

Presented pursuant to National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998),
c.39, section 35(5)

Arts Council of Wales Lottery Distribution Account 2004-2005

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 20 JULY 2005

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Legal and Administrative Information

Trustees

Council Members who served since 1 April 2004 were

Geraint Talfan Davies, Chairman	(b) (d*) (v) (vi)
Dewi Walters, Vice-chairman (to 16 July 2004)	(a) (e)
Janet Roberts, appointed Vice-chairman from 10 September 2004	(b) (c) (e)
Simon Dancey (from 1 April 2004)	(a) (f)
Dai Davies	
Meg Elis	(e)
Rhiannon Wyn Hughes MBE	(a) (e) (ii) (iv)
Harry James	(c) (d) (iii)
John Metcalf	(d)
Christopher O'Neil	(f)
Huw Roberts	(i)
Dr Francesca Rhydderch	(d)
Professor Dai Smith	
Ruth Till MBE	(f)
David Vokes	(a) (b)

- (a) Member of Audit Committee
- (b) Member of Remuneration Committee
- (c) Member of Capital Committee
- (d) Member of Mid and West Wales Regional Committee
- (e) Member of North Wales Regional Committee
- (f) Member of South Wales Regional Committee

* Cover for 1 Meeting only

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

- (i) BBC Wales
- (ii) Denbighshire County Council
- (iii) National Library of Wales
- (iv) National Museums and Galleries of Wales
- (v) The Radio Authority
- (vi) University of Wales Institute, Cardiff

Chief Executive

Peter Tyndall

Offices

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

North Wales region

36 Prince's Drive
Colwyn Bay
LL29 8LA

South Wales region

9 Museum Place
Cardiff
CF10 3NX

Auditor

Comptroller and Auditor General
National Audit Office
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Bankers

National Westminster Bank plc
South Wales Commercial Office
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Edwards Geldard
Dumfries House
Dumfries Place
Cardiff
CF10 3ZF

Trustees' Annual Report

Status and objects

The Arts Council of Wales was established by Royal Charter on 30 March 1994. The Council's chartered objectives are

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

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

Governance and committees

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

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

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

Accountability

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

- the Charities Acts 1960 and 1993;
- Policy Directions, Finance Directions, and an Accounts Direction issued by the National Assembly for Wales under the terms of section 26 of the National Lottery etc. Act 1993 (as amended);
- a Management Statement, Financial Memorandum and Accounts Direction issued by the National Assembly for Wales;
- the power of the Parliamentary Commissioner for Administration (the Ombudsman) to investigate the Council's affairs; and
- a Code of Best Practice, applying to Members and staff, which sets out standards of behaviour required of those involved in financial decisions and in dealing with the public.

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

The Council is required to account separately for its general and lottery distribution activities. Under separate Accounts Directions the accounting treatment of general and lottery grants differs significantly so, with due regard to paragraph 280 of the Charity Commission's Statement of Recommended Practice, in the judgment of the Trustees the production of a consolidated account is inappropriate as it would not provide a fair view of the application of the Council's resources.

Under the terms of the Government of Wales Act 1998 responsibility for funding the Council transferred from the Secretary of State for Wales to the National Assembly for Wales on 1 July 1999. The Council amended its Royal Charter to make it fully accountable and responsible to the Assembly, and to provide for its general activities accounts to be audited by the Auditor General for Wales. The Council's Lottery distribution activities are not a devolved function and these accounts are, therefore, laid before both Parliament and the Assembly, and are audited by the Comptroller and Auditor General under section 35 of the National Lottery etc. Act 1993 (as amended).

Lottery distribution

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

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

As well as committing the full current year budget, the Council's policy up to 31 March 2005, actively encouraged by the Department for Culture, Media and Sport, was to commit as grants 50% of the second year's anticipated budget and 30% of the third year's anticipated budget.

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

The Capital Committee members who served since 1 April 2004 were

Harry James, Chairman	John Clifford Jones
Alun Bond	Richard Morgan
Gareth Davies	Janet Roberts

Responsibility for assessment and recommendation on Film grants has been delegated to Sgrŷn Cymru Wales which has set up a Production Advisory Group for this purpose.

Risk management

In the light of corporate governance guidance contained in the Charity Commission's Statement of Recommended Practice the Senior Management Team meets regularly to consider and review the major strategic, business and operational risks to which the Council is exposed. An organisation-wide risk register is maintained and systems have been established to mitigate those risks. Procedures are being implemented to minimise any potential impact on the Council should any of those risks materialise.

