've seen the introduction of tax credits for the performing arts, theatre and now orchestras and we're consulting on future tax credits for exhibitions. We will also explore other models and tax incentives to support the sector and encourage more private giving.

Goal 4: The leadership and workforce in the arts, museums and libraries are diverse and appropriately skilled

In order for the arts and cultural sector to thrive, it needs a skilled and diverse workforce that reflects the population of England in the 21st century, with strong, diverse leadership at executive and board level.

In December we launched our first data report on equality, diversity and the Creative Case.

This provides a detailed analysis of the arts and cultural workforce across age, disability, ethnicity and gender. The publication also reports on our investment to promote equality and diversity across funding programmes from 2012-15, as well as providing an analysis on programming and audiences. We will be publishing the report on an annual basis, to provide regular updates to monitor progress both across the sector and internally at Arts Council England.

Figures suggest there is more work to do both in collecting data and in increasing take up of employment and leadership in the sector for those with a number of protected characteristics and socio-economic backgrounds, notably disabled people.

To better understand the picture, we have commissioned the EW Group to undertake research in response to the low number of disabled people working in the arts and cultural workforce. The research will examine employment trends, barriers and opportunities. The EW Group's recommendations will inform our work to increase employment opportunities for disabled people.

We have also commissioned the production of a suite of resources that will support organisations to take practical steps to ensure their leadership and workforce are diverse and appropriately skilled.

The Arts Council supports access routes to the sector through the ground-breaking Creative Employment Programme for unemployed young people aged 16-24, delivered by Creative and Cultural Skills. This year saw a new cohort of apprentices and paid interns start work. There have been some notable successes including Create Gloucestershire, who took on 13 paid interns and apprentices in administrative, technical and project management roles, giving some their first taste of work after leaving school and some their first jobs in the sector. Over four years nearly 4,500 young people have benefitted from the programme, and we will work with the sector to evaluate and understand more about how to support organisations and young people at the start of their careers.

This year we continued to address particular skills gaps, working in partnership to make the best of resources and to bring relevant expertise into the sector.

Building digital skills remains a priority with 37 per cent of sector organisations saying that skills and knowledge are a major barrier to them achieving their digital aspirations. The Arts Council and Google continued their successful digital skills development events programme in partnership with Culture 24, linked to Google's Garage programme.

More than 50 arts and heritage organisations attended a launch seminar – covering topics such as reaching audiences online, analytics and content strategies – in March at Manchester Central Library, curated by Culture 24 with Google's search team and cultural experts in digital technology. More regional events will follow in 2016/17 to address data searching and discoverability.

In October, we launched *Canvas*, our new digital video initiative. It aims to bring new audiences into all artforms with video designed for digital platforms and has begun a programme of capacity building with organisations to develop content and capture skills.

This year was also the final year of *Developing Resilient Leadership* – a £1.8 million three-year programme delivered by the Clore Leadership Programme. Demand for the February short course and March emerging leaders course continues to be high, with multiple applicants for each course place. This year, bursaries for disabled artists have been introduced for the short courses. Leadership development days, in partnership with organisations such as Shape disability arts and Cultural Spring in Sunderland, have extended the reach of Clore's leadership programmes and provided opportunities to more people across a wider geography.

This year we ran an open application grant programme to deliver a three-year leadership and governance programme aiming to develop leaders at all levels more closely reflective of society as a whole. Developing Sector Leaders

will run from April 2016; Clore Leadership Programme will be the delivery partner.

We are conscious that no single leadership programme can support every individual. In December we also announced *Change Makers*, a £2.6 million fund designed to develop diverse leaders who will participate in a senior leadership programme, hosted by a National Portfolio Organisation or Major Partner Museum. This cohort of leaders will gain the skills and confidence to compete on merit when chief executive, artistic director or senior leadership positions become available.

For leaders in museums, we have supported a wide range of initiatives including the Black Country Living Museum to lead on the *Museums and Resilient Leadership* programme, which ran from May to March. Participants took advantage of international study visits to learn from good practice across Europe and the USA, bringing new skills and energy into our arts and cultural sector. In the East Midlands, Cultivate East Midlands brought international philanthropy and marketing skills to Lincolnshire through a successful skills development programme for a number of smaller East Midlands organisations. This was delivered by Michael Kaiser's DeVos Institute, and supported through *Grants for the Arts*.

In our development role with libraries, we work with our partner organisations in the Post Envisioning Partnership to ensure that library staff have effective leadership and delivery skills. Our partnerships include the Society of Chief Librarians' Digital Leadership programme, which is part of the Public Library Universal Offers.

Local government are key partners. Working with the Local Government Association we jointly ran the *Leadership Essentials Cultural Services* programme in November and December, offering council cabinet members and portfolio holders the opportunity to deepen their understanding of culture and discuss the benefits to people and communities across the country so that they can go back to their local councils to make the case for continued local authority investment in the arts and culture.

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

A commitment to children and young people is integral to the work of the Arts Council. We recognise that it's an area in which we have to work with a wide range of partners if we are to ensure that there is proper access to arts and culture for children and young people across England.

In this era, it's particularly important that we make the best use of resources and ensure that all partners are working together to provide a coherent, joined up offer for children and young people, in and out of school.

This was the purpose behind the *The Cultural Education Challenge*, launched in October. This is a call for the arts, culture and education sectors to work together in offering a consistent and high quality, arts and cultural education for all children and young people. It asks arts and cultural organisations, music education hubs, educational institutions, local authorities and other partners to create a more coherent delivery of cultural education through Cultural Education Partnerships (or CEPs).

We are working towards the creation of at least 50 CEPs across the country, targeting areas where there is most need to enhance arts and cultural provisions. Through these local partnerships, we are encouraging a robust commitment to improve the quality of cultural education across England, especially in disadvantaged areas.

The launch of the *Cultural Education Challenge* provided us with the opportunity to promote the newly refreshed *Artsmark* award, which celebrates schools that champion the arts. The new *Artsmark* award has been developed for schools, by schools and is now intrinsically linked to school improvement plans. *Artsmark* schools will gain access to exceptional resources as well as to networks of the country's most

treasured cultural organisations, helping them plan, develop and strengthen their arts provision. Since the launch in October, more than 1,250 schools have signed up to the new *Artsmark*.

There are now some promising instances of the *Cultural Education Challenge* in action.

The Arts Council is working with a number of cultural and media organisations to ensure continued awareness of the *Cultural Education Challenge*. In November, we launched a competition called the Huge History Lesson in partnership with the Times Educational Supplement and the British Museum, to encourage school children to produce films and other resources exploring the history of a museum object.

Blackpool's Cultural Education Partnership includes a wide range of arts and municipal organisations, covering some of the most deprived areas in England. The CEP works to counter these disadvantages with high quality cultural experiences for children and young people.

There are four key elements to the programme: visits to schools by artists and creative practitioners; visits by schools to Blackpool places; new teaching and learning resources; and professional development for teachers and senior leadership teams. The projects include Bright Lights' Maths Illuminations, a teaching resource developed in response to the illuminations displays. This was produced in collaboration with numeracy coordinators from 12 schools, Blackpool's School Improvement Team, Cultural Services and Lightworks (home of Blackpool Illuminations).

Blackpool's Grand Theatre launched a new theatre company for young people who will take part in the 2016 National Theatre Connections Festival. The Grand's involvement in the RSC Learning and Performance Network has led to local practitioners and teachers undertaking a postgraduate certificate in the teaching and learning of Shakespeare. The partnership will encourage schools to work towards achieving the new *Artsmark* award.

Crucially, the programme helps parents, teachers and carers to support engagement in culture from early years onwards. Through these interventions, children and young people can be inspired to achieve, finding pathways into higher education, training or employment, including within the creative industries.

Music education is a large and important means for changing the lives of children and young people. Music Education Hubs were created to deliver clear leadership and to bring together local music education providers to ensure that every child has the opportunity to engage with and progress across musical genres.

This year we received confirmation of continued Department for Education funding for the hubs of £75 million for 2016/17.

The latest data from 2014/15 shows that Music Education Hubs are working with 86 per cent of all state-funded schools. However strains on local authority investment and a changing landscape in schools continue to pose concerns for hubs seeking to ensure a diverse range of children and young people experience a high quality music education.

The *In Harmony* programme, which aims to transform the lives of children in deprived communities using the disciplines of ensemble music making, has continued its successful progress. In 2015/16, the programme reached 4,456 children across six projects across England.

Youth Music forms an integral part of music making in England. The charity currently funds around 350 music making projects, representing a £20 million investment. These projects work with 112,000 children and young people, 67,000 of them participating in long-term music making.

National Youth Music Organisations are now National Portfolio Organisations. They continue to form an essential progression route for talented young musicians into the creative industries and higher education.

Arts Award is an important means for young people to deepen their engagement with the

arts, build creative and leadership skills, and achieve a national qualification. *Arts Award* celebrated its tenth birthday this year. By March 2016 children and young people had achieved more than 230,000 Arts Awards.

Some examples of successful programmes include Chingford Foundation School, a large co-educational comprehensive school and sixth form in east London, which has been offering *Arts Award* for seven years in a range of artforms, including performing and visual arts, creative writing and technical production. Some 400 young people have achieved awards to date, including through the Shakespeare Challenge and World War 1 Special Edition. Sheppey Street Studios has successfully created a digital Bronze *Arts Award* programme and is now aiming towards Silver. Young people are learning to code their own games while trying a wider range of digital opportunities including thinking about how virtual reality will change our arts experiences in the future. The West Yorkshire Playhouse has been delivering *Arts Award* across all levels for over three years, with around 200 young people successfully completing their awards. Delivery varies from large projects and programmes to a drop-in policy, meaning any young person interested in *Arts Award* has an opportunity to take part.

Our drive to raise the standard of work being produced by, with and for children and young people is underpinned by seven quality principles:

- striving for excellence and innovation
- being authentic
- being exciting, inspiring and engaging
- ensuring a positive and inclusive experience
- actively involving children and young people
- enabling personal progression
- developing belonging and ownership

The Arts Council commissioned the National Foundation for Educational Research and Shared Intelligence to test these principles. 51 lead organisations worked with 800 partner organisations, involving almost 9,500 children and young people. The outcomes of this

research were published in a report alongside the launch of the *Cultural Education Challenge* in October 2015.

As part of the Arts Council's wider work, a set of quality metrics is being tested with National Portfolio Organisations and Major Partner Museums, in order to better understand how the quality of arts and cultural work can be evaluated. We also aim to develop a set of metrics for participatory cultural events, embracing children and young people. A core group of 10 organisations are working together to review the metrics and refine them, testing them at appropriate events and feeding back their suggestions for modification. The results from the test phase will be shared with the sector in the near future.

4.
Remuneration report
1 April 2015 –
31 March 2016
(Part-audited information)

The remuneration report covers the whole organisation and the costs have been apportioned to both Grant-in-Aid and Lottery distribution accounts.

The Remuneration Committee

Arts Council England has a Remuneration Committee for specific matters relating to the remuneration and performance of the Chief Executive and Executive Directors. The members of the committee during the year were Sir Peter Bazalgette, Peter Phillips (Chair), Matthew Bowcock, Alistair Spalding and Nazo Moosa. The committee operates within written terms of reference, and usually meets once during the year.

Council members' remuneration

Our supplemental charters issued in 2002 and 2006 provide us with the authority to remunerate our National Council members, who are also regional chairs, and our Chair. Remuneration amounts are set by the Department for Culture, Media and Sport (DCMS) and agreed by the Charity Commission.

We paid the five members of National Council, who were also chairs of area councils, remuneration of £6,400 per annum each during 2015/16 (2014/15: £6,400). The Chair's remuneration was agreed by DCMS at £40,000 per annum, however since the date of his appointment he has chosen to be paid at a lower level of £30,000 per annum.

Executive Directors' remuneration

Increases in salary and other performance related payments to Executive Directors are not under the control of Arts Council England management. Whilst the Chief Executive makes reward recommendations in respect of those staff on Executive Board who report directly to

him, any salary increases and bonus payments to Executive Directors must be approved by the Remuneration Committee.

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

In April 2015, Darren Henley was appointed as Chief Executive on a salary of £142,499, with entitlement to an annual bonus payment of up to £17,500 (subject to performance).

In line with the constraints of the Government's public sector pay cap, the Remuneration Committee agreed to award the CEO and Executive Directors a consolidated cost of living salary increase of 1.0 per cent for 2015/16. This was the same as the average consolidated salary award to all other Arts Council England staff.

Non-consolidated, one-off variable performance payments are normally awarded to Executive Directors each year for outstanding performance (where appropriate). The remuneration of Executive Directors for their performance in 2015/16 was decided at the May 2016 meeting of the group. The performance payments disclosed in the remuneration report below relate to the bonuses awarded for 2014/15 which were paid in 2015/16.

In addition to his annual salary Darren Henley, the Chief Executive, is contractually entitled to a performance related payment of up to £17,500 each year. In accordance with this he was awarded a non-consolidated payment by the

Remuneration Committee of £14,874 as a reflection of his performance in the year 2015/16. He elected not to take this bonus, but asked that half of the money (£7,500) is used to create a fund for Arts Council staff development activities and the other half (£7,374) is put towards a scholarship fund for the University of the Creative Arts.'

The remuneration of our Executive Board for the year ended 31 March 2016 was:

Member	Salary £000s	Employers' pension contributions £000s	Variable performance payment £000s	Car allowance £000s	Total remuneration 2015/16 £000s	Total remuneration 2014/15 £000s
Darren Henley OBE Chief Executive (since 18 April 2015)	136	22	0	0	158	n/a
Althea Efunshile CBE Chief Operating Officer (Acting Chief Executive until 18th April)	136	23	7	0	166	168
Laura Dyer Executive Director	101	17	2	1	121	122
Simon Mellor Executive Director	103	17	2	0	122	122
Mark Ball Executive Director (since 21st September 2015)	21	4	0	0	25	n/a
Elizabeth Bushell Chief Finance Officer	84	13	1	0	98	96
Maqs Patten National Director, Advocacy and Communications	99	16	1	0	116	115

Darren Henley's salary as disclosed in the table above is the actual salary he was paid during the year. The full-time equivalent salary for his role is £142,838. With effect from September 2015 Simon Mellor was seconded for two days per week to Manchester City Council on a part time basis in order to take up the role of Project Director of The Factory, Manchester's new theatre and arts venue. This created a temporary vacancy which was filled by Mark Ball. This secondment came to an end on 30 April 2016. The full-time equivalent annual salary for Mark Ball was £100,000.

The Hutton review disclosure note is the median remuneration of Arts Council England's staff and the ratio between this and the remuneration of the highest paid director. The calculation is based on the full time equivalent staff at the reporting period end date on an annualised basis.

	2015/16 £000s	2014/15 £000s
Highest paid director's remuneration	142,838	142,499
Median remuneration	30,218	30,129
Ratio	4.73	4.73

Details of the pension entitlements for our Executive Board for the year ended 31 March 2016 were:

Member	Accrued pension and lump sum at 31 March 2016 £000s	Increase in total in year (net of inflation) 2015/16 £000s	Transfer value at 31 March 2016 £000s	Increase in transfer value (net of inflation) 2015/16 £000s	Transfer value at 31 March 2015 £000s
Darren Henley OBE Chief Executive (since 18 April 2015)	7	7	26	16	n/a
Althea Efunshile CBE Chief Operating Officer (Acting Chief Executive until 18th April 2015)	61	6	315	28	275
Laura Dyer Executive Director	140	2	616	20	585
Simon Mellor Executive Director	21	5	101	19	74
Mark Ball Executive Director (since 21st September)	1	1	4	3	n/a
Elizabeth Bushell Chief Finance Officer	67	7	252	12	214
Mags Patten National Director, Advocacy and Communications	13	5	53	13	32

Transfer values

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

The calculation of the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total

membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies.

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

Increase in transfer value (net of inflation)

This reflects the increase in transfer value that is funded by the employer net of the increase in accrued pension due to inflation. This increase also excludes contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement or purchased via an Additional Voluntary Contribution contract) and uses common market valuation factors for the start and end of the period. The methodology used to calculate the increase in transfer value has changed from previous years' where the increase included employees' contributions, transfer-in payments, and the purchase of AVCs.

Darren Henley OBE

Chief Executive
16 June 2016

Sir Peter Bazalgette

Chair
16 June 2016

5. Environmental sustainability

The sustainability report covers the whole organisation and the costs have been apportioned to both Grant-in-Aid and Lottery distribution accounts.

In 2012 Arts Council England became the first major arts funding body to include environmental reporting in the funding agreements of its major programmes. The *Sustaining Great Art* report published in November 2015 shows that the Arts Council, working in partnership with Julie's Bicycle, has increased engagement in the sector. The report showed that the three-year (2012/13 to 2014/15) partnership with Julie's Bicycle delivered a 5 per cent annual reduction in carbon emissions. During the same period the Arts Council reduced its own carbon emissions from 1,280 tonnes to 738 tonnes – over 40 per cent.

Arts Council England continues to support the sector in reducing its impact on the environment. Arts Council England's managed *Accreditation Scheme* requires museums to be environmentally conscious and produce an environmental policy statement that is realistic for the scale of the organisation, and *Museum Development Funding* is providing support to smaller organisations to improve sustainability with environmental audits and tailored action plans.

Arts Council England itself continues to make reductions in its impact on the environment. In 2014/15, the organisation achieved a reduction in floor space of 35 per cent. In 2015/16 the organisation has made further reductions to its annual CO₂ emissions, by further reductions in floor space, improving the efficiency of heating systems and moving away from landfill waste towards more sustainable methods of waste disposal.

This report summarises the activities during 2015/16 and highlights changes implemented

with a commentary that compares data for the financial years 2013/14 and 2014/15.

Estate achievements in 2015/16

- Relocated our South East office in Brighton to smaller leased premises.
- Improved the efficiency of the heating system at our largest office – The Hive, Manchester.

Operational estate

The table below sets out Arts Council England's operational estate locations and the size of each office. To ensure consistency with other reports to Government, the operational estate is defined as the office space that Arts Council England actively uses in support of its operations. This excludes therefore shared communal spaces with other tenants (stairways, entrance halls, lifts etc.)

Estate achievements in 2015/16

- Relocated our South East office in Brighton to smaller leased premises.
- Improved the efficiency of the heating system at our largest office – The Hive, Manchester.

Operational estate

The table below sets out Arts Council England's operational estate locations and the size of each office. To ensure consistency with other reports to Government, the operational estate is defined as the office space that Arts Council England actively uses in support of its operations. This excludes therefore shared communal spaces with other tenants (stairways, entrance halls, lifts etc.)

Office Location	2015/16 Size (m ²)	2014/15 Size (m ²)	Comment
South East	173	257	Relocation to smaller premises in October 2015
South West	258	258	No change
London	1,048	1,048	No change
East	503	335	Subletting to BIG ended in February 2016
West Midlands	791	791	No change
East Midlands	101	101	No change
Yorkshire	212	212	No change
North West	1,669	1,669	No change
North East	131	131	No change
Totals	4,886	4,802	

Performance commentary

Changes seen in this year's performance have largely been driven as a consequence of a reduction in the size of our operational estate. During 2014/15 there was a significant reduction in the amount of floor space we used (34.71 per cent), the full year impact of this reduction is now shown in 2015/16.

Greenhouse gas emissions also continued to fall. This fall was reflected in a drop in gas and electricity costs but was offset by an increase in travel costs.

For the majority of our offices our data is based on the size of the office for a full year. The exceptions are as follows:

- The South East office (Brighton) relocated to smaller offices from October 2015, reducing occupied space by around 32 per cent with a resultant reduction in emissions.
- BIG decided to end their sharing arrangement in the East office (Cambridge) in February 2016. The impact on the Arts Council will be an approximate 33 per cent increase in emissions going forward until a new tenant can be found for the surplus space.

Waste management data

The following table includes all Art Council offices' recycling data and associated costs:

Waste		2013/14	2014/15	2015/16
Non-financial indicators (tonnes)	Total	206.84	163.34	173.03
	Landfill	68.17	28.37	20.45
	Reused/recycled	138.67	134.97	152.59
Financial indicators (£)	Total	28,477	23,837	21,408
	Landfill	12,714	6,552	2,048
	Reused/recycled	15,763	17,285	19,361

There has been a reduction at the London office in landfill waste of 5.69 tonnes. At the new London office none of non-recyclable waste is sent to landfill as per an arrangement with the local business improvement district. There has been a move across the organisation towards greater use of recycling rather than landfill.

Greenhouse Gas Emissions		2013/14	2014/15	2015/16
CO ₂ (tonnes)	Total Gross Emissions (CO ₂)	619	461	328
	Gross Emissions Scope 1 (Direct)	214	113	65
	Gross Emissions Scope 2 (Indirect)	405	347	263
Energy Consumption (kWh)	Electricity	909,285	703,023	568,920
	Gas	1,164,554	612,871	351,169
Financial indicators (£)	Expenditure Energy	126,479	112,595	80,965

Finite Resource Consumption		2013/14	2014/15	2015/16
Non-financial (m ³)	Supplied	4,216.68	2,620.68	2,312.32
	Per Full Time Equivalent (FTE)	9.55	6.37	5.28
Financial indicators (£)	Water Supply Costs (Office Water)	11,208	7,880	7,694

Travel		2013/14	2014/15	2015/16
CO ₂	Rail	130	151	161
	Air	21	18	17
	Car	109	103	101
	Total	260	272	279
Cost (£)	Rail	616,644	633,170	721,039
	Air	14,257	17,700	18,425
	Petrol	132,003	128,336	125,886
	Total	762,904	779,206	865,349
Miles	Rail	1,641,459	1,990,295	2,221,043
	Air	109,930	100,832	100,499
	Car	330,007	320,840	314,714
	Total	2,081,397	2,411,966	2,636,256

Notes

The majority of the data used in the preparation of this report is based on the information provided by our suppliers. However at the time of writing (April 2016) data for some of the locations was not available. In line with HM Treasury guidance estimates have been made based on the previous quarter actuals and, in limited circumstances, estimates have been made using 2014/15 data.

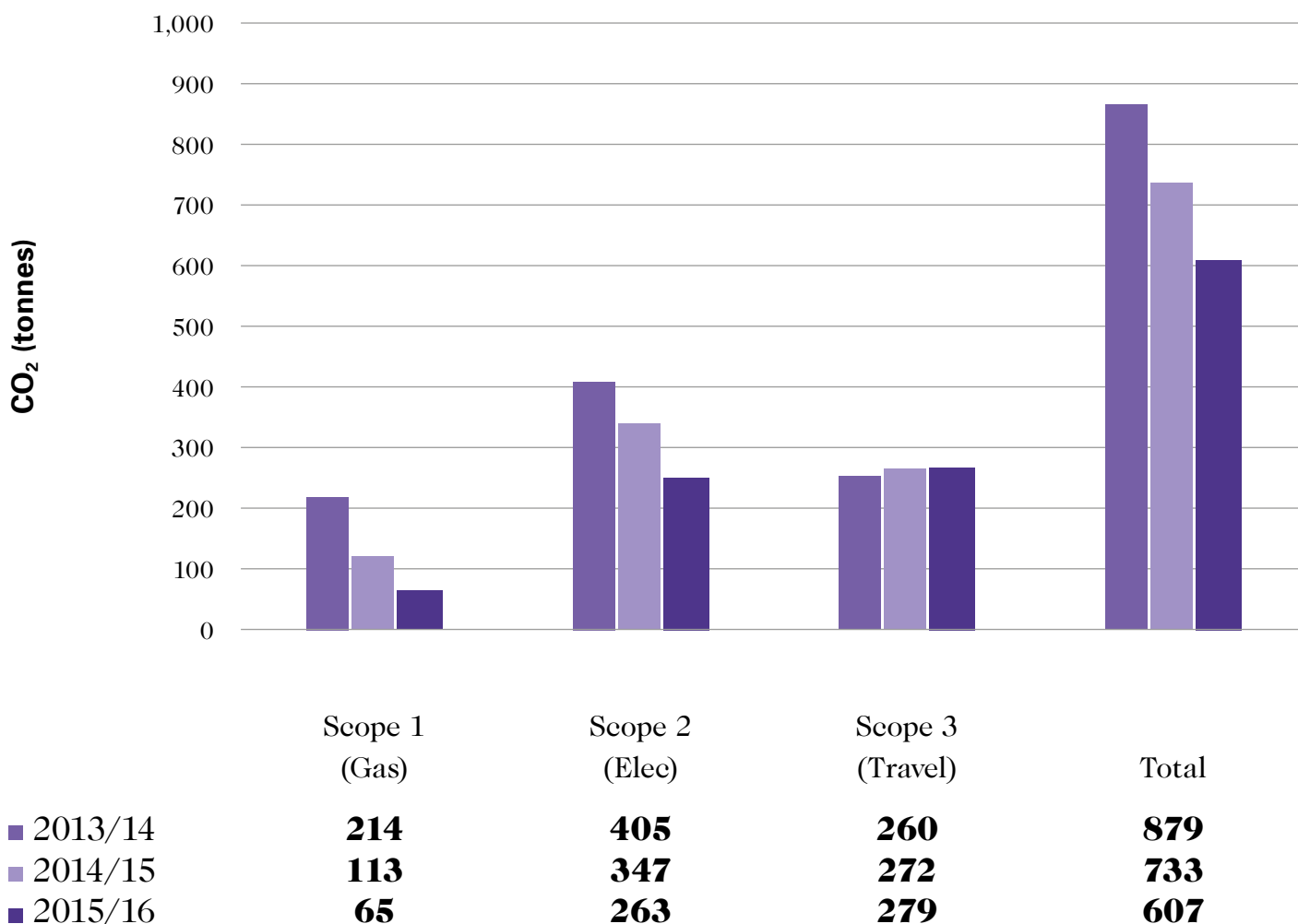
An adjustment has been made to remove gas and electricity costs and CO₂ emissions relating to the Newcastle office communal area from the 2014/15 and 2013/14 data. This cost and environmental impact has been removed following a clarification of the requirements of this report.

All conversion factors used to produce CO₂ outputs for travel have been taken from those produced by Defra. These conversion factors remained in place until 31 May 2016.

Arts Council England – Sustainability graphs

Graph 1: CO₂ whole estate

CO₂ Whole Estate (Tonnes)



A fall in CO₂ emissions has occurred, driven by the full year impact of the reduction in the size of the operational estate in 2014/15.

The move to the new London office has resulted in a further fall in gas and electricity CO₂ emissions of 16.79 and 21.03 tonnes respectively as a full year effect of the change in location is felt.