Principal Lottery distribution activities and grant making

Under the terms of its Policy Directions, the Council makes grants in support of capital, film and other projects under revenue schemes, relating to the arts in Wales, and monitors the proper and effective use of those grants.

The Council received 1,038 (2004: 1,664) lottery applications in the year of which 119 were for capital schemes, 76 for film production, and 843 for revenue schemes. In total 590 (2004: 559) offers of grant were made amounting to £13,496,000 (2004: £10,841,000) of which £8,921,000 were capital grants, £837,000 were film grants, and £3,738,000 were revenue scheme grants. Commitments (i.e. grants accepted but not yet paid over) at the end of the year amounted to £18,649,000, of which £14,701,000 were for capital, £597,000 were for film grants, and £3,351,000 were for revenue schemes grants.

Investment powers and policy

Investment powers are governed by the Trustee Act 2000 and the Management Statement and Financial Memorandum issued by the National Assembly for Wales. The Council's policy is to achieve the maximum return within these terms. Interest at a negotiated rate linked to bank base rate is received on all credit balances in the Council's current accounts. From time to time, higher rates may be available on Treasury Reserve Overnight or Call terms, so the prevailing interest rates are established each working day for current account, Overnight and Call deposits to establish the optimum placement of funds.

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

Financial results

The Lottery Distribution account shows the Council's 2004-2005 share of the proceeds from the National Lottery of £11,304,000 (2004: £10,824,000), and a decrease in funds for the year of £2,793,000 (2004: an increase of £4,234,000) which was transferred from reserves.

Grant offers made in the year totalled £13,496,000 (2004: £10,841,000). £12,738,000 (2004: £6,054,000) is recorded as grant expenditure, which reflects offers made in this year and previous years which were formally accepted during this year. Soft commitments at 31 March 2005, not recorded as expenditure in the Income and Expenditure Account, totalled £700,000 (2004: £1,296,000).

The balance held in the National Lottery Distribution Fund at 31 March 2005 was £20,008,000 (2004: £23,973,000). The accounts show a cumulative surplus of funds of £2,692,000 (2004: £5,485,000).

Post balance sheet event

For 2005-2006 the National Assembly for Wales has included in its grant-in-aid allocation to the Council £1,160,000 capital investment for theatres and agreed that £1,135,000 of this amount will be applied towards projects originally identified for funding in 2004-2005 from the Lottery distribution account. The appropriate proportion of these awards will be written back in the financial statements for 2005-2006.

Future developments in National Lottery distribution activities

During the coming year the Council will continue to fund projects in accordance with its five Year Strategy. Given the nature of the Capital programme and the current uncertainty post the 2009 Lottery licence renewal, Council has allocated a sum to enable the programme to continue. This will primarily relate to securing improvements and access to existing buildings, including funding to arts venues to assist with works necessary to comply with the requirements of the Disability Discrimination Act. Revenue schemes have been reviewed and further streamlined from 1 April 2005. Council will continue to oversee grants for film. The arrangements for assessment and recommendation on these grants, currently undertaken by Sgrin Cymru, will be reviewed. It is the aim of Council, informed by its strategic priorities, to ensure that there is an equitable distribution of grants across Wales and across art forms. Council will continue to support grants designed to combat social exclusion and to fund initiatives which also access European Structural Funds.

Disabled employees

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

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

Employee communication

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

Payment of creditors

It is the Council's policy to pay suppliers within the terms of trade agreed and generally to observe the principles of the Late Payment of Commercial Debts (Interest) Act 1998. 97% of the invoices received from suppliers during 2004-2005 (2003-2004: 96%) were paid within the agreed contractual terms.

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

Under Section 35 of the National Lottery etc. Act 1993 (as amended) the Council is required to prepare a statement of accounts for the financial period for its Lottery distribution activities, in the form and on the basis determined by the National Assembly for Wales with the consent of the Treasury.

The accounts are prepared on an accruals basis and must give a true and fair view of the Council's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Council is required to

- observe the accounts direction issued by the National Assembly for Wales, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Council will continue in operation.

The Principal Accounting Officer for the National Assembly for Wales has designated the Chief Executive as the Accounting Officer for the Council. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the National Assembly for Wales' Accounting Officers' Memorandum issued by the Treasury.

Peter Tyndall
Accounting Officer
13 July 2005

Geraint Talfan Davies
Chairman
13 July 2005

Statement on Internal Control

1 Scope of responsibility

As Accounting Officer, I have responsibility for ensuring that a sound system of internal control is maintained by the Arts Council of Wales, one that supports the achievement of Council policies, aims and objectives set by the National Assembly for Wales whilst safeguarding the public finances and resources for which I am personally responsible, in accordance with the responsibilities assigned to me in the Financial Memorandum, Lottery Finance Directions and Government Accounting.