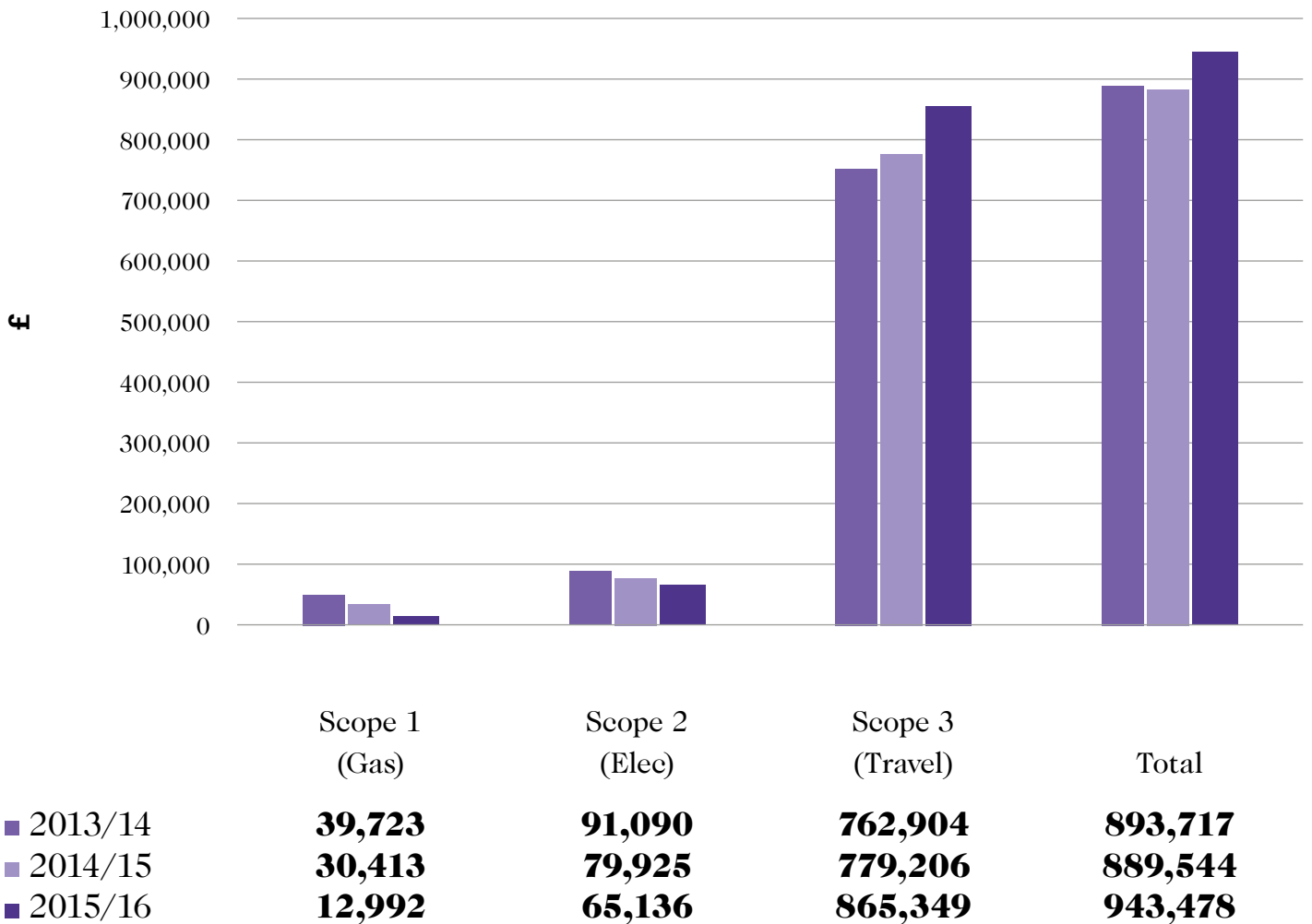
The move to the Leeds offices has resulted in a further fall in gas and electricity CO₂ emissions of 14.00 and 17.75 tonnes respectively, again due to the impact of the change in location.

There has been a noticeable reduction in gas and electricity CO₂ emissions at the Hive, a fall in electricity of 34.31 tonnes and of gas 11.57 tonnes. This reduction has been triggered by resolving a heating issue in the building meaning that the heating system now works more efficiently and does not require additional electric heaters to compensate.

The figures show a steady decline in non-travel carbon emissions – a 69.6 per cent reduction in gas (scope 1) from 2013/14 to 2015/16, and a 35 per cent reduction in electricity (scope 2) for the same period. Travel (scope 3) however has risen by 7.3 per cent.

Graph 2: Financial indicators, whole estate

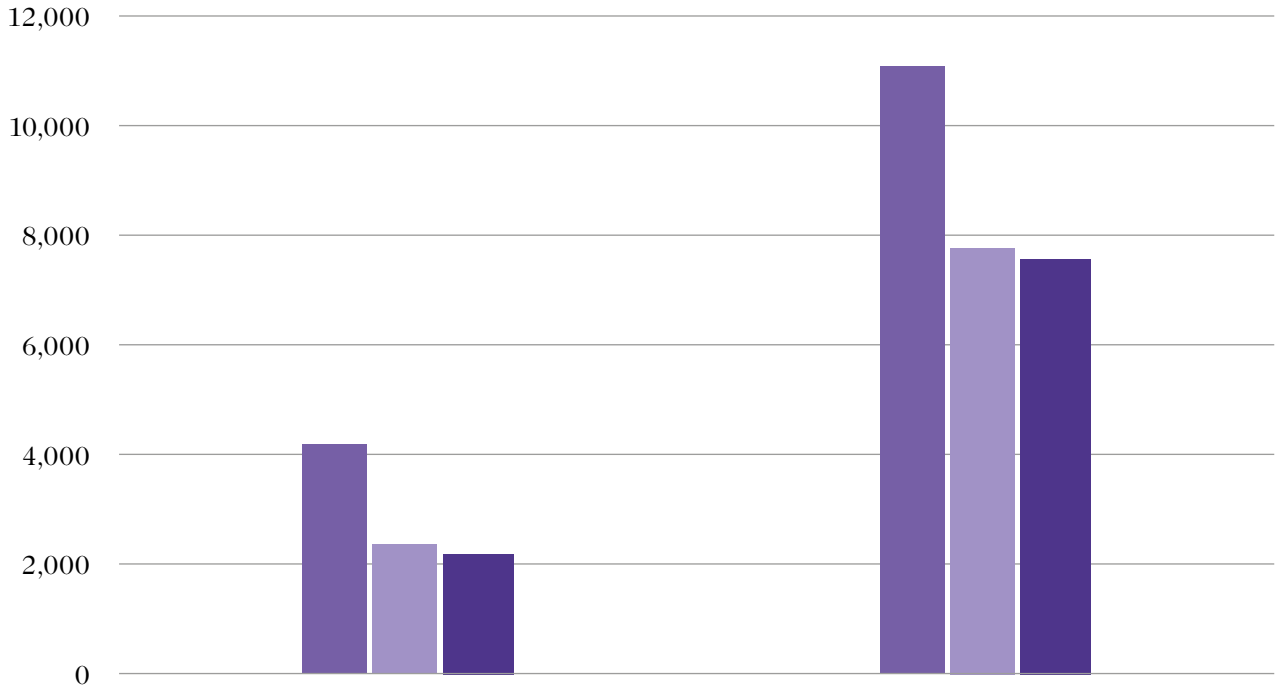
Financial Expenditure (£)



There has been an increase in the use of train travel in 2015/16 when compared to 2014/15 and an increase in overall miles covered. The increase has been solely across train travel, with an increase of 230,748 miles.

Graph 3: Water usage and expenditure

Water Usage (m³) and Expenditure (£)

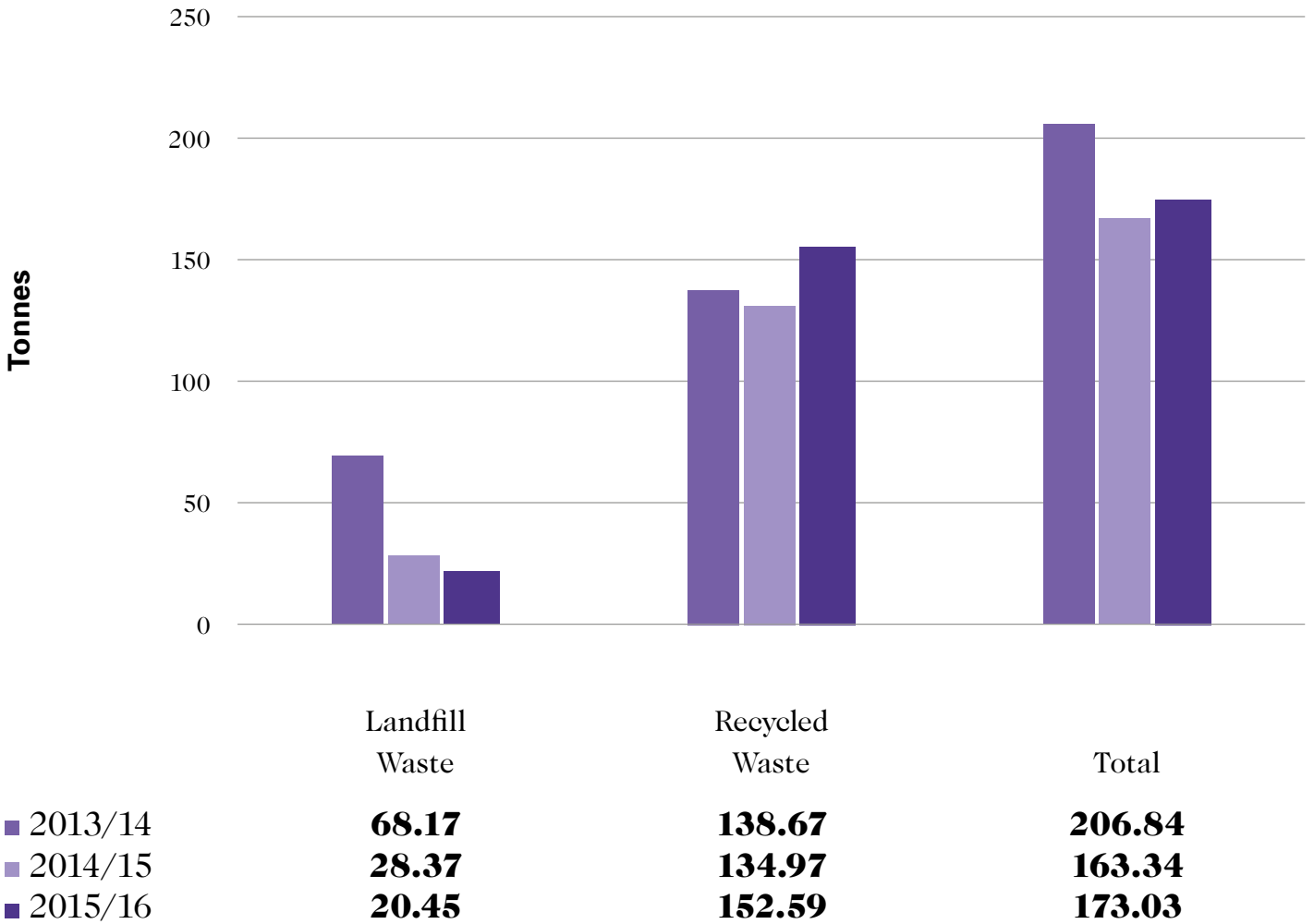


	Water (m ³)	Water Cost (£)
■ 2013/14	4,217	11,208
■ 2014/15	2,621	7,880
■ 2015/16	2,312	7,694

The full year impact of the change in location of our London office has helped to maintain a trend in decreasing water usage and cost. This has to some extent been offset by increases in water usage in other locations: Manchester, West Midlands and South West.

Graph 4: Waste, whole estate

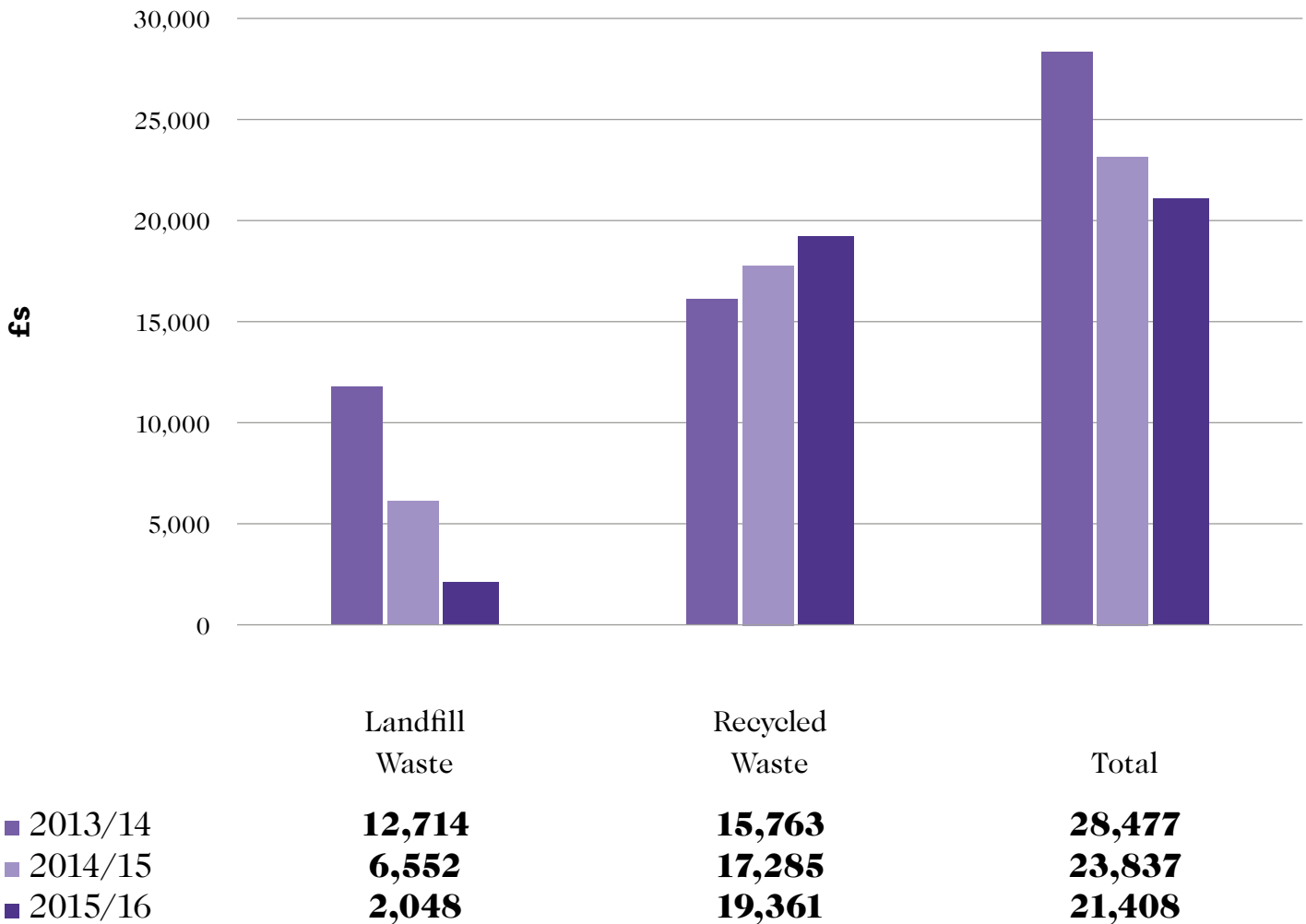
Waste – Non Financial (Tonnes)



The Arts Council's trend away from use of landfill continues, and a reduction of 27.92 per cent has occurred between 2014/15 and 2015/16.

Graph 5: Waste expenditure, whole estate

Waste – Financial Indicators (£)



Environmental sustainability policy

Arts Council England’s environmental sustainability policy 2013/14 has undergone a review and a new policy will be published in June 2016.

The key elements of the policy are set out below:

- adhere to government requirements including the Greening Government Commitments
- meet all current and foreseen environmental legal requirements and related official codes of practice, and require our contractors to do the same
- effectively communicate with all staff and contractors on environmental policy and performance
- ensure that the goods and services we purchase support our environmental objectives wherever practicable and that we encourage our suppliers and contractors to improve their own environmental performance
- identify and provide appropriate training, advice and information for

staff and encourage the development of new innovations

- publish our progress towards environmental sustainability in the Arts Council annual report and accounts
- undertake regular reviews of our management system to ensure it is robust and fit for purpose

Actions over the next 12 months

- publish our updated environmental sustainability policy
- monitor and report progress on KPIs that have a direct impact on carbon emissions and our efficiency targets (eg office space utilisation)
- take appropriate action to make further reductions in the size of the operational estate

Detailed information on how Arts Council England is working towards building resilience in the arts and culture sector through environmental sustainability can be found on pages 14 to 17.

6. Trustees' report & management commentary

1	Chair's report
2	Chief Executive's report
3	Achieving great art and culture
4	Remuneration report 1 April 2015 – 31 March 2016
5	Environmental sustainability

6	Trustees' report and management commentary
7	Strategic report
8	Grant-in-Aid accounts
9	Lottery distribution accounts
10	National Lottery report

Governance statement

Arts Council England was established by Royal Charter on 13 March 1994, taking over those responsibilities in England previously discharged by the Arts Council of Great Britain. The Arts Council of England, trading as Arts Council England, is a registered charity, charity registration number 1036733.

This is a single trustees' report and management commentary which covers the requirements for both the Grant-in-Aid accounts and the Lottery distribution accounts during the period 1 April 2015 to 31 March 2016.

Role and mission

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

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

The Royal Charter is at the core of our mission as reflected in our strategic framework *Great Art and Culture for Everyone*.

Objectives and activities for the public benefit

The Royal Charter is at the core of our mission. This mission, as reflected in our strategic framework *Great Art and Culture for Everyone*, represents what Arts Council England is for, and reflects why John Maynard Keynes set up the Arts Council in 1946, "to give courage, confidence and opportunity to artists and their audiences".

Information about our strategic framework, our goals and activities to achieve these, as well as our funding programmes can be found on pages 10 to 21.

Great Art and Culture for Everyone has informed the design of the National Portfolio Organisations and Major partner museums investment programme for 2015-18 which was launched in January 2014.

Arts Council England governance framework

Structure, management and governance

Arts Council England is an arm's length non-departmental public body. It is also a registered charity. Accountability to Ministers is managed through the usual control mechanisms for arm's length bodies.

Arts Council England is regulated in accordance with a management agreement agreed with the Secretary of State for Culture, Media and Sport. This is supplemented by an agreement for the Provision of Services in Relation to Cultural Objects outlining the statutory framework for delivering the cultural property functions on behalf of the Secretary of State for Culture, Media and Sport. The last management agreement was due to finish on 31 March 2015, however the Secretary of State has advised that this will remain in effect until a new management agreement is put in place.

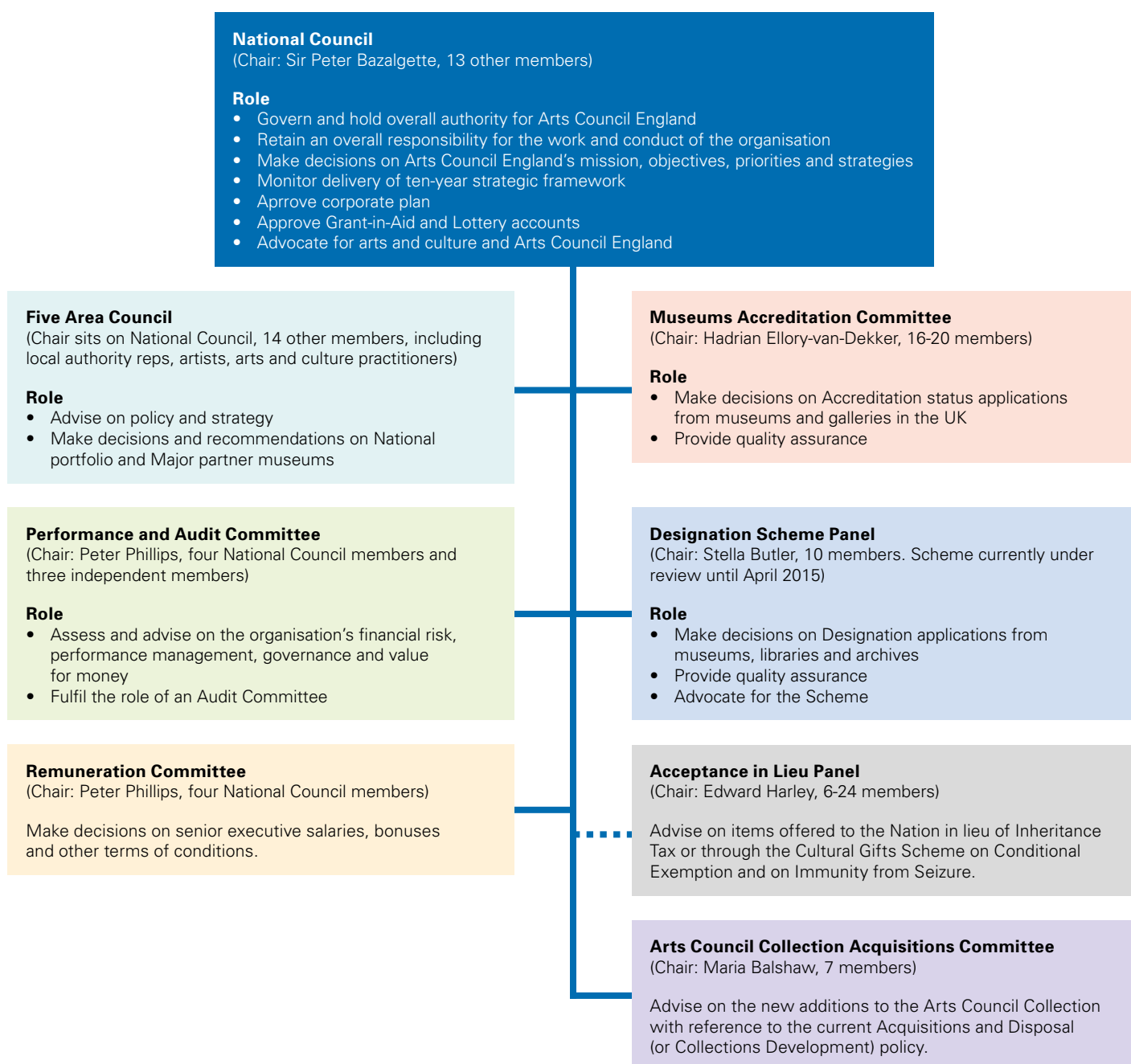
As a registered charity and a chartered body, Arts Council England is also subject to a range of obligations and accountabilities set out in regulations and law. We prepare our accounts for Grant-in-Aid and Lottery distribution separately to comply with accounts directions issued by the Secretary of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

Arts Council England is fully compliant with relevant principles around governance best

practice for public service and charitable bodies as set out in the *Corporate governance in central government departments: Code of good practice 2011*.

Arts Council England's governance framework consists of a National Council, five area councils, and an Executive Board, and a number of committees and panels that National Council has delegated responsibilities to as shown below:

Arts Council England Non-Executive Governance Structure



Executive management

National Council has delegated responsibilities for implementation of its strategy and operational matters to the Chief Executive and Executive Board. The Chief Executive has been authorised by National Council to undertake the day-to-day administration and management of the business and staff of the organisation and is responsible to National Council for those matters.

As Arts Council England's Accounting Officer, the Chief Executive is responsible for its overall efficiency and effectiveness and has responsibility for reviewing the effectiveness of the system of internal control. This review is informed by the internal auditors, the Deputy Chief Executive, Executive Directors within Arts Council England and comments from the external auditors in their management letter and other reports. The Accounting Officer may, on occasion, be required to give evidence to Parliament's House of Commons Public Accounts Committee.

Executive Board comprises the Chief Executive, the Deputy Chief Executive and five other senior directors. The Chief Executive is

appointed by National Council with the approval of the Secretary of State for Culture, Media and Sport.

Executive Board meets formally each month to consider key policy, strategic and operational matters and provide advice to National Council, and it also oversees the financial performance and risk management of Arts Council England as a whole. Appropriate management structures have been created throughout the organisation to assist Executive Board members to oversee their respective departments and areas of responsibility.

Following Moira Sinclair's departure from the Arts Council on 31 January 2015, Laura Dyer now holds overall executive responsibility for all five Arts Council area offices.

Mark Ball joined Executive Board on 21 September 2015 to partner Simon Mellor in a job-share role. This job-share arrangement expired in April 2016, and sole responsibility for the position reverted back to Simon Mellor.

Written terms of reference and procedures for the Executive Board and its sub-committees have been agreed by National Council.

Membership of Executive Board in 2015/16

Name	Job Title
1 Darren Henley OBE	Chief Executive
2 Althea Efunshile CBE	Deputy Chief Executive
3 Elizabeth Bushell	Chief Finance Officer
4 Laura Dyer	Executive Director North, Midlands, & South West
5 Simon Mellor	Executive Director – Arts and Culture (jobshare during the period 21st September 2015 – March 2016)
6 Mags Patten	National Director, Advocacy and Communications
Other Executive Board members who served during the year	
1 Mark Ball	Executive Director – Arts and Culture (jobshare – 21st September 2015 – April 2016)

The effectiveness of National Council

Arts Council England recognises that an effective National Council is key to the delivery of its mission.

National Council has arrangements in place to discharge its duties effectively and ensure proportionate yet effective governance, risk management and other systems of internal control.

National Council members are appointed based on their areas of specialist interest or experience of the arts world, either as practitioners, administrators, academics or executives. They hold responsibility for ensuring the achievement of the Arts Council's objectives, deciding on policy and priorities, and investing money in artists and arts and cultural organisations.

National Council also engages directly with all of the strategic, operational and financial challenges facing Arts Council England and provides leadership for Arts Council England's work.

Members of National Council are appointed by the Secretary of State for Culture, Media and Sport who seeks to ensure that National Council has an appropriate range of knowledge, skills and experience. Just over a third of National Council members are female. All newly appointed trustees of the National Council receive a comprehensive induction upon joining, so that they are fully briefed and introduced into their role in the organisation. Appropriate training and support is offered to trustees on an on-going basis.

National Council conducted a review of its effectiveness at its May meeting. It considered the progress that had been made on the two key issues that had emerged out of its review of its effectiveness the previous year. They were:

- (a) the need to strengthen its link with its area councils; and
- (b) the need to begin succession planning for the turnover in its membership in 2017

It was noted that during the year, there had been a programme of work to improve the engagement of area councils. This included the area councils conducting reviews of their own effectiveness and an appraisal of their chairs. An action plan to address the issues raised by the area councils during their review of their effectiveness had been approved by National Council in December 2015. National Council will be receiving a presentation from each of its five areas. Some National Council members have also attended area council meetings. The Chair of National Council, Sir Peter Bazalgette, had held one-to-one meetings with all council members. In addition he had held discussions with the Department for Culture, Media and Sport about succession planning for National Council. At the beginning of the year he confirmed his own decision not to seek a second term of office, to allow the early recruitment of a new Chair and a seamless transfer to his successor. The recruitment of his successor is now underway with an announcement expected by the autumn. The Department for Culture, Media and Sport have also approved short term extensions to some of the existing National Council members to help ensure stability as the new Chair takes over in 2017.

Two issues emerged from the 2015/16 review. The first concerned the need to review the expectations placed on the five area chairs. It was noted that the area chair role had been expanded in recent years and as a result the time commitment required had increased significantly. A review of the expectations of area chairs will be conducted in 2016/17 with the outcome of the review reported to National Council. The other significant concern to emerge during the discussion was the capacity of the organisation to deliver its "business as usual" activity, as well as the requirements of high profile projects such as those to emerge out of the Culture White Paper. The Executive was asked to consider this as the Arts Council developed its plans for the 2018-22 investment approach.

Highlights of National Council and its committee reports in 2015/16

During 2015/16, National Council and its committees considered key strategic issues and routine business planning, including:

- the Arts Council's approach to devolution
- the implications of the Government's spending review for the Arts Council
- proposals for distributing lottery investment across the five Arts Council areas between 2015-18
- the impact of local government spending cuts
- the cultural education offer for children and young people's opera ecology in England
- approving a number of grants including capital grants of around £34 million to organisations under the Arts Council's capital programme grants process
- a review of the programme budgets for 2015-18
- the Arts Council's digital action plan
- received feedback on stakeholder focus research
- the diversity and equality annual report
- reports from the Performance and Audit Committee
- quarterly reports on funded organisation risk
- changes to the Arts Council's estate in the drive to deliver the efficiency agenda
- changes to the area council recruitment policy

Further details about National Council's work during the year are available in the minutes from its meetings published on the Arts Council's website.

Committees and sub-committees

Area councils

There are five area councils covering the breadth of England and reflecting Arts Council England's operational structure, appointed to assist National Council in developing, championing and investing in the arts and culture.

They support and promote the organisation's mission and objectives by providing advice on draft policies, making funding decisions and acting as advocates for the arts and culture, creating a live connection at an area level.

Each area council consists of 15 members including the Chair who is also a member of National Council. Area councils meet five times a year.

Performance and Audit Committee

National Council has appointed a Performance and Audit Committee to review and report on the systems of risk and internal control, governance and performance management.

The Performance and Audit Committee is chaired by Peter Phillips, a member of National Council. It started the financial year with four National Council members and three co-opted independent members with expertise in audit and accounting matters. However, in February 2016, the complement of independent members was increased to 4. The additional member was recruited in March 2016 to ensure some stability on the committee during a period of membership change. All National Council members receive papers and minutes of Performance and Audit Committee meetings. The Chair of the Performance and Audit Committee provides a report to National Council following each meeting, and as he deems necessary. The Performance and Audit Committee also provide a full report to the Board on their performance once a year.

The key areas scrutinised by the Performance and Audit Committee during 2015/16 included findings from internal audit reviews, the external audit of the annual report and accounts and the Governance Statement, and the Arts Council's risk management processes. The Committee also agreed a programme for internal audit and considered a change in accounting policy to Grant-in-Aid grants and reviewed the Arts Council's approach to managing information security risks.

The effectiveness of the Performance and Audit Committee

The Performance and Audit Committee undertook a self-evaluation of its effectiveness in March 2016. This was informed by the previous effectiveness review delivered in March 2015 where members identified a skills gap in the committee's membership relating to local government expertise and experience. This has since been addressed by the most recent recruitment process.

During the 2016 self-assessment process, members offered the view that the independent members of the committee need to be given more experience of Arts Council business outside of the regular Performance and Audit Committee meetings. The committee agreed that this will be addressed by offering regular invites to area council meetings and funded arts organisations.

Members also noted that:

- health and safety updates need to be delivered to the committee on a more regular basis
- the committee's skills matrix needs to be updated to reflect the present Performance and Audit Committee membership
- long, in-depth papers coming to Performance and Audit Committee would often benefit from making a greater use of headline summaries

Remuneration Committee

National Council has appointed a Remuneration Committee to deal with the matters set out in the remuneration report. The Remuneration Committee normally meets annually.

Appointments to committees

There were no appointments made to National Council throughout the 2015/16 financial year. Two appointments were made to the pool of independent members of the Performance and Audit Committee in March 2016 – Claire Ashby and Anne McMeel.

All decisions on appointing members to area councils, committees and panels were made by National Council.

Risk management and internal control

Risk management

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

The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of Arts Council England's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and yet economically. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. National Council takes the view that the absolute mitigation of all risks would be undesirable. It believes that it is important that Arts Council England is innovative and can take managed risks in pursuit of its overarching goal of "great art and culture for everyone".

The system of internal control has been in place at Arts Council England for the year ended 31 March 2016 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

System for managing risk

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

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

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

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

Arts Council England operates a range of controls over the funding programmes it operates to ensure the grant funding provided is used for the purposes intended. These controls are designed to be commensurate with the level of risk associated with each funding programme and the organisation's appetite for risk. The controls include ensuring signed funding agreements are in place, monitoring payment conditions before payments are released, reviewing activity returns and regularly monitoring risks to funded organisations.

During 2015/16, Arts Council England continued to manage risk at the strategic, operational, and individual project, programme and activity levels.

An annual strategic risk workshop is held to identify Arts Council England's key risks. The risks identified are then agreed by Executive Board and assigned to an Executive Board lead and risk owner or 'manager' who will manage mitigating actions and controls thereafter. Progress on implementing relevant controls and mitigating actions on strategic risks is reported on a quarterly basis to Executive Board and the Performance and Audit Committee. An update is provided to National Council via a report from the Performance and Audit Committee.

The key risks to the achievement of Arts Council England's objectives in 2015/16 are included in the strategic report.

Data security and personal data

Arts Council England continues to maintain its performance in responding effectively to information requests, identifying opportunities to proactively disclose information, and embedding good information handling behaviours across the organisation.

There were no significant security incidents involving data at the Arts Council during 2015/16. There were five minor incidents where there was no adverse impact on, or damage to, individuals and therefore we did not report these incidents to the Information Commissioner's Office. The Arts Council dealt with all incidents immediately; each was investigated to see if any changes needed to be made to the Arts Council's systems and processes.

Internal audit

The annual programme of internal audit work is carried out by an external firm of accountants to standards defined in the Public Sector Internal Audit Standards. The work of internal audit is informed by the risk register, an assessment of the assurance requirements, particularly on the most significant risks facing Arts Council England, and the key day-to-day processes and systems in place. The annual internal audit plan is based on this analysis. It is endorsed by the Deputy Chief Executive's Operational Management Group and approved by the Performance and Audit Committee.

The internal auditors receive all Performance and Audit Committee papers and attend the audit part of all Performance and Audit Committee meetings. They provide periodic progress reports including the findings of follow-up reviews, building up to an annual report on internal audit activity. This annual report includes the internal auditors' opinion on the overall adequacy and effectiveness of the systems that internal audit have reviewed. The Performance and Audit Committee reviews and discusses the progress report and the annual assurance report.

Internal audit services are being provided by Mazars. They were awarded the internal audit contract in March 2014 for an initial period of three years.

In their annual report Mazars stated that, in their opinion:

On the basis of our audit work, we consider that Arts Council England's governance, risk management and internal control arrangements are generally adequate and effective. Certain weaknesses and exceptions were highlighted by our audit work, none of which were fundamental in nature. These matters have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being addressed, as detailed in our individual reports.

Review of effectiveness of internal control

The Accounting Officer and the Chair of Council, as the representatives of the Trustees, have responsibility for reviewing the effectiveness of the system of internal control. This review of the effectiveness of the system of internal control is informed by the work of the internal auditors with the executive managers within Arts Council England who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. A review of the effectiveness of our system of internal control has taken place. National Council and the Performance and Audit Committee have advised about the findings in the review and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Assessment of the effectiveness of internal control during 2015/16

Progress in achieving objectives set in the Arts Council's 10-year strategy is monitored by the Executive Board and National Council.

For 2015/16, internal auditors reviewed the following areas:

- Grantium technical review and workflows
- governance
- human resources
- project management

- Midlands/East Midlands area review
- health and safety

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

Throughout 2015/16 we monitored our strategic, operational and project risks in accordance with our risk management policy. We also continued to revise and refine our risk management policies and procedures.

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

Other matters of interest

Changes to our organisation during 2015/16

During 2015/16 a significant amount of work has been carried out to implement Grantium, our new grant management system which went live for our Grants for the Arts programme in January 2016. This is the last component of the 2012/13 organisational review and should contribute towards saving over £1 million per year.

As part of our ongoing drive towards improving efficiency we continue to look at ways of reducing our property costs. During 2015/16 the sale of our Dewsbury office was completed and staff were relocated to Marshall Mills in Leeds.

Human resources update

Following Chief Executive Alan Davey's departure to the BBC in January 2015, a new Chief Executive, Darren Henley, commenced his post in April 2015. Althea Efunshile acted as Chief Executive in the interim.

In autumn 2015 the Arts Council was re-assessed for Investors in People accreditation. The assessor was pleased to recognise the organisation's consistent commitment to delivering high performance and staff development, by confirming it met the Investors in People gold standard. The assessor noted how the organisation and its Executive Board had met the challenges of an interregnum period of four months between CEOs and pointed to key strengths, including:

- how employees can easily connect their own personal objectives to wider organisational goals, along with an understanding of how progress towards these goals is measured and assessed
- the visibility, ambition and positivity of the new CEO
- the strong culture of staff engagement and mechanisms to enable this
- the wide variety of learning and development activities and opportunities
- a strong culture and sound practice in flexible working practices

The Investors in People assessment also drew on the (now) annual staff engagement survey, conducted in summer 2015. Some highlights of this included:

- an 80 per cent response rate
- 76 per cent rating it as a good or very good place to work
- 83 per cent prepared to speak highly of it outside work
- 82 per cent understanding how their work contributes to the organisation's mission
- 71 per cent feeling their area or department works effectively together
- 70 per cent fully understanding the extent of their own decision-making remit
- 78 per cent feeling recognised by their manager for their work
- 86 per cent feeling they understand how they should allocate and prioritise their working time
- 75 per cent agreeing that the flexible working arrangements allow them to balance work and personal life

Activities in 2015/16 aimed to enhance particular aspects of our organisational culture and employee engagement included:

- matrix working workshops – all staff were asked to attend these to come up with good practice solutions on cross-organisational working
- 'listening sessions' by members of the Executive Board, across our network of offices
- introducing new training for project management
- introducing co-ordination roles for the cross-organisational artistic discipline managers

The Arts Council has to comply with strict requirements around salary bill growth and worked within the 1.0 per cent maximum increase in overall paybill permitted by the Government pay remit for 2015/16. Increases to headcount have also been minimal (from 482 on 1 April 2015 to 501 on 1 April 2016) – as the Arts Council is working within the parameters of its people structure and budgets established in the 2012/13 organisational review.

The performance management process for staff – in which annual objectives are set and reviewed at year end – will continue to be a key driver for organisational change and staff development. With the development of further organisational performance reporting metrics in 2015/16, the greater alignment between individual's objectives and those of the organisation should continue.

Voluntary staff turnover in 2015/16 was 11 per cent (8.6 per cent in 2014/15). Sickness absence rates also remain low, at 1.6 per cent in 2015/16 (1.2 per cent in 2014/15). Another positive indicator is the low level of formal employee relations cases during the year. There were no employment tribunal claims received in the year.

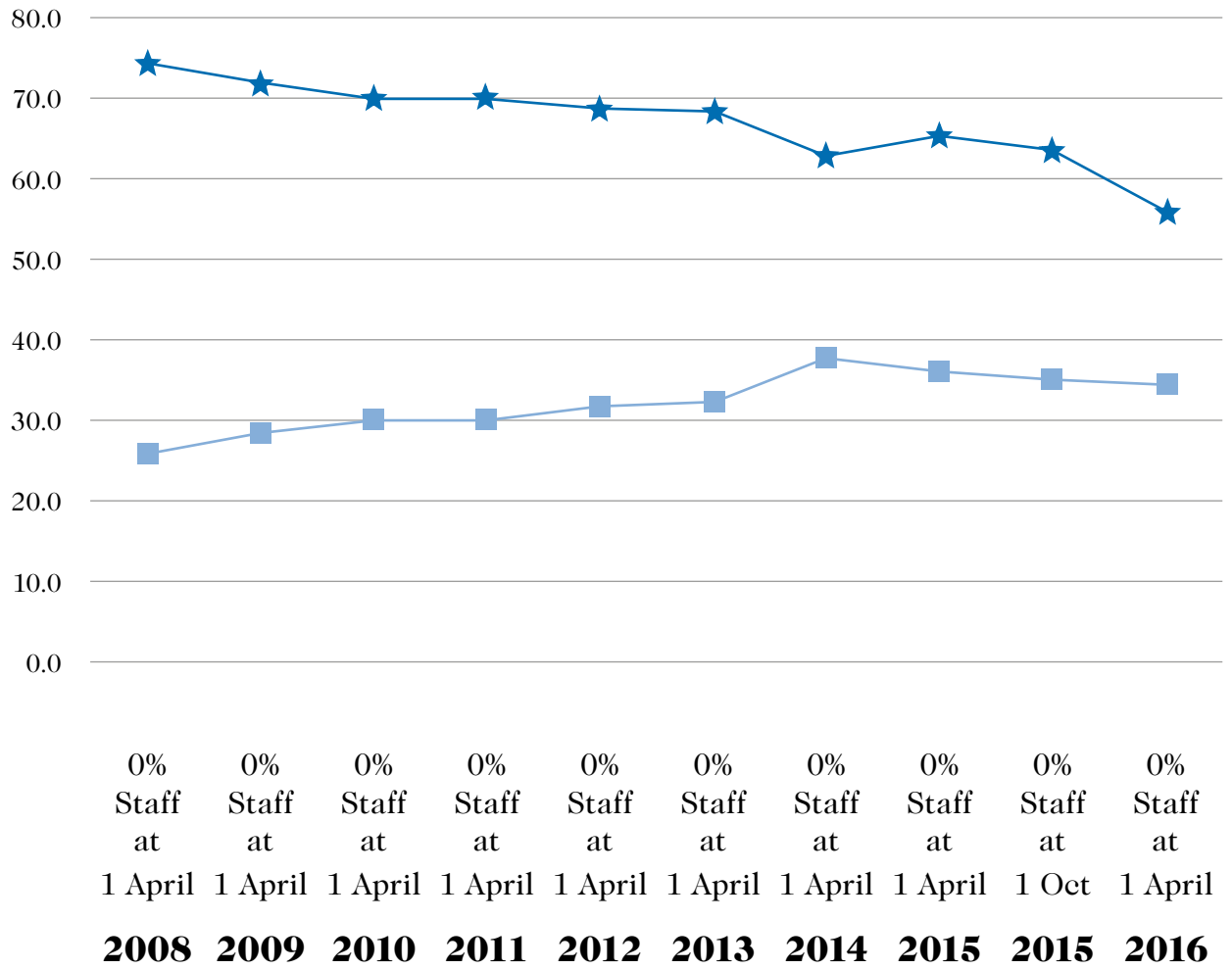
In terms of representation levels of some diverse groups within the workforce, the proportion of our current staff (at 31 March 2016) who classify themselves as lesbian, gay, bisexual or transgender is 11.4 per cent (2014/15: 9.5 per cent), the proportion of

disabled staff is 3.8 per cent (2014/15: 3.3 per cent) and the proportion of our staff who classify themselves as Black or other minority ethnic is 11.6 per cent (2014/15: 12.4 per cent).

In terms of work to improve the representation of diverse groups within the Arts Council staff base:

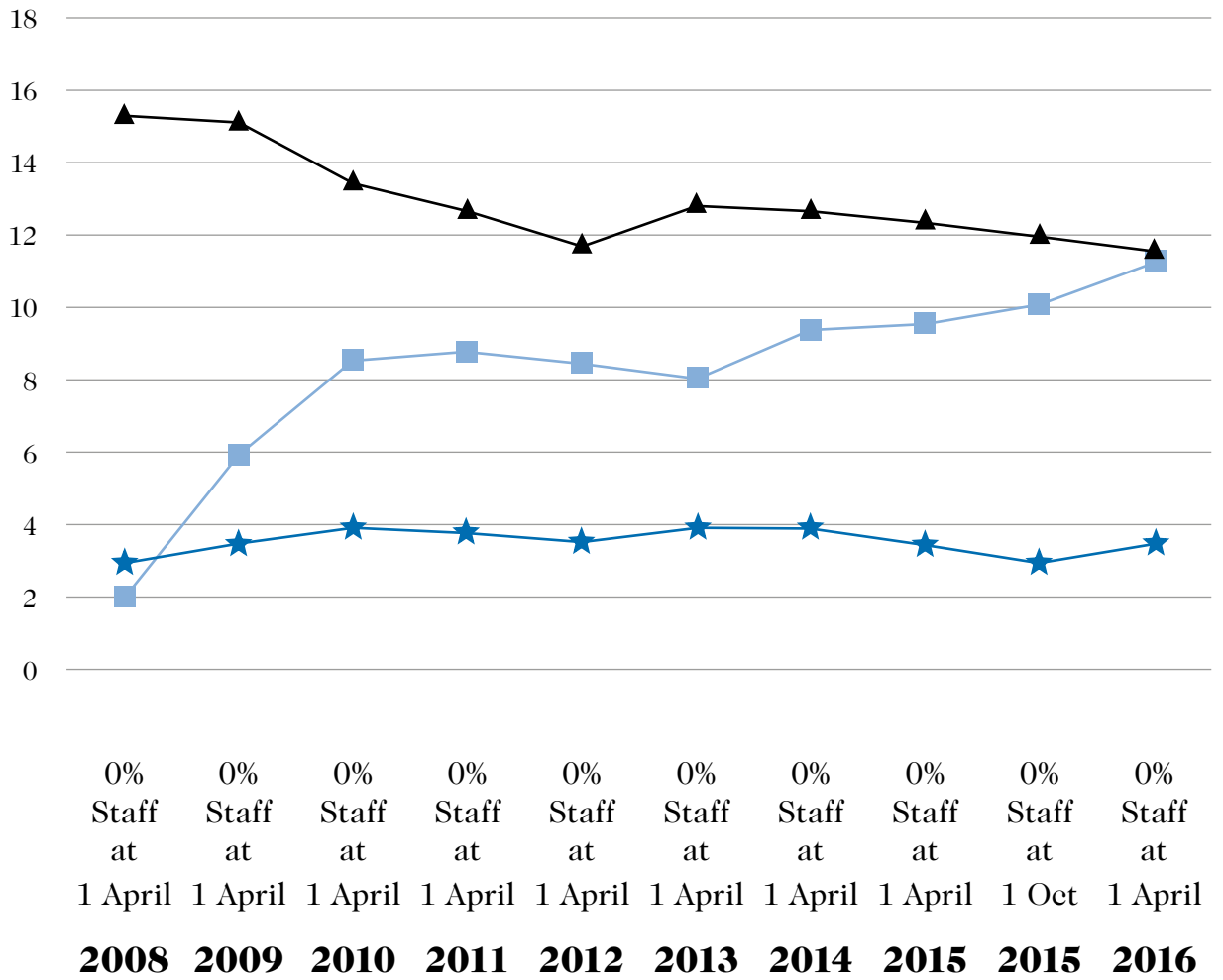
- a project to introduce apprentices in 2015/16 was initiated
- we have conducted exercises in the year to ask all staff to ensure their personal diversity data is up to date, correct and complete
- we are targeting the external media we use for recruitment to ensure it reaches more diverse audiences
- we monitor the success of candidates from diverse backgrounds at different stages of our recruitment process and will be formally reviewing the effectiveness and openness of the process in 2016/17

Gender data comparison



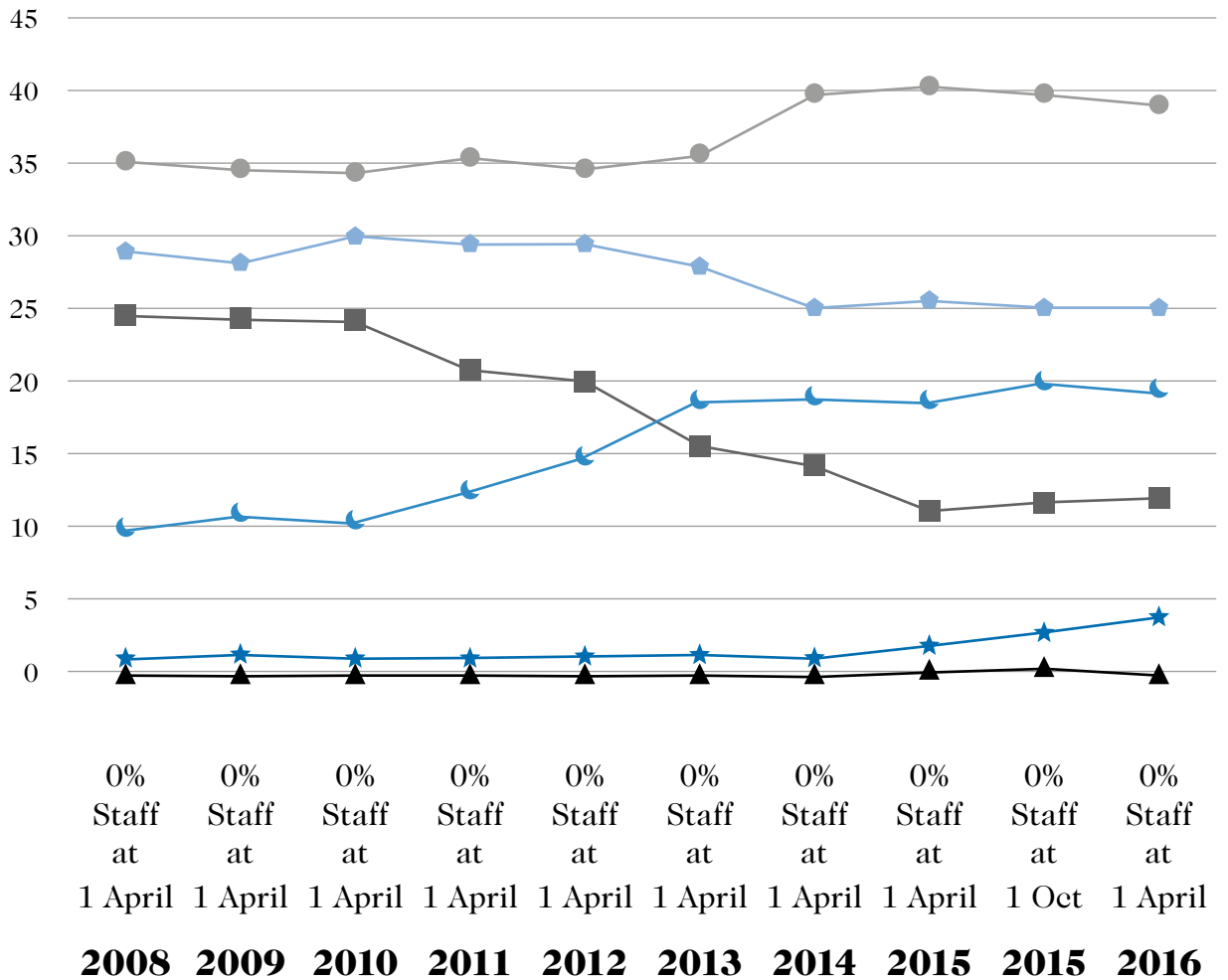
■ Male
★ Female

Diversity data comparison



- ▲ BME
- LGBT
- ★ Disabled

Age data comparison



- ▲ Under 20yrs
- 20-30yrs
- 30-40yrs
- ◆ 40-50yrs
- ◐ 50-60yrs
- ★ 60+

The trade union Unite remains the recognised representative for consultation and collective bargaining on behalf of Arts Council employees. The National Joint Consultative and Negotiating Committee (NJCNC) handles negotiations about employee reward and benefits, employment terms and policies. The NJCNC is supported by Local Joint Consultative and Negotiating Committees, organised around our area teams and head offices.

Grants to locally governed organisations

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

Public sector information

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

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

Better Payment Practice Code

We attempt to abide by the Better Payment Practice Code, and in particular pay bills in accordance with our contracts. Invoices are normally settled within our suppliers' standard terms, usually 30 days, and we aspire to settle valid invoices within 10 days. During 2015/16, 100 per cent of invoices were paid within 30 days (2014/15: 81 per cent) and we paid 96.3 per cent of invoices within five days (2014/15: 96.5 per cent).

Corporate information

Principal address as at 31 March 2016

21 Bloomsbury Street
London
WC1B 3HC

Banker

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

Auditor

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

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

Hyman Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Administrators, actuaries and investment advisers to the West Yorkshire Pension Fund

Aon Hewitt
25 Marsh Street
Bristol
BS1 4AQ

Solicitors

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

Darren Henley OBE

Chief Executive
16 June 2016

Sir Peter Bazalgette

Chair
16 June 2016

7. Strategic report

1	Chair's report
2	Chief Executive's report
3	Achieving great art and culture
4	Remuneration report 1 April 2015 – 31 March 2016
5	Environmental sustainability

6	Trustees' report and management commentary
7	Strategic report
8	Grant-in-Aid accounts
9	Lottery distribution accounts
10	National Lottery report

The strategic report is prepared as part of, and continuation of, the Trustees' report and management commentary.

Achievements and performance

This information comes from the annual survey completed by the National Portfolio organisations and the results are based on survey data received during 2015/16 for the financial year 2014/15.

Key figures for National Portfolio Organisations show an increase year on year for income contributed through charitable forms, suggesting the sector is getting better at diversifying their income streams, and engaging donors. Attendance both physically and digitally has increased, particularly around making digital content available. Organisations are consistently reporting greater numbers of visitor engagement.

An increase in contributed income in National Portfolio Organisations 2012-15 (Contributed income is the same as 'charitable income' and includes sponsorship, donations, private giving and trusts and foundations.)

2012/13: £174,825,607
(N=689 **National Portfolio Organisations** & N=16 **Major Partner Museums** responding to annual submission)

2013/14: £178,599,980
(N=685 **National Portfolio Organisations** & N=16 **Major Partner Museums** responding to annual submission)

2014/15: £184,859,942
(N=683 **National Portfolio Organisations** & N=16 **Major Partner Museums** responding to annual submission)

Source: annual submission of National Portfolio Organisations & Major Partner Museums, 2012/13, 2013/14, 2014/15

Ratio of charitable giving to Arts Council grant

2012/13: 44 per cent
(N=689 **National Portfolio Organisations** & N=16 **Major Partner Museums** responding to annual submission)

2013/14: 45 per cent
(N=685 **National Portfolio Organisations** & N=16 **Major Partner Museums** responding to annual submission)

2014/15: 46 per cent
(N=683 **National Portfolio Organisations** & N=16 **Major Partner Museums** responding to annual submission)

Source: annual submission of National Portfolio Organisations 2012/13, 2013/14, 2014/15

An increase in the number of organisations offering digital content and an increase in the number of unique visitors accessing many funded organisations websites.

Baseline 2012/13: 39.3 per cent of the total of all National Portfolio Organisation activity was made available online.

Baseline 2012/13: Number of unique visitors to a website, 75.7 per cent of organisations reported an increase in unique visitors.

Baseline 2012/13: 37.2 per cent had available digital content.

2013/14: 54.2 per cent of the total of all National Portfolio Organisation activity was made available on-line.

2013/14: Number of unique visitors to a website, 50.2 per cent of organisations reported an increase in unique visitors.

2013/14: 41.6 per cent had available digital content.

2014/15: 54.4 per cent of the total of all National Portfolio Organisation activity was made available on-line.

2014/15: Number of unique visitors to a website, 48.6 per cent of organisations reported an increase in unique visitors; 51.4 per cent of organisations did not report, ie neither up or downward trend.

2014/15: 41.7 per cent had available digital content.

Footnote: unique visitors means individual IP addresses logged, not the number of logins/uses.

Source: annual reviews of National Portfolio Organisations 2012/13, 2013/14, 2014/15

Sustained attendance/visitor numbers in National Portfolio Organisations over the period 2012-15

2012/13: 91,842,784 – combined figure for known and estimated attendances to performances, exhibitions and film screenings in England.

(N = 689 **National Portfolio Organisations** & N=16 **Major Partner Museums** responding to annual submission)

2013/14: 97,169,998 – combined figure for known and estimated attendances to performances, exhibitions and film screenings in England.

(N = 685 **National Portfolio Organisations** & N=16 **Major Partner Museums** responding to annual submission)

2014/15: 97,940,610 – combined figure for known and estimated attendances to performances, exhibitions and film screenings in England.

(N = 683 **National Portfolio Organisations** & N=16 **Major Partner Museums** responding to annual submission)

Source: annual submission of National Portfolio Organisation 2012/13, 2013/14, 2014/15

Financial review

Grant-in-Aid

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

DCMS provided Grant-in-Aid of £463 million for the year (2014/15: £449 million), which included £20.2 million of capital funds to allocate as grants. It also included funding via the Department for Education of £78.2 million (2014/15: £65 million) to support the implementation of the recommendations in the Henley reviews of music and cultural education.

During the year we awarded grants to our National Portfolio Organisations of £279 million (2014/15: £332 million *restated*). In addition, we spent £56 million (2014/15: £27 million *restated*) through grants and direct expenditure on strategic initiatives and £76 million (2014/15: £58 million *restated*) on restricted activities, mainly Music Education Hubs.

As a non-departmental public body, we have a duty to stay within our departmental expenditure limits (DEL) budgets set by DCMS, irrespective of how the financial statements then translate when prepared under the Charities SORP.

Our provisional out-turn against our revenue DEL budgets, set by DCMS, is a £0.1 million under spend (2014/15: £0.1 million underspend). However, the statement of financial activities shows net incoming resources for the year of £339k (2014/15: £3.1 million *restated*) on unrestricted funds after exceptional items. The difference between our performance against our DEL and the net incoming resources for the year of £339k is attributable to adjustments related to pension costs, the treatment of provisions (which include the West Yorkshire Pension Fund liability), ie new provisions and unutilised provisions are not included within our DEL totals until they are utilised. This does not match the accounting treatment, but is consistent with HM Treasury's consolidated budgeting guidance.

At 31 March 2016, Arts Council England had unrestricted reserves of £8.6 million (2014/15: £7.6 million *restated*) together with £0.8 million (2014/15: £1.1 million) restricted income funds and endowment capital funds reserves. Our policy on reserves has been to ensure that we hold sufficient funds to maintain liquidity, to cover unforeseen short-term cash requirements and to cover planned future expenditure. We review this policy and our reserves position annually. However, our use of reserves is restricted by the Government's budgetary controls, which means that we would require DCMS approval to use our reserves if it were necessary to do so.