2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Council policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2005 and up to the date of approval of the Trustees' annual report and accounts, and accords with Treasury guidance.

3 Capacity to handle risk

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

4 The risk and control framework

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

This includes an organisation-wide risk register containing details of all key risks and mitigating controls. Managers are responsible for drawing up and maintaining more detailed risk registers for any new activities. During the year ended 31 March 2005, for example, the introduction of a new document management system was identified as a risk priority and managed accordingly.

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

Policies and procedures have been drafted to ensure that there is adequate detection and response to inefficiency, conflict of interest and, as far as possible, fraud and to minimise the loss of grant. These are reviewed regularly and updated as necessary.

The Council has established the following processes

- the Senior Management Team meets regularly to consider the plans and strategic direction of the Council;
- periodic reports from the chairman of the Audit Committee, to Council, concerning internal control;
- regular reports by the Council's appointed internal auditors, to standards defined in the Government Internal Audit Manual, to the Audit Committee which includes the auditors' independent opinion on the adequacy and effectiveness of the Council's system of internal control together with recommendations for improvement;

- regular reviews to identify and keep up to date the record of risks facing the Council;
- maintenance of an organisation-wide risk register; and
- introduced key performance indicators.

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

5 Review of effectiveness

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

Peter Tyndall
Accounting Officer

13 July 2005

Endorsed on behalf of the Trustees by

Geraint Talfan Davies
Chairman

13 July 2005

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

I certify that I have audited the financial statements on pages 13 to 23 under the National Lottery etc. act 1993 (as amended). These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 16 and 17.

Respective responsibilities of the Council, the Accounting Officer and Auditor

As described on page 8, the Council and Accounting Officer are responsible for the preparation of the financial statements in accordance with the National Lottery etc. Act 1993 (as amended), and National Assembly for Wales directions made thereunder and for ensuring the regularity of financial transactions. The Council and Accounting Officer are also responsible for the preparation of the Trustees' Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and National Assembly for Wales directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the National Assembly for Wales and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Trustees' Annual Report is not consistent with the financial statements, if the Council has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 9 and 10 reflects the Council's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council and the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Lottery Distribution Account of the Arts Council for Wales at 31 March 2005 and of the decrease in funds, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Lotteries etc. Act 1993 (as amended) and directions made thereunder by National Assembly for Wales; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements

John Bourn
Comptroller and Auditor General

15 July 2005

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

Income and Expenditure Account for the year ended 31 March 2005

	Notes	2005 £000	2004 £000
Income			
Share of proceeds from the National Lottery	6	11,304	10,824
Investment income on balances in the National Lottery Distribution Fund	6	534	971
Grant services charges		4	11
Interest receivable		52	65
Grants recoverable		52	509
Share of profit from Lottery funded films		0	32
Total income		11,946	12,412
Expenditure			
<i>Expenditure on the arts</i>			
Net grant commitments made (hard)	9b	12,738	6,054
Direct costs of grant making	5	266	244
		13,004	6,298
<i>Management and administration</i>			
Staff costs	2	1,252	983
Operating costs	4	849	757
Provision for doubtful debt		7	0
		2,108	1,740
Total expenditure		15,112	8,038
Excess of (expenditure over income)/income over expenditure for the year		(3,166)	4,374
Unrealised surplus/(loss) on investment in the National Lottery Distribution Fund	6	373	(140)
(Decrease)/increase in Lottery funds for the year	9b,10	(2,793)	4,234

There are no discontinued activities.

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

The notes on pages 16 to 23 form part of these accounts.

Balance Sheet at 31 March 2005

	Notes	2005		2004	
		£000	£000	£000	£000
Current assets					
Investments - balance held in the National Lottery Distribution Fund	6	20,008		23,973	
Debtors	7	413		576	
Cash		986		470	
			21,407		25,019
Current liabilities					
Other creditors	8	(66)		(677)	
Provision for grant commitments (hard)	9b	(13,554)		(13,705)	
			(13,620)		(14,382)
Total assets less current liabilities			7,787		10,637
Financed by					
Provision for grant commitments falling due after one year (hard)	9b		5,095		5,152
Income and Expenditure account	10		2,692		5,485
			7,787		10,637

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

Peter Tyndall
Accounting Officer
13 July 2005

Geraint Talfan Davies
Chairman
13 July 2005

The notes on pages 16 to 23 form part of these accounts.