During 2015/16 the Arts Council received funding specifically for the following projects:

	£million
Yorkshire Festival	0.500
Turner Prize Hull	1.500
Factory Manchester	3.550
Seachange	0.100
Captain Cook Birthplace Museum	0.500
North Tyneside – Hadrian's Wall and Roman Baths	0.500
Muni Theatre	0.056
Total additional funding	6.706

Fees paid to the National Audit Office for Grant-in-Aid audit services during 2015/16 were £76,800 including VAT (2014/15: £80,000 including VAT).

Full details in relation to financial instruments are given in note 26 to the Grant-in-Aid accounts.

Lottery distribution

Arts Council England is one of the bodies designated to distribute funds from the National Lottery by the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998).

New Lottery grant commitments in the year totalled £140 million (2014/15: £396 million). At year-end, a total of £326 million (2014/15: £449 million) accepted grant commitments remained outstanding and awaiting payment. This compares with a balance in the

National Lottery Distribution Fund, plus bank balances, of £339 million (2014/15: £331 million). We monitor levels of Lottery income closely, and the level of outstanding grant commitments is considered sensible, based on past and projected income flows, given that £117 million of those commitments are known to be equally spread over a three year period to 31 March 2020.

At 31 March 2016, our balance in the National Lottery Distribution Fund account was £334 million (2014/15: £326 million).

Actual proceeds received in 2015/16 were £26 million higher than originally forecast. This was due mainly to the significant amount of rollovers which happened late in the financial year. Our Lottery balance policy, established in 2013/14, states that we should preserve a balance of at least £50-80 million in each year. This is the equivalent of approximately three to four months' worth of income or cash payments which we feel is sufficient to mitigate the risks involved while ensuring that we commit to as high a value of Lottery grant programmes as possible. We may also choose to build up our Lottery balance for a particular reason, for example to enable the launch of a new capital programme where a significant budget is required in one financial year. However as a general principle we would not allow our balance to exceed one year's worth of income. We review this policy annually and may either revise this figure upward or downward based on our assessment of the risks.

Our Lottery balance exceeds this principle this year partly because of the additional income received late in the year, and partly because we kept some lottery funding in reserve. Our National Council has therefore agreed in principle that we can now release this reserve to bring down our Lottery balance over our next budget setting period to a level more in line with the minimum balance noted above.

Further details of the activities and policies of Arts Council England are included in the National Lottery report 2015/16 (see pages 124 to 140).

Full details in relation to financial instruments are given in note 19 of the notes to the Lottery distribution accounts. Fees paid to the National Audit Office for Lottery external audit services during 2015/16 were £64,000 (2014/15: £64,000).

Consolidated activities

We prepare separate accounts for our Grant-in-Aid and Lottery distribution as required by the Secretary of State for Culture, Media and Sport. 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 2014/15 and 2015/16 financial years.

	2015/16 £000s	Restated 2014/15 £000s
Income		
Grant-in-Aid income	463,095	449,371
Share of the National Lottery Distribution Fund	268,419	273,289
Investment returns on the Distribution Fund	1,095	1,101
Other income	907	1,083
Total income	733,516	724,844
Expenditure		
Net Grant-in-Aid grant commitments	445,721	432,653
Other Grant-in-Aid arts expenditure	4,125	2,815
Net Lottery grant commitments	120,349	210,176
Support costs	30,980	29,522
Total expenditure	601,175	675,166
Net gains/(losses) on investments	20	(19)
Net income	132,361	49,659
Gain on revaluation of heritage assets	17,958	2,989
Actuarial gains/(losses) on defined benefit pension schemes	1,162	(1,683)
	19,120	1,306
Net movement in funds	151,481	50,965
Consolidated reserves brought forward	230,395	179,430
Consolidated reserves carried forward	381,876	230,395

Due to the implementation of FRS102 the figures for 2014/15 have been restated. The new accounting policy requires that any pension deficit repayment plan should be provided for in the annual accounts. For Arts Council England the implementation of FRS102 has meant that the expenditure figures for 2014/15 have been reduced by £647,000.

Administration costs in 2015/16 for Grant-in-Aid and Lottery combined totalled £30 million compared with £30 million in 2014/15. Overall, administration costs are 4.8 per cent of income (2014/15: 4.6 per cent).

Grant-in-Aid administration (excluding one-off IT costs) totalled £12.7 million, which is 3.6 per cent of income (2014/15: 2.95 per cent). Lottery administration (excluding one-off IT costs) totalled £17.3 million of income, which is 6.4 per cent of income (2014/15: 6.5 per cent). The split over the two income streams continues to reflect the level of activity in Lottery investment compared to Grant-in-Aid.

Plans for the future

Since 2010, our investment has been made according to the goals of our 10-year strategy, *Great Art and Culture for Everyone*, and this will continue to guide all of our work for the next five years.

In the 2015 Autumn Statement, arts and culture received a four-year settlement from the Treasury that was better than expected. Lottery revenues are also projected to remain stable. For planning purposes, we will have the same amount of Government funding in cash terms as we do today. However, amounts available to local authorities, who are our largest partners, has fallen significantly

In order to address this issue we are working in close partnership with many local authorities, finding ways in which we can support art and culture at a local level and work with them to protect the irreplaceable value of their cultural assets. Whilst the sector has made progress in finding alternative funding streams, London continues to be the major focus for the most significant philanthropic donations. In this complex and changing context, it is paramount that our funding processes and decisions are transparent and demonstrate best value. Whether the source is Lottery or Grant-in-Aid, we are always investing the public's money, and this privilege brings considerable responsibility. We must ensure that our investment benefits communities right across England, with a

particular focus on the least engaged. We have already increased the proportion of Grant-in-Aid that we invest outside London, and we are also committed to increasing the share of Lottery funds that we invest outside London by at least a further 5 per cent. By the end of 2018, we will invest at least 75 per cent of our Lottery revenue outside London.

Principal risks and uncertainties

A key risk for the Arts Council last year was the possibility of an adverse spending review settlement with further reductions in the Arts Council's grant from central Government. In November 2015, we received confirmation of our settlement from Government for the years 2016/17 to 2018/19. We received a flat settlement in cash terms together with additional ring-fenced funding of approximately £10 million per year for the four years to 2019/20. This equates to a 5 per cent reduction over the period in real terms. While the confirmation of our Grant-in-Aid income for the four-year period has removed a key element of uncertainty for us, a number of other risks and uncertainties remain.

Further cuts in local authority investment in arts and culture is a major risk to the achievement of our goals. Local government is the largest investor in the arts and culture sector in England. However, since 2010 its investment has dropped by an estimated 17 per cent (£236 million). Further cuts to local authority funding will destabilise the arts and culture ecology and impinge on the achievement of our five goals. To mitigate this risk, we are working with the Local Government Association and others to press the case for continued local authority investment in the sector and showcase some of the more innovative approaches to funding the arts and culture being adopted by some local councils.

The general economic climate is also a continuing concern. The arts sector in England relies on a mixed economy model with income from three main areas: public investment, earned income and private sector funding. A general economic downturn which impacts

on ticket sales could jeopardise the viability of a number of the organisations that we invest in to deliver our mission. One of our goals is to help the sector to become more resilient, and as part of this we have invested in a number of programmes to promote a range of alternative sources of income.

At the time of writing there are three Government/Parliamentary reviews considering aspects of the Arts Council's work. The Department for Culture Media and Sport will be undertaking a tailored review of the Arts Council in 2016/17. This is a routine arms-length body review that will consider whether our functions are still needed and our effectiveness in delivering them. The Culture White Paper also announced a review by Government of museums in England. In addition, the Culture, Media and Sport Select Committee is currently undertaking an inquiry into countries of culture. We do not expect these reviews or the inquiry to result in any radical change to the Arts Council's structure or functions, but clearly there will be a period of mild uncertainty while they are ongoing.

There continues to be concern about the geographical distribution of our funding and how we ensure that the benefits of arts and culture are accessible to all groups in society. We must ensure that we continue to respond to these concerns and articulate well the actions that we have been taking to address them. In 2015 we set ourselves a target that at least 75 per cent of the Lottery income we invest over 2015-18 will be spent outside London. We are monitoring progress on that target. In addition, we are one of the leading voices in a high profile campaign on the importance of diversity to the arts and culture sector. In June 2015 we published our equality and diversity objectives for 2015-18 and we continue to monitor progress on these. We published an annual report on equality and diversity in December 2015.]

The final major risk for us in 2016/17 is our internal capacity. Six years of pay restraint with no pay award or pay increases capped at 1

per cent is beginning to impact on our ability to recruit and retain staff in some parts of the organisation.

Statement of Trustees' and Chief Executive's responsibilities

Under both the Royal Charter and the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998), Arts Council England 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 Arts Council England's state of affairs at the year end and of our incoming resources, resources expended and cash flows for the financial year.

The Grant-in-Aid accounts are also prepared so as to comply with the Charities' SORP 2015 and the Lottery distribution accounts are prepared in line with the Government Financial Reporting Manual. Both sets of accounts are also expected to:

- observe the accounts directions 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 Charity Statement of Recommended Practice or Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements
- be prepared on a going concern basis, unless it is inappropriate to presume that Arts Council England will continue in operation

The Principal Accounting Officer of DCMS has designated the Chief Executive as Arts Council England's Accounting Officer. The responsibilities of the accounting officers for

arm's length bodies are set out in chapter three of *Managing Public Money*. Formally the Accounting Officer is the person who Parliament calls to account for stewardship of its resources.

The Accounting Officer signing off these accounts has gained assurance in the following ways:

- a meeting with the Chief Finance Officer and Director of Finance to go through the financial controls
- a meeting with the internal auditors to discuss the annual audit opinion
- a meeting with the National Audit Office to discuss the process and findings of the external audit
- discussing the annual review and accounts at an Executive Board meeting attended by Executive Board colleagues, including the Deputy Chief Executive, who have been in place for the full financial year

The Accounting Officer confirms that, as far as he is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

In approving these accounts, the Trustees have complied with their duty under section 11 of the Charities Act 2011 to have due regard to guidance published by the Charity Commission.

A copy of the Grant-in-Aid and Lottery distribution accounts directions are available from the Accounting Officer, Arts Council England, 21 Bloomsbury, London, WC1B 3HF.

Darren Henley OBE

Sir Peter Bazalgette

Chief Executive
16 June 2016

Chair
16 June 2016

8. Grant-in-Aid accounts

1	Chair's report
2	Chief Executive's report
3	Achieving great art and culture
4	Remuneration report 1 April 2015 – 31 March 2016
5	Environmental sustainability

6	Trustees' report and management commentary
7	Strategic report
8	Grant-in-Aid accounts
9	Lottery distribution accounts
10	National Lottery report

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE TRUSTEES OF ARTS COUNCIL ENGLAND

I certify that I have audited the financial statements of Arts Council England for the year ended 31 March 2016. The financial statements 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/Board, Accounting Officer and auditor

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

Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable

assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Arts Council England's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Arts Council England; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Art Council England's affairs as at 31 March 2016 and of its net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Royal Charter and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse **29 June 2016**
Comptroller and Auditor General

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

Statement of financial activities for the period ending 31 March 2016

	Note	Unrestricted funds £000s	Restricted funds £000s	Endowment funds £000s	Total 2015/16 £000s	Restated Total 2014/15 £000s
Income and endowments from:						
Donations and legacies	2a	355,832	107,314	-	463,146	449,394
Investments	2b	74	24	10	108	85
Charitable activities	3	115	(69)	-	46	435
Other: Lottery distribution accounts	4b	17,845	-	-	17,845	17,721
Total income and endowments		373,866	107,269	10	481,145	467,635
Expenditure on:						
Charitable activities (including Governance costs)	4a	355,418	107,563	-	462,981	446,762
Other: Support costs attributable to Lottery distribution accounts	4b	17,845	-	-	17,845	17,721
Total expenditure		373,263	107,563	-	480,826	464,483
Net gains/(losses) on investments	9	-	-	20	20	(19)
Total income/(expenditure) before other recognised gains and losses		603	(294)	30	339	3,133
Other recognised gains/losses						
Gain on revaluation of heritage assets	10	17,956	2	-	17,958	2,989
Actuarial gains/(losses) on defined benefit pension schemes	7	1,162	-	-	1,162	(1,683)
Net movement in funds		19,721	(292)	30	19,459	4,439
Reconciliation of funds:						
Balance brought forward at 1 April		139,295	5,159	465	144,919	140,480
Total funds carried forward at 31 March	17	159,016	4,867	495	164,378	144,919

All amounts stated in the statement of financial activities relate to continuing activities. The notes on pages 68 to 98 form part of these accounts.

Balance Sheet

	Note	Unrestricted funds £000s	Restricted funds £000s	Endowment funds £000s	Total 31 March 2016 £000s	Restated Total 1 April 2015 £000s
Fixed assets:						
Tangible assets	10	4,366	-	-	4,366	5,217
Heritage assets – works of art	10	151,649	4,546	-	156,195	137,520
Investments	9	-	-	495	495	465
Total fixed assets		156,015	4,546	495	161,056	143,202
Current assets:						
Debtors	12	1,435	69	-	1,504	2,401
Due from Arts Council lottery accounts	11	2,525	-	-	2,525	3,379
Grants paid in advance	13	369	-	-	369	398
Cash and cash equivalents		29,414	13,869	-	43,283	21,773
Total current assets		33,743	13,938	-	47,681	27,951
Liabilities						
Creditors: amounts falling due within one year						
Grants outstanding		16,135	8,603	-	24,738	11,773
Creditors	15	4,329	5,014	-	9,343	2,936
Total creditors: amounts falling due within one year		20,464	13,617	-	34,081	14,709
Net current assets		13,279	321	-	13,600	13,242
Total assets less current liabilities		169,294	4,867	495	174,656	156,444
Creditors: amounts falling due after more than one year						
Provisions for liabilities and charges	16	4,664	-	-	4,664	4,965
Net assets excluding pension liability		164,630	4,867	495	169,992	151,479
Defined benefit pension scheme liability	7	5,614	-	-	5,614	6,560
Net assets including pension liability		159,016	4,867	495	164,378	144,919
The funds of the charity:						
<i>Represented by income funds</i>						
Unrestricted fund	17	8,614	-	-	8,614	7,627
Restricted fund		-	321	-	321	650
<i>Represented by capital funds</i>						
Endowment funds	17	-	-	495	495	465
Designated fund		151,650	-	-	151,650	133,011
Donated asset reserve		-	4,546	-	4,546	4,509
Capital reserve		4,366	-	-	4,366	5,217
Pension reserve		(5,614)	-	-	(5,614)	(6,560)
Total charity funds		159,016	4,867	495	164,378	144,919

Cashflow statement

	Note	2015/16 £000s	Restated 2014/15 £000s
Cash Flows from operating activities:			
Funds received from the Department for Culture, Media and Sport		468,991	447,871
Other cash receipts		18,192	18,087
Grants paid to arts organisations and other bodies		(432,725)	(430,890)
Cash paid to and on behalf of employees		(21,288)	(22,108)
Other cash payments		(10,910)	(11,547)
Net cash provided by/(used in) operating activities	18	22,260	1,413
Cash Flows from investing activities:			
Interest received on short-term cash deposits		98	74
Dividends received		10	11
Purchased of tangible fixed assets		(1,347)	(1,163)
Sales of tangible fixed assets		499	-
Net cash provided by/(used in) investing activities		(740)	(1,078)
Cash Flows from financing activities:			
Endowment Income/(Investments)		(10)	(11)
Net cash provided by/(used in) financing activities		(10)	(11)
Change in cash and cash equivalents in the reporting period	19/20	21,510	324
Cash and cash equivalents at the beginning of the reporting period		21,773	21,449
Change in cash and cash equivalents due to exchange rate movements		-	-
Cash and cash equivalents at the end of the reporting period		43,283	21,773

The notes on pages 68 to 98 part of these accounts.

◀ The notes on pages 68 to 98 part of these accounts.

Darren Henley OBE

Chief Executive
16 June 2016

Sir Peter Bazalgette

Chair
16 June 2016

1 Accounting policies

1a 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 Charities SORP 2015 issued by the Charity Commission in 2014.

The accounts are prepared on a going concern basis and a historic cost basis. The Accounts Direction requires the inclusion of fixed assets at their value to the business by reference to current costs. However, for 2015/16, 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.

Arts Council England no longer owns any freehold land and buildings. All of our offices are leased. The lease commitments are disclosed within note 21 of the Grant-in-Aid accounts.

Separate accounts have been prepared for Arts Council England's Lottery distribution accounts, in accordance with the directions issued by the Secretary of State, which follow different accounting policies. Due to the different accounting policies used in the preparation of Grant-in-Aid and Lottery accounts, 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 Arts Council England's resources. In this respect, we have not been able to comply with paragraph 24.5 of the SORP issued by the Charity Commission in 2014. However, we have included a summary of the consolidated figures for our combined activities in the management commentary on [page 58](#).

1b Incoming resources

Grant-in-Aid from the Department for Culture, Media and Sport is taken to the statement of financial activities in the year to which it relates. All other income is accounted for on a receivable basis.

1c Expenditure

Grant expenditure is charged to the statement of financial activities in the year in which the grant is offered and in which funding for the grant is received from DCMS. In most circumstances this will be the same as the year in which the funded activities take place. However, in some cases grant expenditure is recognised in the accounts where the funded activity is due to take place in future years. 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 14 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. In this respect, we have not been able to comply with paragraph 7.19 of the SORP issued by the Charity Commission in 2014. The Trustees do not believe this would provide a true and fair view of Arts Council England's resources. 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.

1d Depreciation and fixed assets

Tangible fixed assets excluding heritage assets

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

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

A full year's depreciation is provided in the year of an asset's acquisition, and none in the year of its disposal. Software costs are written off in full in the year of acquisition. All individual assets valued greater than £2,000 are capitalised.

Heritage assets

Arts Council England is guardian and trustee over two collections of heritage assets which are held in furtherance of our mission to champion, develop and invest in artistic and cultural experiences that enrich people's lives. The collections are accounted for as follows:

Works of art

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

Poetry Collection

The Trustees do not consider that reliable cost or valuation information can be obtained for the Poetry Collection. This is because of the diverse nature of assets held and the lack of comparable market values. Arts Council England therefore does not recognise these assets as heritage assets on the balance sheet.

1e Leases

Costs in respect of operating leases are charged to the statement of financial activities on a straight line basis over the life of the lease. Lease incentives (eg rent free periods) are recognised as an integral part of the total lease expense, over the term of the lease.

1f Taxation

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

1g 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. The Arts Council Retirement Plan is a multi-employer scheme and we cannot identify our share of the underlying assets and liabilities. We have therefore accounted for this scheme as if it were a defined contribution scheme, in accordance with FRS102, with the costs of the scheme charged to the statement of financial activities. Arts Council England has agreed a deficit repayment plan with the Arts Council Retirement Plan and the cost of this is included

as a provision within the accounts. The West Yorkshire Pension Fund is also a multi-employer scheme, but, as a local government pension scheme, we are able to identify our share of the underlying assets and liabilities and have therefore accounted for this scheme in line with FRS102.

All employers are legally required to enrol their staff onto a workplace pension scheme. As such we now also provide a defined contribution scheme for staff who are automatically enrolled (via the People's Pension) if they choose not to join the Arts Council Retirement Plan.

1h Apportioned costs

Arts Council England incurs administration costs that relate to activities funded from Grant-in-Aid and the National Lottery Distribution Fund. We are required to apportion these costs between the two areas on a full cost basis in accordance with good accounting practice.

In accordance with the Charities SORP we have apportioned administration costs between our different activities. We have recharged both pay and non-pay expenditure using staff time as a basis for calculating the apportionment. The notes to the statement of financial activities will show the costs apportioned to Arts Council England Lottery distribution accounts where appropriate.

1i Change in accounting policy

During 2015/16 Arts Council England have changed the way in which grant commitments are accounted for. In previous years grant commitments were charged to the statement of financial activities in the year in which the funded activity took place. From 2015/16 onwards grant commitments are charged to the statement of financial activities in the year in which the funding is received from DCMS. This change did not result in any prior period restatement.

Due to the introduction of FRS102 Arts Council England are now required to make a provision in the accounts for the Arts Council Retirement

Plan pension deficit repayment plan. This has resulted in the 2014/15 accounts having to be restated.

FRS102 requires Arts Council England to recognise the cost of annual leave accumulated by employees but not taken as at the balance sheet date as a cost within the accounts. The value of untaken leave charged to the Grant-in-Aid accounts during 2015/16 was £166,000.

1j Financial instruments

We have adopted FRS102 on financial instruments. There has been no impact on the Accounts. Further information on our financial instruments is disclosed within Note 26.

1k Security for capital grants

Since November 2015, the standard conditions for Grant-in-Aid capital grants for building projects of between £500,000 and £5 million give the Arts Council the option to apply for Restriction on Title. This prevents the asset being sold, mortgaged or put to an alternative use without Arts Council consent. For grants over £5 million Arts Council England would register a legal charge over the asset.

2a Voluntary income

	Unrestricted funds £000s	Restricted funds £000s	Endowment funds £000s	Total 2015/16 £000s	Total 2014/15 £000s
Donations and Legacies					
Cash Grant-in-Aid voted by Parliament and paid in full					
Core funding – revenue	341,613	-	-	341,613	355,011
Administration	12,949	779	-	13,728	15,498
Core capital	1,270	-	-	1,270	1,313
Ring-fenced funds	-	106,484	-	106,484	77,549
	355,832	107,263	-	463,095	449,371
Other Donations and Legacies					
Donations/Bequests	-	51	-	51	23
Donations and Legacies income	355,832	107,314	-	463,146	449,394

2b Investment Income

	Unrestricted funds £000s	Restricted funds £000s	Endowment funds £000s	Total 2015/16 £000s	Total 2014/15 £000s
Investment income					
Bank Interest received	74	24	-	98	74
Dividend Income	-	-	10	10	11
Investment Income	74	24	10	108	85

3 Incoming resources from charitable activities

	Unrestricted funds £000s	Restricted funds £000s	Total 2015/16 £000s	Total 2014/15 £000s
Grants, sponsorship and donations received				
Local Authorities	38	42	80	-
Other central Government bodies	66	(125)	(59)	102
Public Corporations	-	-	-	249
Non-government bodies	-	-	-	-
Other grants, sponsorship and donations	3	-	3	-
Sundry	8	14	22	84
Charitable Activities income	115	(69)	46	435

4a Charitable activities

	Activities undertaken directly £000s	Grant funding of activities £000s	Net support costs £000s	Total 2015/16 £000s	Restated Total 2014/15 £000s
National Portfolio Organisations and Major Partner Museums	-	279,282	4,628	283,910	336,595
Grants for the arts	-	4,837	361	5,198	59
Strategic development, communications and advocacy	3,301	55,859	6,073	65,233	35,774
Music Education Hubs	530	75,597	614	76,741	74,883
Restricted – Other	295	31,300	1,458	33,053	947
Lapsed and revoked commitments	-	(1,154)	-	(1,154)	(1,496)
	4,126	445,721	13,134	462,981	446,762

National Portfolio Organisations are those organisations of strategic importance with which the Arts Council has long term, multi-year funding agreements. Strategic funding and activities are those specific projects funded by grants and direct arts expenditure. They provide essential leverage for national, regional and local partnerships, and act as investment in seed funding, research and development for the arts in England.

Grants for the Arts is our open access funding programme for individuals, art organisations and other people who use the arts in their work. We offer awards from £1,000 to £100,000 to support a wide variety of arts-related activities, from dance to visual arts, literature to theatre, music to combined arts.

Music Education Hubs are groups of organisations – such as local authorities, schools, other hubs, art organisations, community or voluntary organisations –

working together to create joined-up music education provision, respond to local need and fulfil the objectives of the hub. Hubs are coordinated by the hub lead organisation, which takes on responsibility for the funding and governance of the hub. The total amount of hub funding from the Department for Education in 2015/16 was £75 million (2014/15: £58 million).

Other restricted funds are those specific projects delivered through funds provided by partners as detailed in notes 2a and 3.

Prior year figures have been restated to reflect the effect of the prior period adjustment and to account for Governance costs in accordance with FRS102. Under FRS102 the full value of the deficit repayment plan has to be included on the balance sheet as a liability. The other change relating to FRS102 is that Governance costs no longer have to be shown separately but instead can be included within support costs.

4b Analysis of support costs

	Unrestricted £000s	Less charged to lottery £000s	Total 2015/16 £000s	Restated Total 2014/15 £000s
Staff costs	20,005	(11,871)	8,134	6,165
Indirect staff costs	584	(331)	253	263
Premises	2,151	(1,219)	932	1,211
Supplies & Services	2,775	(1,556)	1,219	1,513
Travel & Subsistence	1,510	(858)	652	559
Professional Fees	1,278	(864)	414	544
Central Costs	665	(159)	506	(84)
Depreciation	986	-	986	1,161
Other recharges	-	(409)	(409)	(452)
IT project costs	1,025	(578)	447	414
	30,979	(17,845)	13,134	11,294

4c Analysis of grants by recipient

	Grants to institutions £000s	Grants to individuals £000s	Total 2015/16 £000s	Restated Total 2014/15 £000s
National Portfolio Organisations and Major Partner Museums	279,283	-	279,283	332,433
Grants for the arts	2,800	2,036	4,836	59
Strategic development, communications & advocacy	55,801	58	55,859	27,488
Music Education Hubs	75,597	-	75,597	58,180
Restricted – Other	31,300	-	31,300	15,989
	444,781	2,094	446,875	434,149

A detailed breakdown of all grant commitments can be found at:

www.artscouncil.org.uk/governance/spending

5a Staff costs

	Unrestricted £000s	Restricted £000s	Less charged to lottery £000s	Total 2015/16 £000s	Restated Total 2014/15 £000s
<i>Staff costs comprise:</i>					
Salaries and wages	16,127	487	8,683	6,957	7,016
Employer's National Insurance	1,292	48	679	565	580
Employer's pension contribution	3,632	88	2,301	1,243	(515)
Redundancy Costs	(31)	-	(18)	(13)	14
Agency staff	484	53	226	205	142
	21,504	676	11,871	8,957	7,237

The table above shows net income of £31,000 in respect of redundancy costs. This was due to unutilised redundancy provisions being written back to the income and expenditure account during the course of the financial year.

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

	Permanent Staff	Agency Staff	2015/16	2014/15
Direct delivery of programmes	20	2	22	24
Support & corporate governance	444	9	453	428
	464	11	475	452

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

	Permanent Staff	Agency Staff	2015/16	2014/15
Direct delivery of programmes	21	3	24	24
Support & corporate governance	475	13	488	460
	496	16	512	484

5b Emoluments by bands

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

Emoluments for the year	Pension scheme			Total 2015/16	Total 2014/15
	Defined Benefit	Defined Contribution	No pension		
£60,000-£69,999	3	-	-	3	4
£70,000-£79,999	8	-	-	8	9
£80,000-£89,999	2	-	-	2	1
£90,000-£99,999	-	-	-	-	-
				13	14

5c Compensation scheme – exit packages

Exit package cost band	2015/16			2014/15		
	Number of compulsory redundancies	Number of other departures agreed	Total exit packages during 2015/16	Number of compulsory redundancies	Number of other departures agreed	Total exit packages during 2015/16
< £9,999	-	1	1	-	-	-
£10,000-£24,999	1	-	1	1	-	1
£25,000-£49,999	-	-	-	2	-	2
£50,000-£99,999	1	-	1	-	-	-
£100,000-£149,999	-	-	-	-	-	-
Total number of exit packages by type	2	1	3	3	-	3
Total resource cost £000	77	6	83	62	-	62

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

6 Council members' expenses

It is part of council members' duties to assess artistic work. The cost of their tickets for attendance at performance and events is met by the Arts Council. In 2015/16, the total cost of tickets purchased for this purpose was £1,426 (2014/15: £2,228). All our council members are able to claim back their travel and subsistence costs. The total amount reimbursed for travel and subsistence in the year is shown in note 8.

7 Pensions

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

Arts Council Retirement Plan (1994)

The scheme is a defined benefit scheme. Other employers contributing to the scheme are the Arts Council of Wales, Creative Scotland, the Crafts Council, Ty Cerdd – Music Centre Wales and Creativity, Culture and Education. 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 FRS102.

The scheme is financed by payments made by Arts Council England and employees, together with those by the other employers and their employees, into a trustee-administered fund independent of Arts Council England's finances. These contributions are invested by leading fund management companies. The net market value of the scheme's assets at 31 March 2016 was £129 million (2015: £125.4 million).

An actuarial valuation of the pension fund takes place at least every three years. At the last valuation on 31 March 2013 the actuarial value of the assets using the projected unit method was sufficient to cover 77.8 per cent of the value accrued to members, a deficit of £28,100,000. As a result, and on the advice of the actuary, with effect from 1 April 2014 we have been

paying employer's contributions of 16.6 per cent of pensionable salary for Arts Council England employees and 21.9 per cent of pensionable salary for employees who transferred to Arts Council England from Museums, Libraries and Archives, as well as a cash contribution of £647,200 per annum until 31 March 2023.

Consumer price inflation rate	2.55%
Long term rate of pay increases	3.3%
Short term rate of pay increases	1.3%
Rate of pension increases	2.55%
Discount rate	4.5%

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

FRS102 requires that any agreed pension deficit repayment plan be recognised as a liability within the accounts. Arts Council England has agreed a deficit repayment plan whereby £647,000 will be paid to the Arts Council Retirement Plan each year from 1 April 2014 to 31 March 2023. The outstanding liability has been calculated using the total value of the remaining payments and then discounting to net present value (NPV) using a discount rate of 4.6 per cent. The liability is disclosed within note 16 of the Grant-in-Aid accounts.

Arts Council England is a participating employer in the Arts Council Retirement Plan (1994) together with five other separate organisations. There is no legal separation of the plan's assets or liabilities and as such there is a certain amount of inevitable cross subsidy between participating employers depending on the experience of their own members. Under the plan's rules there is also no requirement or discretion to segregate the assets of the scheme in event of the cessation of a participating employer. As such it is a "last man standing" arrangement and the remaining employers would become liable for meeting the pension obligations of other participating employers who cease participation."

Amounts due to the fund at 31 March 2016 were £2,933 (31 March 2015: £0).

West Yorkshire Pension Fund

We are an admitted member of the West Yorkshire Pension Fund. This fund provides pensions to over 268,000 members in 383 mainly local government organisations. In the year ending 31 March 2016, nine Arts Council staff participated in the scheme. The scheme is a defined benefit scheme and is accounted for in accordance with FRS102.

The disclosures below relate to the funded liabilities within the West Yorkshire Pension Fund (the "Fund") which is part of the Local Government Pension Scheme (the "LGPS"). The funded nature of the LGPS requires

The Arts Council of England and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension's liabilities with investment assets.

Assumptions

The latest actuarial valuation of The Arts Council of England's liabilities took place as at 31 March 2013. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for FRS 102 purposes were:

Principal financial assumptions

	31 March 2016	31 March 2015	31 March 2014
Discount rate	3.4%	3.2%	4.3%
RPI Inflation	2.9%	2.9%	3.4%
CPI Inflation	1.8%	1.8%	2.4%
Rate of increase to pensions in payment*	1.8%	1.8%	2.4%
Pensions accounts revaluation rate	1.8%	1.8%	n/a
Rate of general increase in salaries**	3.3%	3.3%	3.9%

* In excess of Guaranteed Minimum Pension increases in payment where appropriate

** This has been set as 1.5% p.a. above the CPI inflation assumption which is consistent with the assumption used at the actuarial valuation of the Fund as at 31 March 2013

Asset allocation

	Value at 31 March 2016 %	Value at 31 March 2015 %
Equities	75.6%	76.4%
Property	4.9%	4.2%
Government Bonds	10.3%	10.5%
Corporate Bonds	4.6%	4.6%
Cash	1.3%	2.1%
Other	3.3%	2.2%
Total	100%	100%

Reconciliation of funded status to balance sheet

	Value as at 31 March 2016 £million	Value as at 31 March 2015 £million	Value as at 31 March 2014 £million
Fair value of assets	30.126	30.601	26.337
Present value of funding liabilities	35.740	37.161	33.474
Pension liability recognised on the balance sheet	(5.614)	(6.560)	(7.137)

Amounts recognised in income statement

	Period ending 31 March 2016 £million	Period ending 31 March 2015 £million
Operating cost:		
Current service cost	0.103	0.088
Past service cost	0.000	0.000
Curtailement cost	0.000	0.000
Settlement cost	0.000	0.000
Financing cost:		
Interest on net defined benefit liability/(asset)	0.208	0.285
Pension expense recognised in other comprehensive income	0.311	0.373

Amounts recognised in other comprehensive income

	Period ending 31 March 2016 £million	Period ending 31 March 2015 £million
Asset gains/(losses) arising during the period	(0.718)	1.652
Liability gains/(losses) arising during the period	1.880	(3.335)
Total amount recognised in other comprehensive income	1.162	(1.683)

Changes to the present value of the defined benefit obligation during the accounting period

	Period ending 31 March 2016 £million	Period ending 31 March 2015 £million
Opening defined benefit obligation	37.161	33.474
Current service cost	0.103	0.088
Interest expense on defined benefit obligation	1.176	1.423
Contributions by participants	0.029	0.028
Actuarial (gains)/losses on liabilities	(1.880)	2.944
Net benefits paid out	(0.849)	(0.796)
Past service cost	0.000	0.000
Curtailement cost	0.000	0.000
Net increase in liabilities from disposals/acquisitions	0.000	0.000
Settlements	0.000	0.000
Closing defined benefit obligation	35.740	37.161

Changes to the fair value of assets during the accounting period

	Period ending 31 March 2016 £million	Period ending 31 March 2015 £million
Opening fair value of assets	30.601	26.337
Interest income on assets	0.958	1.138
Remeasurement gains/(losses) on assets	(0.718)	1.905
Contributions by the employer*	0.095	0.989
Contributions by participants	0.029	0.028
Net benefits paid out**	(0.849)	(0.796)
Net increase in assets from disposals/acquisitions***	0.000	1.000
Settlements	0.000	0.000
Closing fair value of assets	30.126	30.601

* Includes £900,000 additional contribution to WYPF

** Consists of net benefits cash-flow out of the Fund in respect of the Employer, including an approximate allowance for the expected cost of death in service lump sums.

*** Transfer from GMPF to WYPF

Actual return on assets

	Period ending 31 March 2016 £million	Period ending 31 March 2015 £million
Interest income of assets	0.968	1.138
Gain/(loss) on assets	(0.718)	1.905
Actual return on assets	0.250	3,043

The results of the triennial actuarial valuation of the Fund as at 31 March 2013 have been used to calculate the Arts Council’s accounting figures over the period ending 31 March 2015 and 31 March 2016.

The 2013 valuation results included the transferred liabilities for 49 active members who transferred from the former arts boards but made no allowance for any bulk transfer payments to or from Surrey (11 members) or Staffordshire (13 members) pension funds. With respect to the 25 members who transferred from Greater Manchester an interim payment of £1,000,000 was paid by Greater Manchester Pension Fund to West Yorkshire Pension Fund in October 2014. This was included in last year’s FRS17

report when calculating the fair value of assets. The value of the final payment has not yet been determined and therefore no allowance for this has been made in the calculations.

How the transfer payments should be calculated is still under discussion between those funds, the West Yorkshire Pension Fund and Arts Council England. The actuary has made no allowance for any transfer payments in our disclosures. We have, however, made allowance for the bulk transfers in relation to the other 131 members that transferred from the former arts boards at the same time.

Amounts due to the fund at 31 March 2016 were £nil (31 March 2015: £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, the deferred and pensioner members remained with their legacy pension provider as detailed below:

East England Arts	Cambridgeshire Council
East Midlands Arts	Nottingham Council
Northern Arts	Tyne & Wear 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 did not believe it was responsible for meeting any further liabilities relating to regional arts board employees in respect of these funds following lump sum payments to four schemes. However, three other funds have indicated previously that liabilities exist in respect of the deferred pensioner members that they retained within their respective funds. Following specialist legal advice Arts Council England has asked the funds to provide documentary evidence that it is liable. No provision has been made in these accounts for potential sums payable, because of the uncertain nature of these liabilities.

8 Net incoming resources for the year

Total income before exceptional items of £339,317 (2014/15: £3,132,837) is stated after charging:

	Total 2015/16 £000s	Total 2014/15 £000s
Auditors' remuneration	77	80
Operating leases	1,083	1,489
Council members' travel, subsistence and hospitality for the 14 serving members during the year	31	22
Insurance: trustees' and senior officers' indemnity	10	10
Depreciation	986	1,161
Impairment	-	-

9 Legacy bequests

Arts Council England is the beneficiary of two endowment legacies: the Compton Poetry Fund and the Thornton Fund. The dividend income is accumulated until there is sufficient to run a grant programme in line with the bequests.

The Compton Poetry Fund bequest was made in 1964 and the Thornton Fund bequest was made in 1950. Both legacies consist of a mixture of stocks and shares and cash; the Compton Poetry Fund consists of £250,000 in shares and £88,000 cash, and the Thornton Fund consists of £65,000 in shares and £92,000 cash.

Both legacies were incorporated into Arts Council England's account during 2013/14; the values of the stocks and cash are disclosed on the balance sheet and dividends received during the year disclosed within note 2b (investment income).

	Compton Poetry Fund £000s	Thornton Fund £000s	Total £000s
Opening balance – 1 April 2015	306	159	465
Income received in-year	7	3	10
Gains/(losses) on investments	25	(5)	20
Closing Balance – 31 March 2016	338	157	495

10 Heritage assets and tangible fixed assets

	Freehold Land and Buildings £000s	Leasehold improvements £000s	Equipment, fixtures and fittings £000s	Total tangible assets £000s	Heritage assets works of art £000s	Total fixed assets £000s
Cost or valuation at 1 April 2015	995	8,279	3,181	12,455	137,520	149,975
Additions	-	449	182	631	717	1,348
Revaluations	-	-	-	-	17,958	17,958
Less: disposals	(995)	(516)	(301)	(1,812)	-	(1,812)
Cost or valuation at 31 March 2016	-	8,212	3,062	11,274	156,195	167,469
Depreciation at 1 April 2015	500	3,914	2,824	7,238	-	7,238
Less: depreciation on disposals	(500)	(516)	(301)	(1,317)	-	(1,317)
Impairment	-	-	-	-	-	-
Provided for 2015/16	-	807	180	987	-	987
Depreciation at 31 March 2016	-	4,205	2,703	6,908	-	6,908
Net book value 31 March 2016	-	4,007	359	4,366	156,195	160,561
Net book value at 31 March 2015	495	4,365	357	5,217	137,520	142,737

The value of £495,000 disclosed above for freehold buildings (disposals) relates to our former Dewsbury office. This was sold on 20 April 2015 and staff have been relocated to a new office at Marshalls Mill in Leeds.

Works of art – Arts Council Collection

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

Unlike our other fixed assets there is no *de minimis* capitalisation threshold for works of arts. All works of art are capitalised, even if they are valued at under £2,000.

The Works of Art Collection has been built up since 1946 and consists of 7,824 items at 31 March 2016. The purpose of the collection is to broaden the appreciation and public awareness of contemporary British art and to encourage good practice relating to painting, sculpture, photography, drawing, printmaking, mixed and new media, film and video. The collection is

stored in London and at Longside in Yorkshire (located at the Yorkshire Sculpture Park). The collection is managed on our behalf by the Southbank Centre through the Hayward Gallery.

Valuation

The collection has been valued by the Head of the Collection at £156,195,552 at 31 March 2016 (31 March 2015: £137,519,989). Valuation of the collection is undertaken on a rolling programme using current knowledge of prices, the market and, where necessary, the Head seeks the advice of other experts. The policy is that works of exceptionally high value are valued once every five years as are items that are on long term loan. All items are valued when loans are agreed as this provides the value for which the lender has to insure the item. A register of works is maintained by the Curator of the Collection which is amended to reflect acquisitions and items removed from the register, such as pieces damaged beyond repair, throughout the year and records the year end valuation figure. The register supports the entries in the Arts Council's annual accounts and is provided to the auditors for review.

Acquisition and disposal policy

The collection purchases innovative work by artists living in Britain with a focus on the work of younger and emerging artists. Acquisitions are made through the Acquisitions Committee comprising six individuals who are: the Head of the Arts Council Collection; Director of Visual Arts, Arts Council England; Director of the Hayward Gallery; plus external advisers who are usually an artist, a writer and a curator. The committee is currently chaired by a member of the Arts Council's National Council. The external advisors to the committee are appointed for a fixed two year tenure. Artists may apply to have their work considered for acquisition. Otherwise works are acquired through the recommendations of the committee members. To be eligible artists must live in Britain, cannot be students and have to be able to demonstrate their commitment over several years by providing information about the exhibitions of their work that have taken place and are planned. The acquisitions are funded from an allocation within the Arts Council budget.

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

Preservation

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

Collection management

The Head of the Arts Council Collection reports to the Director of the Hayward Gallery and is responsible to the Director, Visual Arts, at Arts Council England. Arts Council Collection staff salaries (London) are paid by the Southbank Centre from the grant from Arts Council England to the Southbank Centre as part of the Hayward Gallery budget. A ring-fenced fund within the Southbank Centre and Arts Council England agreement covers the rental, staff and operational costs of the Longside Gallery.

Access

Public access to the works of art is achieved through items being part of the extensive Arts Council Collection touring exhibitions, Select Programme being loaned to other institutions and galleries both at home and abroad. It also lends work to public institutions such as universities, libraries and hospitals.

Partnerships

In 2016 three major regional galleries joined existing partner Yorkshire Sculpture Park in a consortium to develop a programme

of exhibitions over a three year period. The partners are Birmingham Museums and Art Galleries, the Towner, and Eastbourne and Walker Art Gallery, Liverpool. Each partner will curate lively and imaginative exhibitions and displays drawn from the Arts Council Collection alongside an exciting digital and outreach programme.

Priority is given to national needs. An exciting project was undertaken to widen access by providing digital access to the collection. The project was split into two parts and the first part consists of two phases. The first phase covers paintings and drawings and was

completed in 2011. The second phase covering three dimensional sculpture and installations was started in 2012. The second part is a digital editorial pilot started in the summer of 2011 to develop a prototype on how the collection can be promoted online. A dedicated website, artscouncilcollection.org.uk, provides a range of information including where items from the collection are on exhibition and photographs of recent acquisitions with brief information about the artist and item.

The Arts Council Works of Art Collection heritage assets are reported at valuation in the table below:

	2015/16 £000s	2014/15 £000s	2013/14 £000s	2012/13 £000s	2011/12 £000s
Cost or valuation at 1 April	137,520	134,287	118,559	108,684	101,778
Additions	682	237	180	398	335
Donations	35	6	161	336	68
Revaluations	17,958	2,989	15,387	9,141	6,543
Less: impairment	-	-	-	-	(1)
Less: disposal	-	-	-	-	(39)
Cost or valuation at 31 March	156,195	137,520	134,287	118,559	108,684

Poetry collection

The Poetry Collection was started in 1953 and now consists of over 150,000 items of 20th and 21st century poetry from 1912. The collection is held in a variety of formats: books, pamphlets, audio cassettes, CDs, videos and DVDs for reference and loan, magazines, press cuttings, photographs, posters and postcards for reference. The Poetry Library promotes the reading of poetry for people of all ages, cultures and backgrounds. The aim is that the collection holds all poetry published since 1912 in the UK. The collection is housed at The Saison Poetry Library located at the Southbank Centre.

Valuation

A valuation of the Poetry Collection is not included on the balance sheet due to the difficulty in obtaining an accurate valuation. Advice has been sought from the current librarians of the collection and they have concurred with previous advice that there is no ready market in the materials held that would enable a meaningful valuation to be made. Furthermore the collection is made up of a large number of disparate items and would require, even if there were a reliable basis for a valuation, a significant input of resource which is not considered to be feasible. The amount spent on acquisitions during 2015/16 was £40,322 (2014/15: £45,207).

Acquisition and disposal policy

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

The collection receives donations mainly of books which are considered for the collection.

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

Preservation

Items in the collection are cared for by the librarians who monitor the environment and the collection, occasionally employing a conservator to work through the books in the collection and carrying out repairs as necessary. These include restoring covers and ripped pages.

A rare book room has been set up at the library in which humidity and temperature is controlled to British Standards (BS). The digitisation of the magazines means that the originals are able to be digitally archived to protect their condition.

Collection management

The collection is managed by the Southbank Centre on behalf of Arts Council England. Day to day management is the responsibility of the collection librarians. The Poetry Librarian reports to the Deputy Director, Southbank Centre. Arts Council Collection staff salaries are paid by the Southbank Centre from the grant from Arts Council England to the Southbank Centre.

Access

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

The library has a dedicated website, poetrylibrary.org.uk, which explains the purpose of the Poetry Library, how items can be accessed and a full catalogue. This website includes a link to a further website that takes readers to the online archive of poetry magazines (poetrymagazines.org.uk). The library is open to browse by anyone and runs an events and exhibition program to engage with new audiences.

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. In previous years we have apportioned costs based on a combination of the number and value of payments made as a proxy for estimating the amount of staff time spent on each activity. This year we have recharged both pay and non-pay expenditure using staff time as a basis for calculating the apportionment.

12 Debtors

	31 March 2016 £000s	31 March 2015 £000s
Trade debtors	20	6
DCMS debtors	-	1,500
Other debtors	276	244
Prepayments and accrued income	1,208	651
	1,504	2,401

13 Grants paid in advance

The Arts Council permits organisations to draw down cash from a future year's funding agreement to cover short term cash flow problems. Advances of £369,253 were made in 2014/15 (2014/15: £398,435).

14 Grant offers – future years

The Arts Council has entered into three-year funding agreements with 663 National Portfolio Organisations commencing in 2015/16.

Commitments are recognised for each year, with the funding agreements making clear that continued funding is dependent on Grant-in-Aid being available to Arts Council England in those future years and that the organisation continues to deliver its agreed programme of activity as set out in the funding agreement. Forward funding at 31 March 2016 mainly represents allocations for National Portfolio Organisations, Major partner museums and Music education hubs and the figures disclosed are the cash value; they have not been discounted to present value.

	31 March 2016 £000s	31 March 2015 £000s
Forward funding:		
2015/16	n/a	403,676
2016/17	403,487	300,956
2017/18	290,540	286,272
2018/19	646	-
2019/20	290	-
	694,963	990,904

15 Creditors: amounts falling due within one year

	31 March 2016 £000s	31 March 2015 £000s
Trade creditors	1,751	1,093
Other creditors including taxes and social security	657	8
Accruals	1,974	1,835
Deferred income	4,961	-
	9,343	2,936

Deferred income consists primarily of £4.4 million income which was received from DCMS in 2015/16 for the libraries' Wi-Fi project which has been carried forward into 2016/17.

16 Provisions for liabilities and charges

	Organisation review £000s	Dilapidations £000s	Tax £000s	Legal £000s	Employment £000s	IT £000s	Pension Deficit £000s	Restated Total £000s
At 31 March 2015	107	591	15	10	6	24	-	753
Prior Period Adjustment	-	-	-	-	-	-	4,212	4,212
Restated as at 1 April 2015	107	591	15	10	6	24	4,212	4,965
Arising during the year	-	114	-	-	-	-	356	470
Used during the year	(76)	-	(7)	(9)	(6)	-	(617)	(715)
Reversed unused	(31)	-	-	(1)	-	(24)	-	(56)
At 31 March 2016	-	705	8	-	-	-	3,951	4,664
Expected timing of cashflows								
Provisions due within one year	-	-	8	-	-	-	647	655
Provisions due in more than one year	-	705	-	-	-	-	3,304	4,009

Description of provisions

a) Organisational reviews

Redundancies decided in 2012/13 as part of an organisational review which were finalised during 2015/16.

b) Dilapidations

Provision for dilapidations of premises where it is planned to reduce area occupied.

c) Tax

Provision for payroll taxes on expenses and benefits identified by an internal review.

d) Legal

Provision for legal costs arising from employment tribunals.

e) Employment

This is compensation payments due to reduced pension benefit to be made to ArtCo staff who transferred to Creative Sector Services CIC during 2013/14.

f) IT

This is a potential payment for IT services where the amount due is under discussion.

g) Pension deficit

As a result of the implementation of FRS102 we are obliged to create a provision for the Arts Council Retirement Plan's deficit repayment plan. The amount disclosed above is the value of the remaining payments which will be paid out over the next seven years.

Apart from the pension deficit all other provisions are shown at their cash value and have not been discounted to present value.

17 Reconciliation of movement in funds

	Restated at 31 March 2015 £000s	Income £000s	Expenditure £000s	Gains and Losses £000s	Transfers £000s	At 31 March 2016 £000s
Endowment funds	465	10	-	20	-	495
Restricted funds	650	107,269	(107,563)	2	(37)	321
Unrestricted income funds	7,627	372,596	(372,382)	-	773	8,614
Capital funds						
Designated funds	5,970	-	683	-	-	6,653
Revaluation reserve	127,041	-	-	17,956	-	144,997
Donated asset reserve	4,509	-	-	-	37	4,546
Capital Reserve	5,217	1,270	(1,348)	-	(733)	4,366
Pension Reserve	(6,560)	-	(216)	1,162	-	(5,614)
	144,919	481,145	(480,826)	19,140	-	164,378

Description of funds

Endowment funds

Arts Council England is the beneficiary of two legacies: the Compton Poetry Fund and the Thornton Fund.

Restricted funds

The Arts Council receives specific ring-fenced Grant-in-Aid as well as grants, sponsorship and donations from various other sources for specific activities. Any such income and associated expenditure is identified separately.

Unrestricted income funds

Grant-in-Aid is received from the Department for Culture, Media and Sport. This is the Arts Council's main source of income, and is supplemented by other income. This fund is applied to grants expenditure and the running costs of the Arts Council. Use of these funds in subsequent years is restricted by the government's budgetary controls.

Capital funds

a) Designated funds

This fund relates to capital expenditure on works of art allocated from the unrestricted fund.

b) Revaluation reserve

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

c) Donated asset reserve

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

d) Capital reserve

The capital reserve represents the balance of tangible assets.

Pension reserve

The pension reserve reflects the movements in the West Yorkshire Pension Fund defined benefit scheme.

18 Cash flow reconciliation

	2015/16 £000s	Restated 2014/15 £000s
Reconciliation of operating surplus to net cash inflow from operating activities		
Net income/(expenditure)	19,459	4,439
Interest receivable	(98)	(74)
(Profit)/Loss on disposal of Fixed Assets	(4)	42
Dividends received	(10)	(11)
Depreciation and impairment charges	986	1,161
Revaluation of (gains)/losses on fixed assets	(17,958)	(2,989)
Actuarial (gains)/losses on defined benefit pension schemes	(1,162)	1,683
(Gains)/losses on investments	(20)	19
Decrease/(increase) in debtors and prepayments	1,751	(1,592)
(Increase) in grants paid in advance	29	240
Increase/(decrease) in grants outstanding	12,966	1,524
(Decrease)/increase in creditors	6,406	(300)
(Decrease)/increase in provisions	(301)	(469)
(Decrease)/increase in defined benefit liability	216	(2,260)
Net cash provided by/(used in) operating activities	22,260	1,413

19 Reconciliation of net cash flow to movement in funds

	2015/16 £000s	2014/15 £000s
(Decrease)/increase in cash and cash equivalents in the year	21,510	324
Funds at 1 April 2015	21,773	21,449
Funds at 31 March 2016	43,283	21,773

20 Analysis of net cash

	1 April 2015 £000s	Cash flow £000s	31 March 2016 £000s
Cash in hand	21,773	21,510	43,283

21 Leases

At 31 March 2016 the Arts Council had annual commitments under non-cancellable operating leases as set out below.

	Land & buildings	
	31 March 2016 £000s	31 March 2015 £000s
<i>Operating leases which expire:</i>		
Within one year	-	254
Within two and five years inclusive	154	202
Over five years	1,435	1,068
	1,589	1,524

22 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.

23 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.

24 Capital commitments

As at 31 March 2016 the total value of capital commitments was £261,826 (2014/15: £210,770). This represent amounts contracted for IT Datacentre storage costs.

25 Special payments

Special payments are payments which would not normally be made in the course of business. Examples of such payments are lease exit payments, compensations payments or ex-gratia payments. The number and value of special payments made during 2015/16 were as follows:

	2015/16 £000s	2014/15 £000s
Total value of special payments	6	26
Total number of special payments	1	1

26 Financial instruments

FRS 102 has a concept of basic financial instruments (such as cash, trade debtors, trade creditors) and other financial instruments (such as interest rate swaps and forward foreign currency contracts). All Arts Council England's financial instruments are categorised as basic.

As the cash requirements of the Arts Council are met largely through Grant-in-Aid received from the Department for Culture, Media and Sport (99.97 per cent) (2014/15: 99.88 per cent), financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with the Arts Council's expected purchase and usages requirements, or the issue of grants (96.45 per cent) (2014/15: 96.49 per cent). This means the Arts Council is exposed to little credit, liquidity or market risk.

Arts Council England is the beneficiary of two legacies: the Compton Poetry Fund and the Thornton Fund. The total value of both legacies is £495,000 and is held in a mixture of cash and stock market investments managed by Investec Wealth & Investment Ltd. Details of both legacies are disclosed in note 9.

26d Financial assets by category

	31 March 2016 £000s	31 March 2015 £000s
DCMS debtor	-	1,500
Trade debtors	20	6
Other debtors	276	244
Accrued income	1,208	651
Due from Arts Council lottery accounts	2,525	3,379
Cash at bank and in hand	43,283	21,773
	47,312	27,553

26a Liquidity risk

The Arts Council has a funding agreement with the Department for Culture Media and Sport or the period from 1 April 2011 to 31 March 2015, renewable in line with the timetable set by government for the next spending round. On 27 March 2015 a letter was issued by DCMS formally extending the previous management agreement until such time as a new one was put in place.

In the past 12 months 0.01 per cent of funding was received from sources outside of DCMS and 0.02 per cent was generated from cash balances. This means that 99.97 per cent of funding is sourced through cash drawn down and agreed monthly with DCMS, based on the predicted need for the month ahead.

26b Interest rate risk

The cash balance of £43,282,864 at 31 March 2016 was held in instant access variable rate bank accounts which carried an average interest rate of 0.22 per cent below base rate. The Arts Council does not place money on deposit with any other bank, financial institution or investment product.

26c Foreign currency risk

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

26e Financial liabilities by category

	31 March 2016 £000s	31 March 2015 £000s
Grants outstanding	24,738	11,773
Trade creditors	1,751	1,093
Other creditors including taxes and social security	657	8
Accruals	1,974	1,835
Deferred Income	4,961	-
	34,081	14,709

27 Related parties

27a Council members

We maintain publicly available registers in which council members declare their interests, including any direct interests, in grant applications made to, and commercial relationships with, the Arts Council. The declared interests in grant recipients along with amounts awarded for the year ended 31 March 2016 are detailed below.

Council member	Grant for 2015-16 £000s	Balance unpaid as at 31 March 2016 £000s	Organisation	Relationship type
Peter Bazalgette	-	10	Francis Crick Institute	Board member
Maira Balshaw	2244 66 4280 2094	144 33 2659 13	Halle Concerts Society The Whitworth Art Gallery Manchester City Council Manchester City Galleries	Board member Director Director of Manchester City Galleries Is part of Manchester City Council
Matthew Bowcock	59	-	Watts Gallery	Board member
Sheila Healy	85 673	- 67	Situations The Audience Agency	Board member Chair
Nicholas Kenyon	468 480 5 3657	- 120 1 -	Artichoke Trust Ltd Barbican Centre Barbican Centre Trust North Music Trust	Partner is a Board member Managing Director Trustee Board Member
Alistair Spalding	2906	125	Sadler's Wells Trust Ltd	Chief Executive
Rosemary Squire	352 376	- -	Dance Umbrella Ltd The Hall for Cornwall Trust	Former Vice-Chair Trustee
Veronica Wadley	150 75 1453	15 - 10	Thames Festival Trust The London Design Festival Limited Museum of London	Employed by GLA which co-funds Thames Festival Trust Employed by GLA which co-funds LDF Ltd Employed by GLA which co-funds Museum of London

27b 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 declared interests in grant recipients along with amounts awarded for the year ended 31 March 2016 are detailed below.