Cash Flow Statement for the year ended 31 March 2005

Reconciliation of decrease in Lottery funds	2005	2004
	£000	£000
(Decrease)/increase in Lottery funds	(2,793)	4,234
Decrease/(increase) in debtors and prepayments	163	(465)
Decrease in provision for grant commitments	(208)	(12,007)
(Decrease)/increase in other creditors	(611)	197
Net cash outflow from operating activities	(3,449)	(8,041)

Cash Flow Statement

	2005	2004
	£000	£000
Net cash outflow from operating activities	(3,449)	(8,041)
Payments to acquire tangible fixed assets	0	0
Decrease in cash and the balance held in the National Lottery Distribution Fund	(3,449)	(8,041)

Reconciliation of net cash flow to movement in net funds	Cashflow	Cashflow
	change in	change in
	year	year
	2005	2004
	£000	£000
Increase/(decrease) in cash	516	(1,611)
Decrease in the balance held in the National Lottery Distribution Fund	(3,965)	(6,430)
	(3,449)	(8,041)
Net funds at 1 April	24,443	32,484
Net funds at 31 March	20,994	24,443

Net funds at 31 March 2005 comprise cash held by the Council of £986,000 and the balance held in the National Lottery Distribution Fund of £20,008,000.

The notes on pages 16 to 23 form part of these accounts.

Notes forming part of the Financial Statements for the year ended 31 March 2005

1 Accounting policies

a *Basis of preparation*

These financial statements have been prepared under the historical cost convention modified to include fixed assets at their value to the Council on a current cost basis. They have been prepared in accordance with the Accounts Direction issued by the National Assembly for Wales and meet the requirements of the Companies Act 1985 and of the Statements of Standard Accounting Practice and Financial Reporting Standards issued and adopted by the Accounting Standards Board so far as those requirements are appropriate. The Council is not required to report the historic cost surplus or loss. A summary of the principle accounting policies which have been applied consistently are set out below.

Under separate Accounts Directions the accounting treatment of general and lottery grants differs significantly so, with due regard to paragraph 280 of the Charity Commission's Statement of Recommended Practice, in the judgment of the Trustees the production of a consolidated account is inappropriate as it would not provide a fair view of the application of the Council's resources.

b *Going concern*

These financial statements have been prepared on the going concern basis on the assumption that funds will continue to be made available from the National Lottery Distribution Fund. This assumption is itself dependent on future levels of lottery ticket sales, which cannot be guaranteed. The Council is however allowed to commit funds on the basis of anticipated future income as explained on page 6 of these financial statements.

c *General activities*

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

d *Grant commitments*

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

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

e *National Lottery Distribution Fund*

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

f *Pensions*

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

g Taxation

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

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

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

2 Staff costs

	2005	2004
	£000	£000
Wages and salaries charged to lottery distribution activity	1,033	851
Social security costs	80	65
Other pension costs	176	96
Agency costs	11	0
	1,300	1,012

Staff costs are incorporated in the accounts as follows

Management and administration		
Staff costs	1,252	983
Direct costs of grant making (note 5)	48	29
	1,300	1,012

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

Services, direct promotions and direct costs of grant making	11	10
Management and administration	86	77
	97	87

Based on time apportionments, the average number of staff (full time equivalents) employed on Lottery distribution during the year was

Direct costs of grant making	1	1
Management and administration	43	37
	44	38

The balance of 53 (2004: 49) staff were employed on general activities.

The Senior Management Team, comprising the Chief Executive, Finance and Central Services Director, Operations Director (from 1 April 2004) and Acting Arts Director (from 1 September 2004), is responsible for directing the Council's activities. The actual emoluments of Senior Management were as follows, 47% of which is charged in these financial statements and the remainder to general activities

Name and position	2005 Emoluments band £000	2005 Real increase in pension at age 65 £	2005 Total accrued pension at age 65 as at 31 March 2005 £	2005 Cash equivalent transfer value at 31 March 2004 £	2005 Cash equivalent transfer value at 31 March 2005 £	2005 Real increase in cash equivalent value £
<i>Peter Tyndall</i> Chief Executive	65-70	737	2,613	16,140	26,443	9,851
<i>Hywel Tudor</i> Finance and Central Services Director	55-60	736	2,206	11,450	20,311	8,540
<i>Jane Clarke</i> Operations Director (from 1 April 2004)	50-55	655	655	0	6,833	6,833
Christopher Ricketts Acting Arts Director (from 1 September 2004 to 31 March 2005)	25-30	523	1,345	5,049	8,893	3,703

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

The Chief Executive, who is an ordinary member of the Council's Pension Scheme, was appointed on 1 October 2001 for a five year period.