Directors	Grant for 2015-16 £000s	Balance unpaid as at 31 March 2016 £000s	Organisation	Relationship type
Mark Ball	1,834	-	Birmingham Repertory Theatre Limited	Brother is an Associate Director
	236	-	Live Art Development Agency	Former Trustee
	426	18	The British Library	Brother is Director of Collections Management
	402	-	artsdepot	Chair
	221	-	Frantic Theatre Company Ltd	Board member
	453	-	London International Festival of Theatre	CEO and Artistic Director
Isabel Wilson	70	-	Leicester Print Workshop Studios and Resource	Sister-in-Law is a Trustee
Alison Clark	788	-	Liverpool Biennial Of Contemporary Art	Partner is an employee
Phil Gibby	107	-	Theatre Bristol Ltd	Partner is an employee
Darren Henley	144	-	Canterbury Festival	Was a director up to 17/04/2015
Michelle Freeman	70	18	Castlefield Gallery	Board member

27c 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 2016 £000s	Debtor 31 March 2016 £000s	Creditor 31 March 2015 £000s	Debtor 31 March 2015 £000s
Balances with other DCMS government bodies	187	2,525	110	1,505
Balances with other central government bodies	-	7	-	-
Balances with academies	-	5	-	-
Balances with local authorities	9,120	62	653	-
Balances with NHS Trust	-	-	-	-
Balances with public corporations and trading funds	29	-	265	-

28 Reconciliation of operating surplus to departmental expenditure limit

The government budget that is allocated to and spent by government departments is known as the departmental expenditure limit, or DEL. The Arts Council is not allowed to exceed its annual DEL budget. Due to differing accounting treatments there are certain transactions which are included in these accounts but do not have an impact on our DEL budget. The Arts Council has a reported surplus of £339,000 but our overall DEL underspend for the year was £193,000 and the table below shows a reconciliation of the two amounts.

	£000s
Underspend as per statement of financial activities	(19,459)
Exclude non-DEL transactions	
Revaluation of Heritage assets	17,958
FRS102 surplus	946
Gain on investments	20
Depreciation	(986)
Capital expenditure	818
Provisions adjustments	465
Legacy income	10
Donations	35
Adjusted under spend	(193)
Represented by:	
Resource DEL underspend	(103)
Capital DEL underspend	(90)
	(193)

29 Contingent liabilities

There were no contingent liabilities as at 31 March 2016.

30 Post balance sheet events

In accordance with the requirements of FRS102 events after the balance sheet date, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the independent auditor's report to the trustees of Arts Council England. There are no post balance sheet events to report.

31 Reconciliation of movement in funds (prior period adjustment)

	Unrestricted Funds 31 Mar 15 £000s	Restricted Funds 31 Mar 15 £000s	Endowment Funds 31 Mar 15 £000s	Total Funds 31 Mar 15 £000s	Unrestricted Funds 1 Apr 14 £000s	Restricted Funds 1 Apr 14 £000s	Endowment Funds 1 Apr 14 £000s	Total Funds 1 Apr 14 £000s
Reconciliation of Funds								
Funds under previous GAAP	143,507	5,159	465	149,131	139,435	5,431	473	145,339
Adjustment: Pension deficit payment plan provision	(4,212)	-	-	(4,212)	(4,859)	-	-	(4,859)
Funds restated under FRS 102	139,295	5,159	465	144,919	134,576	5,431	473	140,480

As a result of the implementation of FRS102 Arts Council England was required restate the closing balances as at 31 March 2015. The above note shows how a reconciliation between the closing balances as at 31 March 2015 and the opening balances as at 1 April 2014. Other than the adjustment for the pensions deficit repayment plan there was no material impact on the Accounts from the implementation of FRS102.

32 Reconciliation of income and expenditure (prior period adjustment)

	Unrestricted Funds 31 Mar 15 £000s	Restricted Funds 31 Mar 15 £000s	Endowment Funds 31 Mar 15 £000s	Total Funds 31 Mar 15 £000s
Net income under previous GAAP	4,072	(272)	(8)	3,792
Adjustment: Pension deficit payment plan provision	647	-	-	647
Net income restated under FRS 102	4,719	(272)	(8)	4,439

As a result of the implementation of FRS102 Arts Council England was required to restate the net income for 2014/15 as at 31 March 2015. The above note shows reconciliation between the net income figures shown in the 2014/15 accounts restated for the prior period adjustment.

33 Statement of financial activities – prior year comparators

	Unrestricted Funds £000s	Restricted Funds £000s	Endowment Funds £000s	Total 2015/16 £000s	Unrestricted Funds £000s	Restricted Funds £000s	Endowment Funds £000s	Restated Total 2014/15 £000s
Income and endowments from:								
Donations and legacies	355,832	107,314	-	463,146	371,282	78,112	-	449,394
Investments	74	24	10	108	64	10	11	85
Charitable activities	115	(69)	-	46	75	360	-	435
Other: Lottery distribution accounts	17,845	-	-	17,845	17,721	-	-	17,721
Total income and endowments	373,866	107,269	10	481,145	389,142	78,482	11	467,635
Expenditure on:								
Charitable activities (including Government costs)	355,418	107,563	-	462,981	368,047	78,715	-	446,762
Other: Support costs attributable to Lottery distributions accounts	17,845	-	-	17,845	17,721	-	-	17,721
Total expenditure	373,263	107,563	-	480,826	385,768	78,715	-	464,483
Net gains/(losses) on investments	-	-	20	20	-	-	(19)	(19)
Total income/(expenditure) before exceptional items	603	(294)	30	339	3,374	(233)	(8)	3,133
Transfers								
Gross transfers between funds	-	-	-	-	159	(159)	-	-
Total income/(expenditure) before other recognised gains and losses	603	(294)	30	339	3,533	(392)	(8)	3,133
Other recognised gains/losses								
Gain on revaluation of heritage assets	17,956	2	-	17,958	2,869	120	-	2,989
Actuarial gains/(losses) on defined benefit pension schemes	1,162	-	-	1,162	(1,683)	-	-	(1,683)
Net movement in funds	19,721	(292)	30	19,459	4,719	(272)	(8)	4,439
Reconciliation of funds:								
Balance brought forward at 1 April	139,295	5,159	465	144,919	134,576	5,431	473	140,480
Total funds carried forward at 31 March	159,016	4,867	495	164,378	139,295	5,159	465	144,919

34 Balance sheet – prior year comparators

	Unrestricted Funds £000s	Restricted Funds £000s	Endowment Funds £000s	Total 31 March 2016 £000s	Unrestricted Funds £000s	Endowment Funds £000s	Restricted Funds £000s	Total 31 March 2015 £000s
Fixed assets:								
Tangible assets	4,366	-	-	4,366	5,217	-	-	5,217
Heritage assets – Works of art Investments	151,649	4,546	495	156,195	133,011	4,509	465	137,520
Total fixed assets	156,015	4,546	495	161,056	138,228	4,509	465	143,202
Current assets:								
Debtors	1,435	69	-	1,504	894	1,507	-	2,401
Due from Arts Council lottery accounts	2,525	-	-	2,525	3,379	-	-	3,379
Grants paid in advance	369	-	-	369	321	77	-	398
Cash and cash equivalents	29,414	13,869	-	43,283	18,324	3,449	-	21,773
Total current assets	33,743	13,938	-	47,681	22,918	5,033	-	27,951
Liabilities:								
Creditors: amounts falling due within one year								
Grants outstanding	16,135	8,603	-	24,738	7,440	4,333	-	11,773
Creditors	4,329	5,014	-	9,343	2,886	50	-	2,936
Total creditors: amounts falling due within one year	20,464	13,617	-	34,081	10,326	4,383	-	14,709
Net current assets	13,279	321	-	13,600	12,592	650	-	13,242
Total assets less current liabilities	169,294	4,867	495	174,656	150,820	5,159	465	156,444
Creditor: amounts falling due after more than one year	4,664	-	-	4,664	4,965	-	-	4,965
Provisions for liabilities and charges								
Net assets excluding pension liability	164,630	4,867	495	169,992	145,855	5,159	465	151,479
Defined benefit pension scheme liability								
Net assets including pension liability	159,016	4,867	495	164,378	139,295	5,159	465	144,919

	Unrestricted Funds £000s	Restricted Funds £000s	Endowment Funds £000s	Total 31 March 2016 £000s	Unrestricted Funds £000s	Restricted Funds £000s	Endowment Funds £000s	Restated Total 31 March 2015 £000s
The funds of the charity:								
<i>Represented by income funds</i>								
Unrestricted fund	8,614	-	-	8,614	7,627	-	-	7,627
Restricted fund	-	321	-	321	-	650	-	650
<i>Represented by capital funds</i>								
Endowment funds	-	-	495	495	-	-	465	465
Designated fund	151,650	-	-	151,650	133,011	-	-	133,011
Donated asset reserve	-	4,546	-	4,546	-	4,509	-	4,509
Capital reserve	4,366	-	-	4,366	5,217	-	-	5,217
Pension reserve	(5,614)	-	-	(5,614)	(6,560)	-	-	(6,560)
Total charity funds	156,016	4,867	495	164,378	139,295	5,159	465	144,919

FRS102 requires prior comparative figures to be shown for each type of fund for the balance sheet as well as the statement of financial activities. This note discloses the prior year comparative figures for all three types of funds.

9. Lottery distribution accounts

1	Chair's report
2	Chief Executive's report
3	Achieving great art and culture
4	Remuneration report 1 April 2015 – 31 March 2016
5	Environmental sustainability

6	Trustees' report and management commentary
7	Strategic report
8	Grant-in-Aid accounts
9	Lottery distribution accounts
10	National Lottery report

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of Arts Council England's Lottery Distribution for the year ended 31 March 2016 under the National Lottery etc Act 1993. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Equity; 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 Board, Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are

free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to Arts Council England Lottery Distribution's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Arts Council England Lottery Distribution; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Art Council England Lottery Distribution's affairs as at 31 March 2016 and of the net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Lottery etc Act 1993 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration Report to be audited have been properly prepared in accordance with Secretary of State directions made under the National Lottery etc Act 1993; and
- the information given in the Trustees' Report and Management Commentary and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse **29 June 2016**
Comptroller and Auditor General

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

Statement of comprehensive net expenditure

	Note	2015/16 £000s	2014/15 £000s
Income			
Share of proceeds from the National Lottery Distribution Fund	2	268,419	252,540
Investment returns on the Distribution Fund	2	1,095	1,101
Transfer of funds from the Olympic Lottery Distribution Fund	2	-	20,749
		269,514	274,390
Other income	3	682	518
Total income		270,196	274,908
Expenditure			
Grant commitments made in the year		140,147	396,331
Less: lapsed and revoked commitments		(19,799)	(7,734)
Net grant commitments		120,348	388,597
<i>General expenditure:</i>			
Staff costs	4	-	142
Other operating costs	5	-	364
Costs apportioned from Grant-in-Aid accounts	6	17,845	17,721
		17,845	18,227
Total expenditure		138,193	406,824
Net income/(expenditure)		132,003	(131,916)
Interest receivable		19	22
Net (expenditure)/income after interest		132,022	(131,894)

All income and expenditure disclosed above relates to continuing activities.

The notes on pages 105 to 123 form part of these accounts.

Statement of financial position

	Note	31 March 2016 £000s	31 March 2015 £000s
Non-current assets			
Tangible assets	8	-	-
Total non-current assets		-	-
Current assets			
Trade and other receivables	9	36	26
Investments: balance in the National Lottery Distribution Fund	2	334,285	325,697
Cash and cash equivalents		5,081	5,020
Total current assets		339,402	330,743
Total assets		339,402	330,743
Current liabilities			
Grant commitments due within one year	10	209,283	241,458
Trade and other payables	11	177	146
Due to Grant-in-Aid accounts		2,525	3,379
Total current liabilities		211,985	244,983
Non-current assets plus net current assets		127,417	85,760
Non-current liabilities			
Grant commitments due in more than one year	10	116,906	207,271
Assets less liabilities		10,511	(121,511)
Equity			
General reserve		8,394	(123,628)
Fair value reserve		2,117	2,117
		10,511	(121,511)

The notes on pages 105 to 123 form part of these accounts.

Darren Henley OBE

Chief Executive
16 June 2016

Sir Peter Bazalgette

Chair
16 June 2016

Statement of cash flows

	Note	2015/16 £000s	2014/15 £000s
Cash flows from operating activities			
Funds received from the National Lottery Distribution Fund	2	260,926	214,557
Other cash receipts		704	534
Grants paid		(242,889)	(228,518)
Cash paid to and on behalf of employees		-	(142)
Transfer from Olympic Lottery Distribution Fund	2	-	20,749
Cash paid to Grant-in-Aid accounts		(18,699)	(16,915)
Other cash payments		-	(342)
Net cash inflow/(outflow) from operating activities	12	42	(10,077)
Cash flows from investing activities			
Interest received		19	22
Net cash outflow from investing activities		19	22
Net increase/(decrease) in cash and cash equivalents	13/14	61	(10,055)
Cash and cash equivalents at beginning of period		5,020	15,075
Cash and cash equivalents at end of period		5,081	5,020

The notes on pages 105 to 123 form part of these accounts.

Statement of changes in equity

	SoCNE reserve £000s	Fair value reserve £000s	Total Reserves £000s
Closing Lottery reserve 31 March 2015	(123,628)	2,117	(121,511)
Transferred from/(to) the statement of comprehensive net expenditure	132,022	-	132,022
Closing reserve position 31 March 2016	8,394	2,117	10,511

Notes to the Lottery distribution accounts

1 Accounting policies

1a Basis of accounts

We have prepared these accounts in accordance with the National Lottery etc Act 1993 (as amended) and directions issued thereunder by the Secretary of State for Culture, Media and Sport with the consent of HM Treasury and the 2015/16 Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained

in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

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

The accounts are prepared on a going concern basis. Last year the Statement of Financial Position showed a deficit of £122 million. This year the position has moved to a surplus of £11 million. The reason for this is that, unlike Grant-in-Aid, the full amount of Lottery grant commitments are shown in the accounts in the year when the commitment is made. In 2014/15 we entered into our new three-year investment round, which means those National Portfolio Organisations which are being funded through the Lottery distribution accounts are showing the full three year commitment in 2015/16 of £117 million, for activity and payments which will take place over the period 2016-19. This deficit has moved to a surplus this year, which will continue to increase over the next two years as we make payments against these grants from income in those years. The grant commitments have been entered into after consideration of the cash requirements of grant recipients and after taking account of income projections provided by the Department for Culture, Media and Sport.

The accounts are prepared on a historic cost basis. Separate accounts have been prepared for the activities funded from Grant-in-Aid, in accordance with the directions issued by the Secretary of State. Full consolidated accounts have not been prepared.

1b Recognition of income and expenditure

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

1c National Lottery Distribution Fund

Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Culture, Media

and Sport. However, the share of these balances attributable to Arts Council England is as shown in the accounts and, at the date of the statement of financial position, has been notified by the Secretary of State for Culture, Media and Sport as being available for distribution by Arts Council England for current and future commitments.

1d Taxation

Arts Council England, as a registered charity (1036733), is considered to pass the tests set out in paragraph 1, schedule 6 of the Finance Act 2010 and therefore it meets the definition of a charitable trust for UK income tax purposes.

Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by part 10 of the Income Tax Act 2007 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. No tax charge has arisen in the year.

1e 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.

The Arts Council Retirement Plan is a multi-employer scheme and we cannot identify our share of the underlying assets and liabilities. We have therefore accounted for this scheme as if it were a defined contribution scheme, in accordance with FRS102, with the costs of the scheme being charged to the statement of financial activities. The West Yorkshire Pension Fund is also a multi-employer scheme, but, as a local government pension scheme, we are able to identify our share of the underlying assets and liabilities and have therefore accounted for this scheme in line with FRS102.

All pensions adjustments are charged through the Grant-in-Aid accounts and recharged to the Lottery Distribution accounts.

The law on workplace pensions has changed and every employer must automatically enrol its staff onto a workplace pension scheme. In order to meet these requirements, we now also provide a defined contribution scheme for staff who are automatically enrolled (via the People's Pension).

1f Apportioned costs

Arts Council England incurs indirect costs, which are shared between activities funded from Grant-in-Aid and activities funded from the National Lottery. We are required to apportion indirect costs properly between the two areas in accordance with good accounting practice. It should be noted that Grant-in-Aid accounts are prepared under the FRS102 and the Charity SORP, and as such are not impacted by IFRS. There is no material impact on the recharge to Lottery were IFRS a requirement for adoption for the Grant-in-Aid accounts.

1g Financial instruments

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

1h Policy on reserves

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

1i Statement of financial position

The statement of financial position reports the revaluation reserve on the National Lottery Distribution Fund balance as a fair value reserve.

1j Adoption of International Reporting Standards

Arts Council England has been required to present the Lottery distribution accounts under International Financial Reporting Standards (IFRS) since 2009/10.

It is a requirement of IFRS that staff costs include an accrual for any outstanding leave at the close of the year as a potential liability to the organisation. In previous years the value of this liability has been considered immaterial. However, with the adoption of FRS102 for the Grant-in-Aid accounts and to show consistency between the Grant-in-Aid and Lottery accounts an accrual of £213,000 was charged to the Lottery accounts for untaken leave as at 31 March 2016.

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

2 National Lottery Distribution Fund

	2015/16 £000s	2014/15 £000s
Balance at 1 April	325,697	286,613
Share of proceeds from the National Lottery Distribution Fund	268,419	252,540
Investment returns on the Distribution Fund	1,095	1,101
Receipt of funds from winding up of Olympic Lottery Distribution Fund	-	20,749
Cash drawn down	(260,926)	(235,306)
Balance at 31 March	334,285	325,697

The balance in the National Lottery Distribution Fund at 31 March 2016 is based on the interim certificate issued by DCMS.

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

We believe that our Lottery financial model should preserve a balance of approximately £50-£80 million in each year over the period to 2017/18. This is the equivalent of approximately three to four months' worth of income or cash payments which we feel

is sufficient to mitigate the risks involved while ensuring that we commit to as high a value of Lottery grant programmes as possible. We may also choose to build up our Lottery balance for a particular reason, for example to enable the launch of a new capital programme where a significant budget is required in one financial year. However as a general principle we would not allow our balance to exceed one year's worth of income. We review this policy annually and may either revise this figure upward or downward based on our assessment of the risks.

3 Other income

	2015/16 £000s	2014/15 £000s
Grants and sponsorship received		
Other central government bodies	475	499
Public Corporations	204	-
Local authorities	-	8
Sundry	3	11
	682	518
<i>Grants, sponsorship and donations are analysed as follows:</i>		
Other central government bodies		
Arts Council of Northern Ireland	150	150
Arts Council of Wales	150	150
Creative Scotland	175	175
Home Office	-	24
Public Corporations		
British Council	204	-
	679	499

4a Staff costs

	2015/16 £000s	2014/15 £000s
Salaries and wages	-	114
Employer's national insurance	-	9
Employer's pension contributions	-	19
	-	142

In previous years some staff have been charged directly to the Lottery and their costs were shown in note 4. However, with effect from 2015/16, there has been a change in the way that staff costs are allocated to the Lottery. All staff are now charged initially to the Grant-in-Aid accounts and recharged to Lottery in accordance with the amount of time they spend on Lottery-related activities. Costs recharged to the Lottery are shown in note 6 below.

For comparison purposes to 2014/15, £42,000 salaries and wages and £5,000 employer's National Insurance have been included within note 6 below.

The average number of staff engaged directly on Lottery activities for the year ended 31 March 2016 was as follows:

	Permanent staff	Agency staff	2015/16 Total staff	2014/15 Total staff
Management and operation	-	-	-	7

There has been a change in the way that staff time is allocated to Lottery activities. In previous years some staff had 100 per cent of their time allocated to Lottery activities. However from April 2015 no staff are recorded as spending 100 per cent of their time on Lottery activities. Instead all staff time (and related costs) is charged initially to the Grant-in-Aid accounts and then a proportion of this time is recharged to the Lottery accounts.

The average percentage of days of sickness absence per full time employee during 2015/16 was 1.6 per cent days (2014/15: 1.2 per cent).

4b Pensions

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

Arts Council Retirement Plan (1994)

The scheme is a defined benefit scheme. Other employers contributing to the scheme are the Arts Council of Wales, Creative Scotland, the Crafts Council, Ty Cerdd – Music Centre Wales and Creativity, Culture and Education. 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 FRS102.

The scheme is financed by payments made by Arts Council England and employees, together with those by the other employers and their employees, into a trustee-administered fund independent of Arts Council England's finances. These contributions are invested by leading fund management companies. The net market value of the scheme's assets at 31 March 2016 was £129 million (2015: £125.4 million).

An actuarial valuation of the pension fund takes place at least every three years. At the last valuation on 31 March 2013 the actuarial value of the assets using the projected unit method was sufficient to cover 77.8 per cent of the value accrued to members, a deficit of £28,100,000. As a result, and on the advice of the actuary, with effect from 1 April 2014 we have been paying employer's contributions of 16.6 per cent of pensionable salary for Arts Council England employees and 21.9 per cent of pensionable salary for employees who transferred to Arts Council England from Museums, Libraries and Archives, as well as a cash contribution of £647,200 per annum until 31 March 2023.

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

Consumer price inflation rate	2.55%
Long term rate of pay increases	3.3%
Short term rate of pay increases	1.3%
Rate of pension increases	2.55%
Discount rate	4.5%

FRS102 requires that any agreed pension deficit repayment plan be recognised as a liability within the accounts. Arts Council England has agreed a deficit repayment plan whereby £647,000 will be paid to the Arts Council Retirement Plan each year from 1 April 2014 to 31 March 2023. The outstanding liability has been calculated using the total value of the remaining payments and then discounting to net present value (NPV) using a discount rate of 4.6 per cent. The liability is disclosed within note 16 of the Grant-in-Aid accounts.

Arts Council England is a participating employer in the Arts Council Retirement Plan (1994) together with five other separate organisations. There is no legal separation of the plan's assets or liabilities and as such there is a certain amount of inevitable cross subsidy between participating employers depending on the experience of their own members. Under the plan's rules there is also no requirement or discretion to segregate the assets of the scheme in the event of the cessation of a participating employer. As such it is a "last man standing" arrangement and the remaining employers would become liable for meeting

Principal financial assumptions

	31 March 2016	31 March 2015	31 March 2014
Discount rate	3.4%	3.2%	4.3%
RPI Inflation	2.9%	2.9%	3.4%
CPI Inflation	1.8%	1.8%	2.4%
Rate of increase to pensions*	1.8%	1.8%	2.4%
Pensions accounts revaluation rate	1.8%	1.8%	n/a
Rate of general increase in salaries **	3.3%	3.3%	3.9%

* In excess of Guaranteed Minimum Pension increases in payment where appropriate

** This has been set as 1.5 per cent p.a. above the CPI inflation assumption which is consistent with the assumption used at the actuarial valuation of the Fund as at 31 March 2013.

the pension obligations of other participating employers who cease participation.

Amounts due to the fund at 31 March 2016 were £2,933 (31 March 2015: £0).

West Yorkshire Pension Fund

We are an admitted member of the West Yorkshire Pension Fund. This fund provides pensions to over 268,000 members in 383 mainly local government organisations. In the year ending 31 March 2016, nine Arts Council staff participated in the scheme. The scheme is a defined benefit scheme and is accounted for in accordance with FRS102.

The disclosures below relate to the funded liabilities within the West Yorkshire Pension Fund (the "Fund") which is part of the Local Government Pension Scheme (the "LGPS"). The funded nature of the LGPS requires The Arts Council of England and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension's liabilities with investment assets.

Assumptions

The latest actuarial valuation of The Arts Council of England's liabilities took place as at 31 March 2013. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for FRS 102 purposes were:

Asset allocation

	Value at 31 March 2016 %	Value at 31 March 2015 %
Equities	75.6%	76.4%
Property	4.9%	4.2%
Government Bonds	10.3%	10.5%
Corporate Bonds	4.6%	4.6%
Cash	1.3%	2.1%
Other	3.3%	2.2%
Total	100%	100%

Reconciliation of funded status to balance sheet

	Value as at 31 March 2016 £million	Value as at 31 March 2015 £million	Value as at 31 March 2014 £million
Fair value of assets	30.126	30.601	26.337
Present value of funded liabilities	35.740	37.161	33.474
Pension liability recognised on the balance sheet	(5.614)	(6.560)	(7.137)

Amounts recognised in income statement

	Period ending 31 March 2016 £million	Period ending 31 March 2015 £million
Operating cost:		
Current service cost	0.103	0.088
Past service cost	0.000	0.000
Curtailement cost	0.000	0.000
Settlement cost	0.000	0.000
Financing cost:		
Interest on net defined benefit liability/(asset)	0.208	0.285
Pension expense recognised in other comprehensive income	0.311	0.373

Amounts recognised in other comprehensive income

	Period ending 31 March 2016 £million	Period ending 31 March 2015 £million
Asset gains/(losses) arising during the period	(0.718)	1.652
Liability gains/(losses) arising during the period	1.880	(3.335)
Total amount recognised in other comprehensive income	1.162	(1,683)

Changes to the present value of the defined benefit obligation during the accounting period

	Period ending 31 March 2016 £million	Period ending 31 March 2015 £million
Opening defined benefit obligation	37.161	33.474
Current service cost	0.103	0.088
Interest expense on defined benefit obligation	1.176	1.423
Contributions by participants	0.029	0.028
Actuarial (gains)/losses on liabilities	(1.880)	2.944
Net benefits paid out	(0.849)	(0.796)
Past service cost	0.000	0.000
Curtailement cost	0.000	0.000
Net increase in liabilities from disposals/acquisitions	0.000	0.000
Settlements	0.000	0.000
Closing defined benefit obligation	35.740	37.161

Changes to the fair value of assets during the accounting period

	Period ending 31 March 2016 £million	Period ending 31 March 2015 £million
Opening fair value of assets	30.601	26.337
Interest income on assets	0.958	1.138
Remeasurement gains/(losses) on assets	(0.718)	1.905
Contributions by the employer*	0.095	0.989
Contributions by participants	0.029	0.028
Net benefits paid out**	(0.849)	(0.796)
Net increase in assets from disposals/acquisitions***	0.000	1.000
Settlements	0.000	0.000
Closing fair value of assets	30.126	30.601

* Includes £900,000 additional contribution to West Yorkshire Pension Fund

** Consists of net benefits cash-flow out of the West Yorkshire Pension Fund in respect of the Employer, including an approximate allowance for the expected cost of death in service lump sums.

*** Transfer from Greater Manchester Pension Fund to West Yorkshire Pension Fund

Actual return on assets

	Period ending 31 March 2016 £million	Period ending 31 March 2015 £million
Interest income of assets	0.968	1.138
Gain/(Loss) on assets	(0.718)	1.905
Actual return on assets	0.250	3.043

The results of the triennial actuarial valuation of the Fund as at 31 March 2013 have been used to calculate Arts Council England's accounting figures over the period ending 31 March 2014 and 31 March 2015.

The 2013 valuation results included the transferred liabilities for 49 active members who transferred from the former arts boards but made no allowance for any bulk transfer payments to or from Surrey (11 members) or Staffordshire (13 members) pension funds. With respect to the 25 members who transferred from Greater Manchester an interim payment of £1,000,000 was paid by Greater Manchester Pension Fund to West Yorkshire Pension Fund in October 2014. This was included in last year's FRS17 report when calculating the fair value of assets. The value of the final payment has not yet been determined and therefore no allowance for this has been made in the calculations.

How the transfer payments should be calculated is still under discussion between those funds, the West Yorkshire Pension Fund and Arts Council England. The actuary has made no allowance for any transfer payments in our disclosures. We have, however, made allowance for the bulk transfers in relation to the other 131 members that transferred from the former arts boards at the same time.

Amounts due to the fund at 31 March 2016 were £nil (31 March 2015: £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, the deferred and pensioner members remained with their legacy pension provider as detailed below:

East England Arts	Cambridgeshire Council
East Midlands Arts	Nottingham Council
Northern Arts	Tyne & Wear 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 did not believe it was responsible for meeting any further liabilities relating to regional arts board employees in respect of these funds following lump sum payments to four schemes. However, three other funds have indicated previously that liabilities exist in respect of the deferred pensioner members that they retained within their respective funds. Following specialist legal advice Arts Council England has asked the funds to provide documentary evidence that it is liable. No provision has been made in these accounts for potential sums payable, because of the uncertain nature of these liabilities.

5 Other operating costs

	2015/16 £000s	2014/15 £000s
Travel and subsistence	-	5
Professional fees	-	2
External assessment costs	-	357
	-	364

There has been a change in the methodology used in 2015/16 for allocating costs between Grant-in-Aid and Lottery accounts. No operating costs are directly charged to the Lottery accounts; all costs are initially charged to Grant-in-Aid and then recharged to Lottery based on the amount of time spent on Lottery-related activities.

For comparison purposes to 2014/15, £276,000 external assessment costs have been included within note 6 below.

6 Costs apportioned from Arts Council England Grant-in-Aid accounts

	2015/16 £000s	2014/15 £000s
Staff costs	11,871	11,963
Indirect staff costs	331	349
Premises	1,219	1,462
Supplies and services	2,134	2,076
Travel and subsistence	858	740
Professional fees	864	488
Central costs	159	191
Other recharges – contribution to depreciation	409	452
	17,845	17,721
<i>Corporate governance costs included above</i>	483	350

7 Increase/decrease in Lottery funds

	2015/16 £000s	2014/15 £000s
Stated after charging:		
(a) Auditors' remuneration	64	67
(b) Staff travel, subsistence and hospitality	858	745

The statutory audit fee for 2015/16 is £64,000. There were no fees payable to the auditors for non-audit services.

8 Non-current assets

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

9 Receivables

	31 March 2016 £000s	31 March 2015 £000s
Prepayments and accrued income	1	25
Other receivables	35	1
Provision for doubtful debts	-	-
	36	26

10 Grant commitments

Prior to 2014/15, commitments accounted for were limited to those where there had been written acceptance from the grant recipient.

In line with the 2014/15 Lottery Directions, issued by the Secretary of State, commitments are now accounted for when the decision to award grants had been made and communicated to the grant recipient.

	31 March 2016 £000s	31 March 2015 £000s
Ageing of commitments:		
2015/16	N/A	241,458
2016/17	209,283	118,401
2017/18	104,251	85,988
2018/19	10,739	2,557
2019/20	1,916	325
	326,189	448,729

11 Current liabilities

	31 March 2016 £000s	31 March 2015 £000s
Trade payables	177	90
Accruals and deferred income	-	54
Other payables	-	2
	177	146

12 Cash flow reconciliation

	2015/16 £000s	2014/15 £000s
Reconciliation of operating surplus/(deficit) to net cash flow from operating activities		
Operating (deficit)/surplus	132,022	(132,567)
Interest receivable	(19)	(22)
(Increase) in receivables and prepayments	(8,599)	(39,069)
Increase/(decrease) in payables	(123,362)	161,581
Net cash inflow/(outflow) from operating activities	42	(10,077)

13 Reconciliation of net cash flow to movement in funds

	2015/16 £000s	2014/15 £000s
Increase/(decrease) in cash and cash equivalents in the year	61	(10,055)
Funds at 1 April	5,020	15,075
Funds at 31 March	5,081	5,020

14 Cash and cash equivalents

	1 April 2015 £000s	Cash Flow £000s	31 March 2015 £000s
Cash and cash equivalents	5,020	61	5,081
	5,020	61	5,081

15 Leases

There were no commitments under non-cancellable operating leases at 31 March 2016 (31 March 2015: £nil).

16 Capital commitments

There were no contracted capital commitments as at 31 March 2016 (31 March 2015: £nil).

17 Charges on assets

Since April 2012, the standard conditions for capital grants for building projects of £500,000

or more give Arts Council England the option to take security on assets.

18 Reconciliation of transactions with delegate body

18a National Foundation for Youth Music

The National Foundation for Youth Music 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 National Foundation for Youth Music as follows:

	2015/16 £000s	2014/15 £000s
Transactions in Arts Council England accounts:		
Grant commitments in the year	-	9,651
National Foundation for Youth Music's payables balance as at 31 March	4,826	15,626

	2015/16 £000s	2014/15 £000s
This reconciles to National Foundation for Youth Music's accounts for the year ended 31 March as follows:		
Balance at 1 April	1,425	1,308
Incoming funds:		
Arts Council England grant	9,651	9,975
Other funds	545	586
Outgoing funds:		
Grant expenditure	(8,898)	(9,188)
Other expenditure	(1,226)	(1,256)
Balance at 31 March	1,497	1,425
Arts Council England receivables balance as at 31 March	4,826	15,626

The 2015/16 figures were unaudited at the date of signing these accounts; the 2014/15 figures have been adjusted to reflect audited accounts.

18b National Skills Academy

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

	2015/16 £000s	2014/15 £000s
Transactions in Arts Council England accounts:		
Grant commitments in the year	-	-
National Skills Academy payables balance as at 31 March	-	1,401

	2015/16 £000s	2014/15 £000s
This reconciles to the National Skills Academy's accounts for the year ended 31 March as follows:		
Balance at 1 April	7,384	4,292
Incoming funds:		
Arts Council England grant	467	6,069
Other funds	-	2
Outgoing funds:		
Grant expenditure	(1,683)	(2,807)
Other expenditure	(179)	(172)
Balance at 31 March	5,989	7,384
Arts Council England receivables balance as at 31 March	-	1,401

The 2015/16 figures were unaudited at the date of signing these accounts.

18c Performing Rights Society for Music Foundation

The Performing Rights Society for Music Foundation is a delegate body of Arts Council England in distributing Lottery funds. Transactions in these accounts relating to this delegation reconcile to transactions in the accounts of the Performing Rights Society for Music Foundation as follows:

	2015/16 £000s	2014/15 £000s
Transactions in Arts Council England accounts:		
Grant commitments in the year – Grant-in-Aid	508	-
Grant commitments in the year – Lottery	-	-
PRS for Music Foundation payables balance as at 31 March – Grant-in-Aid	251	-
PRS for Music Foundation payables balance as at 31 March – Lottery	-	63

	Grant-in-Aid 2015/16 £000s	Lottery 2015/16 £000s	Lottery 2014/15 £000s
This reconciles to the Performing Rights Society for Music Foundation accounts for the year ended 31 March as follows:			
Balance at 1 April	-	9	15
Incoming funds:			
Arts Council England grant	261	-	256
Other funds	-	136	85
Outgoing funds:			
Grant expenditure	(261)	(76)	(303)
Other expenditure	-	(69)	(44)
Balance at 31 March	-	-	9
Arts Council England receivables balance as at 31 March	251	-	63

The 2015/16 figures were unaudited at the date of signing these accounts.

19 Financial instruments

Cash requirements for Lottery expenditure are met by drawing down against weekly forecasts of need from the balances held on behalf of the Arts Council by the National Lottery Distribution Fund. At 31 March 2015 the fund balance was £326 million. This had increased to £334 million by 31 March 2016, at which point there were £326 million of grant commitments yet to be paid out.

In budgeting for current expenditure the Arts Council balances the anticipated outflow of cash payments against grant commitments along with forward forecasts of Lottery income provided by the Department for Culture, Media and Sport. This means that the Arts Council is exposed to little immediate credit, liquidity or market risk.

19a Liquidity risk

In 2015/16, 99.75 per cent of Arts Council England's income derived from the National Lottery and the investment returns from the balances held with the National Lottery Distribution Fund.

	£000s
At the balance sheet date, Arts Council England had net assets of:	10,511

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 of £209 million over the next financial year.

	£000s
Liquid assets as at 31 March 2016:	
Market value of National Lottery Distribution Fund investments	334,285
Cash and cash equivalents	5,081

19b Interest rate risk

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

At the balance sheet date, the market value of the Arts Council's share of the National Lottery Distribution Fund was £334,285,837.

In the year, the average return on these investments was 0.50 per cent (2014/15: 0.50 per cent).

	Fund balance £000s	Investment return £000s	Average return	Proportion of total income
2015/16	334,285	1,095	0.50%	0.41%
2014/15	325,697	1,101	0.50%	0.40%
2013/14	286,613	1,083	0.50%	0.47%
2012/13	282,192	1,445	0.78%	0.53%
2011/12	194,490	1,515	2.26%	0.71%
2010/11	125,457	2,092	1.13%	1.15%
2009/10	97,363	1,396	0.58%	0.81%
2008/09	129,622	7,122	3.72%	4.66%

Cash balances which are drawn down by Arts Council England from the National Lottery Distribution Fund to pay grant commitments and operating costs are held in an instant access variable rate bank account, which carried an interest rate of 0.22 per cent below base rate during the year.

The cash balance at the year end was £5,081,294.

19c Foreign currency risk

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

19d Financial assets by category

	2015/16 £000s	2014/15 £000s
Receivables due within one year		
Accrued income	1	25
Other receivables	35	1
	36	26
Investments		
National Lottery Distribution Fund	334,285	325,697
Cash and cash equivalents		
Cash and cash equivalents	5,081	5,020
Total financial assets	339,402	330,743

19e Financial liabilities by category

	2015/16 £000s	2014/15 £000s
Trade payables	177	90
Accruals	-	56
Due to Arts Council Grant-in-Aid accounts	2,525	3,379
Grant payables falling due within one year	209,283	241,458
Grant payables falling due over one year	116,906	207,271
Total financial liabilities	328,891	452,254

20a Council members

We maintain publicly available registers in which council members declare their interests, including any direct interests in grant applications made to, and commercial relationships with, the Arts Council. The declared interests in grant recipients along with amounts awarded for the year ended 31 March 2016 are detailed below.

Council member	Grant for year ended 31 March 2016 £000s	Balance unpaid at 31 March 2016 £000s	Organisation	Relationship type
Alistair Spalding	- 563	979 281	Dance Consortium Limited Sadler's Wells Trust Ltd	Director Chief Executive
Maria Balshaw	93 - 78 1,500	87 24 32 1,696	Manchester City Council The Whitworth Art Gallery Manchester City Galleries The Clore Leadership Programme	Director of Manchester City Galleries linked to City Council Director Director of Manchester City Galleries linked to City Council Member of Strategic Advisory Board
Matthew Bowcock	8	1	Watts Gallery	Board member
Nicholas Kenyon	750 23	750 11	Artichoke Trust House of Illustration	Partner is a Board member Partner is a trustee
Peter Bazalgette	85	228	The Charleston Trust	Partner is a Trustee
Rosemary Squire	88 -	4,595 19	Rambert Dance Company The Hall for Cornwall Trust	Partner is Chair Trustee
Sheila Healy	- - 300	709 298 255	Kneehigh Theatre Trust Ltd The Audience Agency Situations	Board member Chair Board member
Veronica Wadley	59	71	Greater London Authority	Senior Advisor to the Mayor for the team London, Volunteering, Charities and Sponsorship

20b 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 declared interests in grant recipients along with amounts awarded for the year ended 31 March 2016 are detailed below.

Director or Senior Manager	Grant for year ending 31 March 2016 £000s	Balance unpaid at 31 March 2016 £000s	Organisation	Relationship type
Alison Clark	250	155	Liverpool Biennial Of Contemporary Art	Partner is employee
	82	62	Northern Film and Media	Board member
Clare Titley	-	56	National Council for Voluntary Organisations	Member of Advisory Council
Joyce Wilson	59	71	Greater London Authority	Member of London Cultural Strategy Group
Mark Ball	1,050	825	Birmingham Repertory Theatre Ltd	Brother is an Associate Director
	215	107	London International Festival of Theatre	CEO and Artistic Director
Darren Henley	-	13	Canterbury Festival	Former director
	-	1	Future Talent	Former director
	59	71	Greater London Authority	Former committee Chair
Michelle Freeman	-	8	Castlefield Gallery	Board member

20c 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, National Skills Academy and the Performing Rights Society for Music Foundation are similarly regarded as related parties by virtue of their funding relationships with the Arts Council. At the year end Arts Council England had the following balances outstanding with other government bodies:

	Payables 31 March 2016 £000s	Receivables 31 March 2016 £000s	Payables 31 March 2015 £000s	Receivables 31 March 2015 £000s
Balances with bodies within DCMS Group	7,758	-	7,421	-
Balances with other central government bodies	28	-	8	-
Balances with academies	12	-	-	-
Balances with local authorities	20,670	-	12,563	-
Balances with NHS Trusts	24	-	41	-
Balances with public corporations and trading funds	772	4	17	-

21 Contingent liability

There were no contingent liabilities as at 31 March 2016.

22 Events after the reporting period

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

10. National Lottery report

1	Chair's report
2	Chief Executive's report
3	Achieving great art and culture
4	Remuneration report 1 April 2015 – 31 March 2016
5	Environmental sustainability

6	Trustees' report and management commentary
7	Strategic report
8	Grant-in-Aid accounts
9	Lottery distribution accounts
10	National Lottery report

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

Policy Directions

Under the National Lottery etc Act 1993, the Secretary of State issued Policy Directions in November 2007, which we must take into account from April 2008 in distributing National Lottery funds. These are set out below, with a short explanation of how the directions have been met.

The references below relate to the National Lottery etc Act 1993 as amended by the National Lottery Act 1998 and subsequent Acts.

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

Our 10-year strategic framework for the arts, libraries and museums, *Achieving Great Art and Culture for Everyone*, guides all of our investment, development and advocacy work. The strategy has been shaped by the views of artists, arts and cultural organisations, the public and our many other stakeholders and partners.

Since 2009, we have been running a programme of research that explores perceptions of the Arts Council and experiences of working with us among a range of audience and stakeholder groups. In this way, we explore levels of trust and confidence in Arts Council England, as well as perceptions of accountability and attitudes to Lottery funding of the arts. Every year we track our progress against certain issues, as well as any changes in opinions. In 2015/16, we ran a survey of the arts/cultural sector and key partners, public polling work to explore public perceptions of arts and culture, and research with political stakeholders such as MPs and local councillors.

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

Great Art and Culture for Everyone sets out our commitment to our mission and our five goals. It also brings together our responsibilities across the arts and the wider cultural sector. It describes what success looks like, and how we measure progress towards our goals.

With its focus on long-term collaborative action, this strategic framework directs Arts Council England to work with its partners to bring about positive change throughout the arts, museums and libraries. It helps create the conditions in which great art and culture can be presented and produced, experienced and appreciated by as many people as possible. It enables us to focus our investment where it can achieve the greatest impact. It supports the development of world-class museums and great libraries that engage diverse audiences. It sustains us as we work to maintain and enhance England's status as a leading cultural force in the world.

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

We believe that everyone has the right to experience and be inspired by the arts and culture, so we want to transform the opportunities open to people in these places. The *Creative People and Places* fund focuses on parts of the country where involvement in the arts is significantly below the national average. The aim is to increase the likelihood that people will participate. In 2015/16, we

awarded over £6 million through our Creative People and Places programme.

Increasing public engagement with the arts is an important principle of *Grants for the Arts*, with specific criteria that require applicants to demonstrate how the funding applied for provides opportunities for the public to engage with the arts activity. For example, Swaledale Festival was awarded £23,497 towards the festival taking place in June 2015. Swaledale Festival is a music, arts and walking festival taking place in a variety of venues across the Northern Yorkshire Dales, a sparsely populated and deeply rural area that is listed on the index of cultural deprivation. The festival included over 50 programmed events including afternoon and evening concerts, talks, workshops, exhibitions, masterclass and guided walks. In addition a free programme of community and educational events and projects are offered during the festival period.

The *Strategic Touring Programme* funds touring work, focusing especially on areas where people have low engagement with the arts and those that rely on touring for much of their arts provision. It also seeks to extend the reach of high quality work by broadening the range of venues presenting it. In 2015/16, 59 projects were awarded over £18.28 million, enabling people across England to experience high quality art touring to their local area.

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

One of our five organisational goals outlines our commitment to a high quality arts, museums and libraries provision for children and young people. We have a number of Lottery funded programmes that support our priorities around children and young people.

Working with our national provider Trinity College London, *Arts Award* is our national programme that enables schools, further education colleges and youth justice settings to evaluate, celebrate and strengthen a quality

arts offer. Our award of £1,000,000 supports the delivery cost of the programme.

In the year under review, we also awarded Darlington Borough Council (in partnership with Theatre Hullabaloo) a capital grant of £1.3 million to support the costs of converting an Edwardian fire station into a flagship children's theatre. Due to open in 2017/18, The new theatre, known as The Hullaballoo, will offer a programme of performances, play installations, creative curriculum delivery and family-focused activities which will have an emphasis on opportunities for younger children.

In the year under review, we provided a grant of £350,000 to establish a national youth music organisation and centre of excellence in commercial and urban music. This will be an accessible and structured talent development pathway offering opportunities for young people in urban music that currently exist for classical and other genres. The programme will be delivered in conjunction with partners across the country in places such as Bristol, Derby, Newham and Manchester, amongst others, by the Urban Development Music Foundation.

e) The need to foster local community initiatives which bring people together, enrich the public realm and strengthen community spirit

We believe that the arts have the power to change lives and communities, and we have funded a range of projects that have toured across the country, from theatres to village halls.

Birmingham Hippodrome were awarded £100,000 in 2014/15 from *Grants for the Arts* to present and commission diverse and distinctive artworks as part of the Four Squares Weekender 2015. Building on the cross-sectoral successful partnerships and track record of the 2013 event and to mark the opening of a transformed New Street Station and adjacent city centre, the festival seeks to bring "great art for everyone" by bringing high-quality, free/low cost performance and visual arts to the diverse population of Birmingham and its global visitors.

f) The need to support volunteering and participation in the arts and community arts

We encourage high quality experiences for people participating in the arts. Voluntary and community groups are eligible to request funding and we aim to support participation through the programme. For example, The Stow Festival is a four-day music festival in Walthamstow run by volunteers. Our funding of £7,111 will support the 2015 festival and will provide a platform for around 100 local musical acts (professional and non-professional) to perform in more than 20 venues in the area.

g) The need to encourage new talent, innovation, and excellence and help people to develop new skills

The *Grants for the Arts* assessment criteria support excellence, promote development opportunities, and encourage innovation and risk. We place additional priority on the development of new ideas and the use of art in new contexts, formats and places. For example, Future4Youth is a nine-month youth programme led by Impact Dance and ACE Dance and Music. Our award of £43,517 supported 20 youth companies from the UK to take part in two workshops in spring 2015, with the theme of “dance of the African diaspora and its relationships with hip-hop”. The companies reunited in July 2015 to share their work with 10 selected companies and then continued on to perform at a formal platform in October 2015. Finally, one company performed at Peacock Theatre in January 2016.

Our *Ambition for Excellence* programme is aimed at supporting projects that stimulate and support ambition, talent and excellence across the arts sector in England. It will support the creation of work for major national moments that build on the legacy of the London 2012 Cultural Olympiad, enabling organisations to reach international and national audiences. In 2015/16, we awarded £7,704,289 to 15 projects which included an award of £450,000 to Tricycle Theatre to deliver an ambitious programme of UK and international Black and minority

ethnic talent development over three years. The programme will create a vital national hub for Black and minority ethnic talent, enabling artistic excellence, risk-taking and ambition through a series of three major co-productions with theatres outside London.

h) The need to ensure that money is distributed for projects which promote public value and which are not intended primarily for private gain

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

i) The need to further the objectives of sustainable development

Our *Capital* investment programme is committed to furthering the objectives of sustainable development. We expect organisations applying for capital investment, as far as possible, to take account of all long-term benefits and costs – environmental, social and economic – and to consider energy efficiency as a priority.

In the year under review, we made a *Capital* award of £1.7 million to St George’s Bristol towards increasing the quality and extent of facilities via improved access, financial resilience and environmental sustainability. The music venue will install new boilers, a green roof, energy efficient lighting, improved insulation and sustainable drainage systems which should result in a 21 per cent reduction in CO₂ emissions. Improved catering provision and spaces for commercial hire should lead to a 30 per cent increase in revenue and decreased reliance on public subsidy.

Fanshen Theatre Company is a London-based community theatre organisation which promotes environmental, social and financial sustainability. With a *Grants for the Arts* touring activity award made in 2014/15 of £31,995, it delivered three discrete but complementary projects in London and the

South East including: an outdoor, low-carbon, pedal-powered show, *The Apple Cart* about social change at seven festivals in Kent; *Invisible Treasure* at Oval House in Vauxhall, London – an interactive family performance about community renewable energy; and six workshops in Tooting for up to 70 people each employing free, family-oriented participatory arts and outdoor games to explore environmental sustainability.

j) The desirability of ensuring equality of opportunity, of reducing economic and social deprivation and ensuring that all areas of England have access to the money distributed

We know that where people live is likely to have a profound impact on the likelihood of them attending or participating in the arts. There are considerable differences in engagement levels for regions, local authority areas and neighbourhoods across England and one of the factors that affect engagement is economic and social deprivation. Since the Lottery began, 22 per cent of the total value of Lottery grants awarded have been channelled into the 20 most deprived local authorities in England.

Liverpool is ranked the fourth most deprived local authority area on the Index of Multiple Deprivation 2015. In the year under review, Liverpool City Council was awarded £150,000 for a project celebrating Liverpool's long association with the Cunard shipping. 2015 was Cunard's 175th anniversary year and the project represented a unique and one-off opportunity to work in partnership with one of the longest established international maritime companies. The grant supported an ambitious, ground-breaking series of art initiatives that enabled the culture and creativity of the city to be profiled worldwide, and to generate a series of transatlantic creative collaborations and partnerships that have been sustained beyond the events themselves. The event achieved spectator numbers in excess of 120,000 at the live events, the engagement of thousands of school children via an engagement

programme, and millions more globally sharing the experience via broadcast and online representations of the work.

k) The need to support the long-term managerial viability and leadership of organisations in the arts

The *Developing Sector Leaders* programme will be Arts Council England's main grant programme for developing sector leadership in 2016-19, and is a key strand in our work to deliver Goal 4 of our 10-year strategy. The application process opened for the programme in July 2015.

The focus of the fund is to provide a range of leadership and governance development activities that are relevant to the arts and cultural sector's needs and attractive to a diverse range of leaders. The fund will support the long term aim of an increasingly diverse leadership that reflects the diversity of society as a whole.

In addition to the *Developing Sector Leaders* programme, the *Developing Resilient Leadership* commissioned grant is a £3 million fund from Arts Council England. The Clore Leadership Programme has been selected as the national delivery partner for the programme.

As part of our £8.6 million strategic investment in the Creative Case for Diversity, we launched the £2.6 million *Changemakers* fund to help address the lack of diversity in arts leadership. It will fund long term relationships between National Portfolio Organisations and aspiring arts leaders from the Black and minority ethnic and deaf and disabled communities.

l) The desirability of working jointly with other organisations, including other distributors

We recognise that through partnership working and alignment of our activities at local and national level greater benefits can be realised for the economy, as well as increasing the effectiveness and impact of our Lottery funded activity. When assessing applications

to *Grants for the Arts*, we seek comments from local authorities on applications that are of strategic significance in their area. With our *Capital* investment programme, we work closely with other funders to ensure that we have a common understanding and approach to the particular circumstances of each project. We continue to meet regularly with the other distributors to explore and discuss the best ways to get the most out of Lottery money for good causes.

We have also developed close relationships with a number of organisations including Visit England, the Forestry Commission, the National Trust and the Canal & River Trust to work jointly to promote art and cultural projects, especially in places that are not traditional arts venues.

In addition, to support culture's contribution to economic growth, the Arts Council has indicated to Local Enterprise Partnerships that our investment can serve as match funding for European Structural and Investment Funds, and we are working with Local Enterprise Partnerships to help them understand how our investment can help build strong and sustainable local cultural sectors which can contribute to growth in tourism and the creative industries. In 2016 we will make awards through our *Creative Local Growth Fund*, which seeks to provide match funding for European Structural and Investment Funds investment. We made nine awards totalling £3.8 million, which will lever in £8.3 million of EU funding to projects which are of a total value of £22.3 million.

m) The need to ensure that all those receiving Lottery money acknowledge it using the common Lottery branding

We recognise how important it is that the public can see how the Lottery has benefited the arts and other good causes. We make it a condition of funding for all successful applicants that they acknowledge receiving Lottery funding by using the common Lottery branding.

n) The need to require an element of partnership funding, or contributions in kind from other sources, to the extent that this is reasonable to achieve for different kinds of applicants in particular areas

All our funding programmes require applicants to demonstrate their ability to attract partnership funding from other sources when this can be reasonably expected. We believe that this is important, not only because it means that our Lottery funds go further, but also because it demonstrates that the proposed activity has the support of the wider community and others.

o) The need (a) to support projects which are for a specific, time-limited purpose, (b) to ensure that Arts Council England has the necessary information and expert advice to make decisions on each application and (c) for applicants to demonstrate the financial viability of projects

We use our Lottery funding for specific time-limited projects. Our application materials and assessment processes have been reviewed and developed over a number of years to ensure that we have the necessary information on which to base decisions.

Monitoring and evaluation

We continue to use a single set of principles to inform the level of monitoring we carry out for each of our funding programmes. The level is based on an analysis of risk that takes into consideration:

- the amount of money involved
- the strategic importance of the activity
- any other risk factors

We do not necessarily avoid risk; it is often a central aspect of the creative process. Our approach is to manage risk by carefully assessing all applications we receive and tailoring our monitoring requirements on a project by project basis. Where the risks

associated with a project are considered low, a “light touch” approach is adopted, enabling us to concentrate our resources on monitoring and supporting projects where the risks may be higher.

We evaluate our funding programmes regularly to assess whether they are delivering the benefits that we expect for artists, arts organisations and the wider public. We use the findings of such evaluations to refine existing programmes and inform the development of future ones.

Lottery funded programmes

The following section provides details of Lottery funded programmes – delivered by us or our appointed partner organisations – that are open to applications over several years and which accepted applications in 2015/16.

Grants for the Arts

Grant for the Arts is our flagship open application programme that provides Lottery funding to individuals and organisations and for national activities. Grants range from £1,000 to £100,000 (although we may fund activities to a higher value in exceptional circumstances, and can cover activities lasting up to three years). 2015/16 was the twelfth full year of operation and saw the programme make nearly £62 million in Lottery awards.

Strategic Lottery programmes

Strategic funding is used alongside our National portfolio investment to target particular challenges, opportunities or gaps in the delivery of those priorities. It is open to any individual, organisation or consortium that meets the eligibility criteria.

Awards support additional work, rather than the running costs of arts organisations. National Portfolio Organisations that apply will need to show how work supported by strategic funding is additional to their core programme.

Strategic funding must be invested in arts activities, as required by Lottery regulations. Museums and libraries can therefore only apply to this programme for work that is primarily arts focused.

Our strategic funds are used to target particular challenges, opportunities or funding gaps, creating the environment for further development to take place in the arts and culture sector. Ultimately, they help us meet our mission of “great art and culture for everyone”. Details of the strategic Lottery programmes that were open to applications in 2015/16 are as follows:

Artists’ International Development Fund

This programme is jointly funded by the British Council and Arts Council England. The *Artists’ International Development Fund* offers early stage development opportunities for individual freelance and self-employed artists and/or creative practitioners (including, for example: producers, curators, publishers, editors, translators, choreographers) based in England to spend time building links with artists, organisations and/or creative producers in another country.

In 2015/16, we awarded £857,375 to 196 projects.

Ambition for Excellence

Over the period 2015-17, £35.2 million will be provided aimed at supporting projects that stimulate and support ambition, talent and excellence across the arts sector in England. Within *Ambition for Excellence* there is an expectation that 80-90 per cent of the fund will be committed outside of London, to support the Arts Council’s intent to ensure that a minimum of 75 per cent of Lottery funding is committed outside of the capital by 2018.

The fund aims to contribute to the development of strong cultural places, to grow and develop talent and leadership in the regions and across artforms, to give an international dimension to excellent work, and to create the highest

quality new work including for outdoor and festival contexts. Ambition for excellence will support the creation of work for major national moments that build on the legacy of the London 2012 Cultural Olympiad, enabling organisations to reach international and national audiences.

In 2015/16, we awarded £7,704,289 to 15 projects

Arts Council Collection

The *National Partners Fund* is a programme that will mark the 70th anniversary of the Arts Council Collection. The fund will establish a network of four museums and galleries, including Yorkshire Sculpture Park, to present and curate exhibitions drawn from the collection, over a period of three years.

The main aim of the fund is to increase the number and range of people visiting and engaging with Arts Council Collection exhibitions. The collection has, for many years, played a valued role in supporting galleries around the country through loans, touring exhibitions and support to curators. At a time when galleries are under growing pressure to deliver with fewer resources, we wish to use the fund and the collection to give partners additional capacity to make a step change in their regional and national profile. Working closely with the Arts Council Collection team, the partners will deliver a series of exceptional exhibitions to attract new audiences and engage with children and young people.

Artsmark

This grant is for a national provider to deliver *Artsmark* – our national programme that enables schools, further education colleges and youth justice settings to evaluate, celebrate and strengthen a quality arts offer.

We are currently undertaking a rapid review of *Artsmark* to look at its value, process and criteria, to ensure it is fit for purpose within the context of the current educational landscape. Early findings of the review indicate that schools, DFE, Ofsted and other stakeholders

support a refreshed *Artsmark* that is simpler and curriculum focused.

The aim of our investment is to deliver *Artsmark* successfully and increase the number of schools achieving *Artsmark* to 50 per cent.

Capital investment

Over the period 2015-18, we will use £88 million Lottery funding to support organisations to develop resilience by giving them the right buildings and equipment to deliver their work, and to become more sustainable and resilient businesses. Funding rounds for large capital grants applications opened in 2015/16, resulting in 16 organisations being invited to develop their capital plans further and make a second application.

Catalyst: Evolve

In January 2016, we opened a new £17.5 million funding programme which will build on our *Catalyst* investments. *Catalyst: Evolve* will support organisations that have a limited track record in fundraising to enable them to attract more private giving. Applications were received during the year with decisions due by July 2016.

Creative People and Places

The £37 million *Creative People and Places* fund focuses on parts of the country where people's involvement in the arts is significantly below the national average, with the aim of increasing participation. In 2015/16, we awarded just over £6 million to seven projects. This investment will encourage long-term collaborations between local communities and arts organisations, museums, libraries and other partners such as local authorities and the private sector, empowering them to develop innovative and sustainable arts programmes that will engage audiences in those communities. While our funding can only be guaranteed for three years, we ask that applications set out a 10-year artistic vision.

Cross Border Touring

The *Cross Border Touring* programme is a joint fund to which the Arts Council contributed £500,000 in 2015/16. The fund is to enable major large scale lyric and theatre companies to tour to designated large scale theatres in another UK Arts Council area. The contributors to the fund are Arts Council England, Creative Scotland, the Arts Council of Northern Ireland and the Arts Council of Wales. This fund is open to UK-based, large scale lyric and theatre companies which receive regular funding from a UK Arts Council. It provides companies with funding for the marginal touring costs for individual touring weeks outside of their home country but within the UK.

In 2015/16, we jointly awarded £91,527 to 10 projects.

Creative Writing in Schools

The *Creative Writing in Schools* fund has been created to enable children from places with socio-economic barriers to the arts and with least arts engagement, to enjoy, learn and be inspired by art and culture. The programme will see £1.2 million invested in two funding awards over the three years from October 2015 until October 2018. Projects will be delivered according to the school term from spring 2016.

Grants for the Arts Libraries Fund

The *Grants for the Arts Libraries Fund* invests National Lottery money in projects delivered by public libraries or library authorities working in partnership with artists and cultural organisations across all artforms.

The aim of the fund is to inspire innovative partnerships between libraries and arts organisations, and encourage library users and those living locally to take part in artistic and cultural activities. Public libraries can apply for grants of between £1,000 and £100,000 covering activities lasting up to three years. The fund opened for applications on 1 April 2015 and will run until 31 March 2018.

Re-imagine India

Re-imagine India is a cultural exchange programme designed to develop creative collaborations between arts and cultural organisations in England and in India. Its purpose is to create new work and to build sustainable networks and partnerships between artists and cultural leaders in both countries, as well as to develop an intercultural dialogue and strengthened cultural relations based on this exchange of ideas, knowledge, work and artistic practice.

The work will build skills and leave a legacy in contributing to the resilience of the organisations involved and the development of new markets and business models. It will also benefit audiences in England. In 2015/16, we awarded £545,578 to 22 projects.

International Showcasing

Our *International Showcasing* fund is here to grow new markets and audiences abroad for arts and culture from England. To do this we want to amplify and maximise the impact of international showcasing activity. Awards will be made to showcases in the UK with a clear artistic identity and which are curator or producer-led, or to brokering organisations selecting a cohort of artists and/or organisations to visit an existing showcase overseas.

In 2015/16, we awarded over £1.6 million to eight projects to help support our artists and cultural organisations in showing the best of their work to new markets and audiences abroad.

Random Acts

Channel 4's *Random Acts* began in 2011 showing television made by artists, rather than programmes about them, and has since broadcast over 500 short films covering cutting-edge art, dance, animation, music and opera to mainstream TV audiences. A total of £3 million Lottery funding was awarded in 2014/15 to establish four network comprising artists, arts organisations, educational bodies

and production companies who will collaborate on significant training and development for young artists and arts film-makers aged 16 to 24. The aim is to broaden access to a notoriously difficult-to-get-into sector and increase diversity, by targeting effort and support right across the country, including in those areas where access to film and TV has been limited. In 2015/16, we awarded £600,000 to Tyneside Cinema to lead the fifth network centre for the North of England.

Research Grants Programme

The Arts Council's *Research Grants Programme* 2015-18 aims to deepen knowledge and understanding of the impact of arts and culture and the complex role it plays in our experience as individuals and on the fabric of our society.

Applicants were invited in 2015/16 for between one to three years of funding and for £50,000 to £100,000 funding per year. Bids were invited from partnerships and consortia of arts and cultural organisations and researchers, with the aim of increasing capacity and promoting greater collaboration. Seven awards totalling £1.1 million were made.

Resilience and leadership

The *Developing Resilient Leadership* commissioned grant is a £3 million fund from Arts Council England. The Clore Leadership Programme has been selected as the national delivery partner for the programme.

Strategic Touring

The *Strategic Touring Programme* launched in 2012 and is designed to encourage collaboration between organisations so that more people across England experience and are inspired by the arts, particularly in places which rely on touring for much of their arts provision. £35 million is available between 2015-18. In 2015/16, 59 projects were awarded over £18.2 million, enabling people across England to experience high quality art touring to their local area.

Youth Music

Youth Music is the leading UK charity committed to enabling life-changing music making experiences for children and young people, particularly those with least opportunity. Through National Lottery funding, Arts Council England contributed £9,651 to the National Foundation for Youth Music in 2015/16. Through its grant making process, the Youth Music programme invests in music education organisations and projects throughout England to deliver learning opportunities across all styles of music, for children and young people who would not normally get the chance. The Youth Music Network is the charity's online community of professionals working in music education to share best practice, disseminate research and drive fresh thinking across the music education sector.

An award of £9,651 was made to the National Foundation for Youth Music in 2015/16.

Creative Local Growth Fund

A total of £3,000,000 is available for the *Creative Local Growth Fund*, with indicative budgets of £1,500,000 being available in 2015/16 and £1,500,000 in 2016/17. Additional funds have been found this year, however, which means that a budget of £3,819,971 is available from Lottery funds. Arts and culture can contribute to local economic growth. We want to support this because it adds to the value that culture makes to local and national life, and because it makes the sector more sustainable through demonstrating that value and in securing a basis for sector growth. Local Enterprise Partnerships (LEPs), as the main strategic bodies supporting local economies, have resources to support that growth (particularly European Structural and Investment Funds), and the *Creative Local Growth Fund* seeks to put culture at the heart of growth plans by securing long term partnership between LEPs and the cultural sector and leveraging LEP and European Structural and Investment Funds investment (and potentially other funds within the LEP area) into the cultural sector.

A portfolio of nine applications with a total value £3,819.971 was awarded in 2015/16.

Luton Investment Programme

The *Luton Investment Programme* is aimed at enhancing the arts and cultural infrastructure in Luton and ensuring the town has a cultural offer with something for everyone. With a total of £1.5 million over three years, there are five strands of funding available which are designed to raise ambition, provide development opportunities and foster partnership working in Luton. The *Luton Investment Programme* has been developed in partnership with Luton Borough Council, Luton Culture and the University of Bedfordshire and involved consultation with a wide range of artists and organisations in Luton.

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 Arts Council England, 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 2015/16. A copy of the Statement of Financial Requirements is publicly available.

Performance against targets for administrative efficiency

The financial year 2015/16 was the sixth year covered by our 10-year strategic framework. October 2013 saw the launch of our 'green book', *Great Art and Culture for Everyone*, which updates our 10-year strategic framework, now fully integrating the arts, museums and libraries. It builds on the ambitions of Achieving Great Art for Everyone and Culture, Knowledge and Understanding: *Achieving Great Museums and Libraries for Everyone*, setting out our continued commitment to our mission and our five goals.

Detailed information on our goals can be found on pages 10 to 21. These goals have been central to all of our Lottery funded activities.

Lottery administration costs

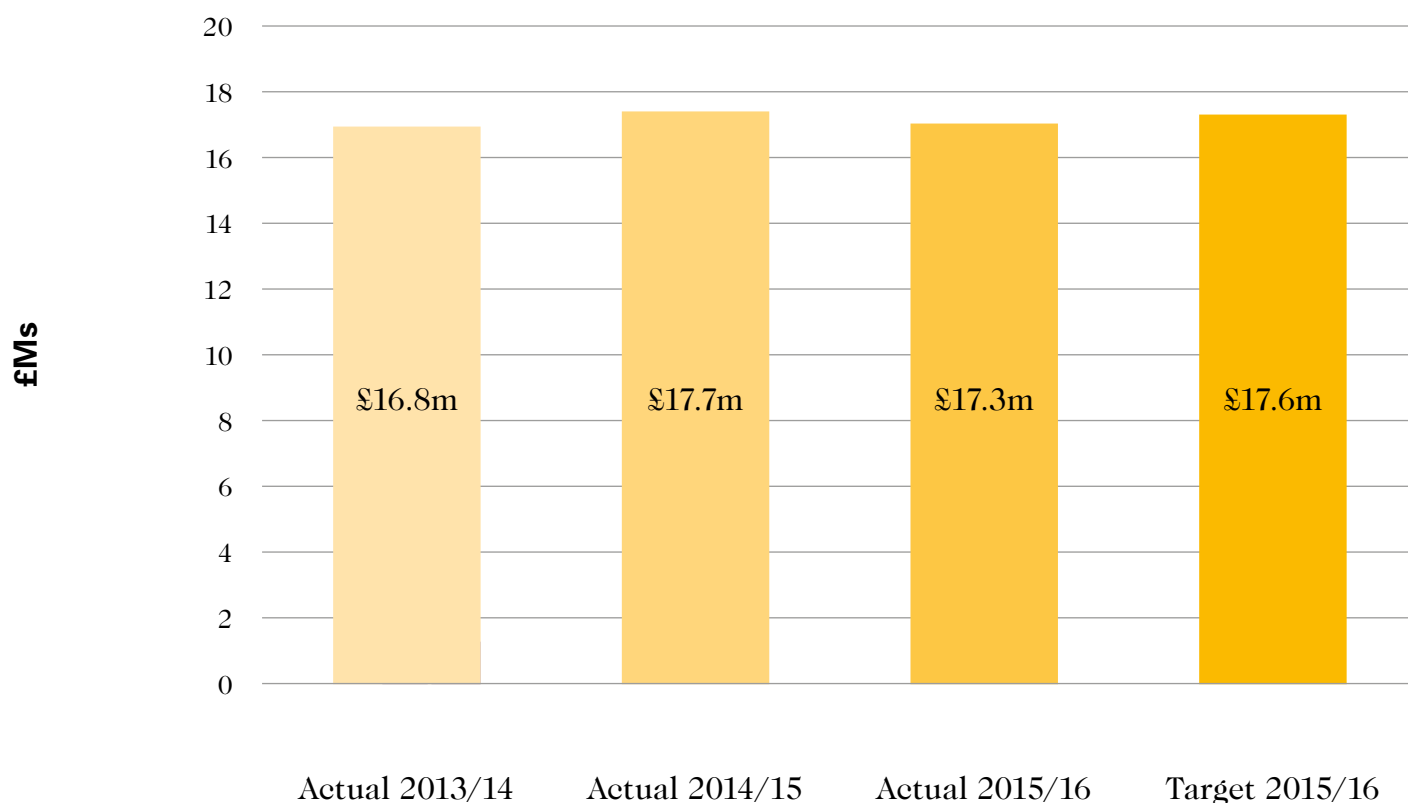
The Lottery Forum, which is made up of representatives from all of the Lottery distributors, has agreed, in conjunction with DCMS, to publish annually the following information about the costs of administering the distribution of Lottery funds. The actual Lottery administration costs data below shows that the 2015/16 administration costs are nearly £350,000 less than the target and approximately £500,000 less than last year.

1 Actual Lottery administration costs

	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual	2015/16 Target
Actual Administrative costs*	19.49	17.33	16.55	18.34	12.63	16.06	14.43	16.84	17.74	17.25	17.60

* Excludes exceptional items and one-off IT development costs. In 2015/16, the total costs excluded are £577,670.

Administration



2 Adjusted Lottery administration costs

The figures in this table are for illustration only and show administration costs adjusted for inflation using inflation rates as defined by the Treasury's GDP deflators.

	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual	2015/16 Target
Adjusted Administrative costs*, **	19.49	16.85	15.68	16.97	11.35	14.21	12.54	14.33	14.87	14.15	14.44

* Excludes exceptional items and one-off IT development costs

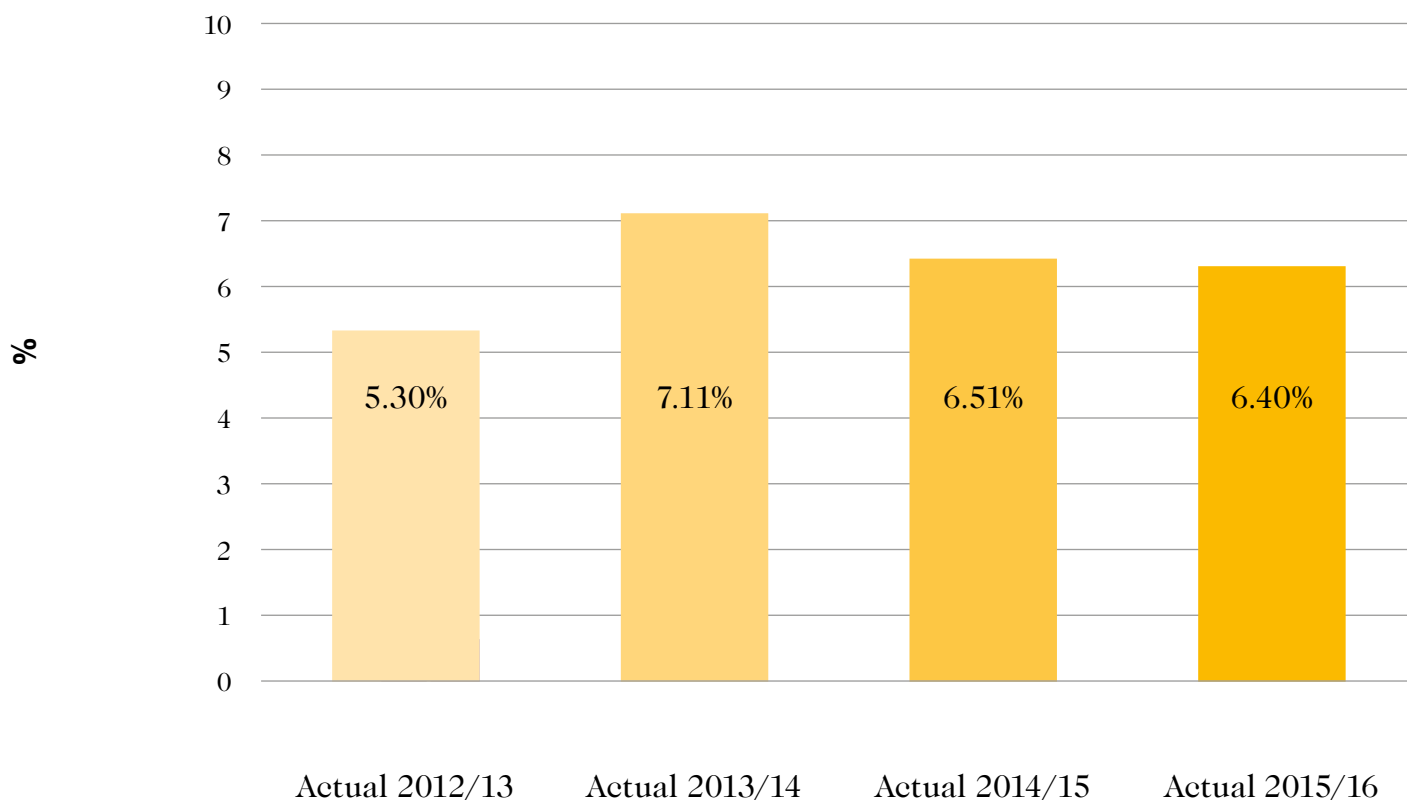
** Figures have been adjusted for inflation using 2006/07 as the base year

3 Actual Lottery administration costs as a proportion of Lottery income

	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Actual
Adjusted Administrative costs as % of Lottery income*	13.05%	11.44%	10.92%	10.59%	6.95%	7.53%	5.30%	7.11%	6.51%	6.4%

* Excludes exceptional items and one-off IT development costs.

Administration costs as a % of Lottery income



The 6.4% figure in the table above represents our total admin costs. Of this figure 4.1% represents our grant processing costs and 2.3% represents other admin costs.

Grants processing times

Since the start of our flagship Lottery programme, *Grants for the Arts* in April 2003, we have undertaken to process applications to decision within the following turnaround times:

Size of application	Turnaround time
Applications for funding up to and including £15,000:	6 weeks
Applications for funding for £15,001 and above:	12 weeks

Since 2009/10 we have adopted a target of processing 90 per cent of all applications within our stated turnaround times. The thresholds were increased on 1 July 2013 from £10,000 to £15,000.

Year		A	B	C
2004/05	Actual	88.80%	90.90%	89.60%
2005/06	Actual	93.20%	92.80%	93.00%
2006/07	Actual	92.90%	94.70%	93.60%
2007/08	Actual	91.70%	93.80%	92.50%
2008/09	Actual	93.60%	94.90%	94.10%
2009/10	Actual	94.30%	95.30%	94.90%
2010/11	Actual	99.10%	94.70%	98.00%
2011/12	Actual	84.90%	94.70%	91.90%
2012/13	Actual	85.20%	77.90%	83.50%
2013/14	Actual*	77.40%	89.00%	86.40%
2013/14	Actual**	99.60%	98.50%	99.40%
2014/15	Actual	99.58%	98.26%	99.32%
2015/16	Actual	99.50%	98.71%	99.37%
2015/16	Target	90%	90%	90%

A Percentage of applications for up to £15,000 processed in six weeks or less (£10,000 prior to 1 July 2013)

B Percentage of applications for over £15,001 processed in 12 weeks or less (£10,001 prior to 1 July 2013)

C Overall percentage of applications processed within target time

* Grant thresholds of £10,000 and under, and £10,001 and over.

** Grant thresholds of £15,000 and under, and £15,001 and over.

Please note that for the years of 2004/05 to 2009/10 the target time was six weeks for applications for up to £5,000 and 12 weeks for applications over £5,000.

Policy on additionality

Arts Council England and the organisations that distribute Lottery funds on its behalf recognise and respect the additionality principles of Lottery funding. Lottery funding enables us to extend the reach and increase the impact of the activity that we could undertake if only Exchequer funds were available. Together with the other Lottery distributors who make up the Lottery Forum, we have agreed to share the following common definition of additionality:

Lottery funding is distinct from government funding and adds value. Although it does not substitute for Exchequer expenditure, where appropriate it complements government and other programmes, policies and funding.

We and our delegates will have regard to the principles of additionality and this policy when we set the strategic objectives of our Lottery-funded programmes and when we decide how each programme will operate. We have, and will continue to use, Lottery funding to fund specific time-limited activity that would not take place without the support of the Lottery.

Performance against strategic objectives

The financial year 2015/16 was the third year covered by our refreshed strategic framework, *Great Art and Culture for Everyone*, which set out details of our five goals for the arts and culture. Detailed information on our goals can be found on [pages 9 to 24](#).

These goals have been central to all of our Lottery-funded activities.

Customer service charter

In June 2008, we agreed with the other Lottery distributors and with DCMS to replace our common customer service charter with a set of customer service principles.

Progress report on major Lottery awards over £5 million

This section reports on projects that have received capital awards totalling over £5 million,

even if they involve a number of separate awards. It includes any projects that were active at 1 April 2015 but fully paid during 2015/16 and those with outstanding balances at 31 March 2016. 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 2016
- B** Projects completed and opened during 2015/16
- C** Projects completed and opened in previous years but with final payments still outstanding at 1 April 2015

A Projects still to be completed at 31 March 2016

Bristol Old Vic: £5,000,000

The phased refurbishment project will demolish and replace the existing annexe to create a new foyer with studio theatre, improved office facilities, bar/dining area and events space. Due to complete in spring 2018, the project should facilitate new trading opportunities and improve financial resilience and environmental sustainability.

£646,887 paid (13 per cent of the total award)

Brighton and Hove City Council: £5,632,380

Phase 1 of this major redevelopment of Brighton Dome's heritage venues will: refurbish the Studio Theatre and Grade 1 listed Corn Exchange; improve access and back of house areas; create a new entrance with enhanced foyers, box office, creation spaces and café-bar; replace mechanical and electrical systems; and undertake essential repairs. Aimed at enhancing sustainability, resilience and facilities for artists and audiences, the project is due to complete in 2018/19.

£155,607 paid (2.7 per cent of the total award)

Royal Opera House: £10,000,000

The Royal Opera House is undertaking a strategic programme of capital improvements over a four-year period to ensure that it can continue to stage a world-class programme of opera, ballet and dance, and to continue to compete in an international market. The project is due for completion in 2016/17.

£7,057,983 paid (70 per cent of the total award)

Southampton City Council: £7,344,000

Southampton's new arts complex will create dramatic new contemporary arts spaces in the heart of the city, built on the old Tyrrell and Green site. The new arts complex will bring internationally acclaimed art exhibitions and a full programme of performing arts. These will share their home with outstanding resources for film-makers, providing new creative opportunities for everyone across the city and beyond. The project is due for completion in 2016/17.

£4,634,017 paid (63 per cent of the total award)

Southbank Centre: £16,675,000

Southbank Centre will undertake refurbishment of the Festival Wing comprising the Queen Elizabeth Hall, Purcell Room, Hayward Gallery and surroundings. This project will improve the experience of audiences, staff and artists, providing more appropriate facilities and spaces for the centre's festival approach to artistic programming and curation of the site. It will also enhance the environmental performance of the buildings, reducing energy consumption and improving ongoing sustainability. The project is due for completion in 2017/18.

£552,390 paid (3.3 per cent of the total award)

Square Chapel Trust Limited: £5,058,900

Square Chapel, Halifax, is a community-based arts centre which plays a significant role in

the community, encouraging participation and engagement. Cornerstone is a project to transform Square Chapel Centre for the Arts by creating a new extension and improved facilities to benefit the community, volunteers and artists that use the community venue. The project is due for completion in 2016/17.

£1,220,386 paid (23.7 per cent of the total award)

B Projects completed and opened during 2015/16

After a project has been completed and opened, Arts Council England retains a percentage of the award for payment until a full account for the project has been received.

Lyric Theatre Hammersmith: £6,000,000

The Lyric Theatre Hammersmith project will make improvements to the existing building as well as create a range of new facilities, including an extension on an adjacent site to house the first ever teaching theatre for the performing arts. This will allow young people to participate in cross artform formal statutory training as well as education activities. The project opened in April 2015.

£5,000,720 paid (83 per cent of the total award)

Manchester City Council: £5,500,000

Manchester City Council is developing a new production centre for international contemporary art, theatre and film (called HOME) as part of a wider mixed use development in Manchester city centre. It will be a digitally enabled, low carbon venue that will provide opportunities for showcasing new work and increase audience engagement and education work. The first operators of the venue will be Greater Manchester Arts Centre formed by the merger of Cornerhouse and the Library Theatre Company. The venue opened in May 2015.

£5,500,000, paid (100 per cent of the total award)

Royal Liverpool Philharmonic Society: £7,500,000

Refurbishment of the 1939 Art Deco Grade II* Liverpool Philharmonic Hall and replacing the rear annexe will improve the experience for resident/visiting musicians, audiences and participants and increase environmental and economic sustainability. The completed project re-launched in October 2015.

£7,124,662 paid (95 per cent of the total award)

Royal National Theatre: £17,500,000

NT Futures will transform the current National Theatre building – inside and outside – including the public spaces and behind the scenes. This project will improve the experiences of those who visit and work in the theatres, and will generate new spaces for learning, production and recreation. The Dorfman Theatre (formerly the Cottesloe) reopened in September 2014 with the remaining NT Futures works due for completion in 2016/17.

£16,625,000 paid (95 per cent of the total award)

C Projects completed and opened in previous years but with final payments still outstanding at 1 April 2015

After a project has been completed and opened, Arts Council England retains a percentage of the award for payment until a full account for the project has been received.

Liverpool and Merseyside Theatres Trust: £17,027,719

(Lottery: £16,931,311; Grant-in-Aid: £96,408)

This project rebuilt the Everyman building on the current site using an enlarged footprint provided by a previous building purchase. The building retained the unique character of the main auditorium while significantly improving backstage and public facilities and providing extra space for the community and new writing programmes. March 2014 saw the high profile

reopening of the theatre to great acclaim and with huge support from Liverpool residents and friends of the theatre. The building was the winner of the Stirling Prize 2014.

£17,027,719 (100 per cent of the total award)

Rambert Trust Limited: £7,000,000

Rambert Trust Limited built a new headquarters at Doon Street, London, adjacent to the National Theatre. This building will increase their profile and will put dance at the heart of the UK's highest concentration of creative organisations. The aim of the new building is to improve Rambert Dance Company's already excellent artistic standards, create a national centre for choreography, allow their outreach programme to grow and increase accessibility of the company. The building was opened in March 2014 by Her Majesty The Queen who met dancers, staff, and some of the team responsible for designing and building Rambert's new home.

£7,000,000 paid (100 per cent of the total award)

Theatre Royal Plymouth: £5,000,000

This project renovated and modernised the Theatre Royal's front of house facilities, including catering, corporate hospitality and retail facilities, external facades, and re-landscaping of public approaches to the building and its entrances. It also created a workshop space for creative learning and community programmes. The theatre reopened in September 2013.

£5,000,000 paid (100 per cent of the total award)



70 years
celebrating great
art and culture

Arts Council England
The Hive
49 Lever Street
Manchester
M1 1FN

Website: www.artscouncil.org.uk

Phone: 0845 300 6200

Email: enquiries@artscouncil.org.uk

Textphone: 020 7973 6564

Arts Council England is the trading name of The Arts Council of England. Charity registration number 1036733.

You can get this document in Braille, in large print, on audio CD, and in various electronic formats. Please contact us if you need any of these.

We are committed to being open and accessible. We welcome all comments on our work. Please send these comments to our Enquiries Team at The Hive, 49 Lever Street, Manchester, M1 1FN or via the contact form on our website at:

<http://www.artscouncil.org.uk/contact-us>

© Arts Council England, 2016



ISBN 978-1-4741-2819-3



9 781474 128193