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

	2005 £000	2004 £000
Chairman		
Salary	37,742	Nil
Chief Executive		
Salary	60,935	59,740
Non-consolidated award	4,779	4,528
Pension contribution	11,456	8,841
	77,170	73,109

47% (2004: 45%) of the Chairman's and Chief Executive's emoluments are charged in these financial statements and the remainder to general activities.

3 Pension costs

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

An independent actuarial valuation of the Arts Council Retirement Plan 1994 takes place every three years. The last valuation was carried out as at 1 April 2002 using the Projected Unit Method. The market value of the Plan's assets as at 31 March 2002 was £28.146m. The actuary concluded that the Plan had a past service deficit at the valuation date of £4.2m, which corresponds to a funding ratio of 87%, and recommended increased employer contributions over the next 15 years to eliminate this.

On the assumption that the recommended amounts would be paid to the Plan, the actuary's opinion was that the resources of the scheme are likely in the normal course of events to meet in full the liabilities of the scheme as they fall due. The main actuarial assumptions used were that price inflation would be 2.8% per annum, pay increases would be 4.3% per annum, pension increases would be 2.8% per annum on pensions in excess of Guaranteed Minimum Pensions (GMPs), pension increases of deferred pensions would be 2.8% per annum on pensions in excess of GMPs, the post retirement discount rate would be 5.7% per annum and the pre-retirement discount rate would be 7.2% per annum.

Contributions by the Council and its employees during the year were 18.8% (2003-2004: 14.8%) and 0% (2003-2004: 0%) respectively of salaries payable. Employees contribute 1.5% to secure pension benefits for dependants.

4 Operating costs

	2005	2004
	£000	£000
Accommodation	33	41
Office running costs	155	134
<i>Operating leases</i>		
Buildings	64	62
Office equipment	3	2
Recruitment, training and other staff costs	119	85
<i>Travel and subsistence</i>		
Officers	53	43
Members	21	21
Communications	20	22
Lottery promotion and information	9	6
Grant monitors, advisers and legal fees	99	99
Audit	15	15
Other professional fees	31	39
Irrecoverable VAT	118	107
Charge for use of fixed assets	109	81
	849	757

Operating costs are apportioned between the Council's general activities and lottery distribution accounts with reference to the time spent on, or the consumption of, the relevant resources by the respective functions. The rates applied differ according to the expenditure heading and geographical region but the average charge to Lottery activities was 47% (2003-2004: 45%).

5 Direct costs of grant making

	2005	2004
	£000	£000
Assessors' fees	83	68
Monitoring fees	69	65
Legal and professional fees	66	82
Staff costs	48	29
	266	244

6 National Lottery Distribution Fund

	2005	2004
	£000	£000
Balance held in the National Lottery Distribution Fund at 1 April	23,973	30,403
Allocation of Lottery proceeds	11,304	10,824
Interest receivable	534	971
Unrealised loss on investment in National Lottery Distribution Fund	373	(297)
Reversal of prior year unrealised loss	297	157
Drawn down in the year	(16,473)	(18,085)
Balance held in the National Lottery Distribution Fund at 31 March	20,008	23,973

The balance held at 31 March 2005 at the National Lottery Distribution Fund may be subject to change as the audit of the fund is incomplete. Any adjustments arising from that audit will be reflected in the Council's 2005-2006 accounts. The corresponding adjustment for 2003-2004 made in these accounts was an increase in investment income of £670,000.

7 Debtors – amounts due within one year

	2005	2004
	£000	£000
Due from the Arts Council of Wales General Activities account ¹	148	0
Grants recoverable	261	576
Other debtors	4	0
	413	576

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

8 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Trade creditors	15	5
Due to the Arts Council of Wales General Activities account	0	620
Accruals and deferred income	51	52
	66	677

The amount due from the Arts Council of Wales General Activities account is made up of*Recharges of apportioned costs*

Staff	0	366
Overheads	0	161
Revenue costs	0	0
Charge for use of assets	0	81
Inter-account transfer	0	12
	0	620

9a Soft grant commitments

	Capital and Film £000	Revenue schemes £000	Total 2005 £000	Total 2004 £000
Soft commitments as at 1 April	1,117	179	1,296	1,538
Soft commitments made in the year	9,758	3,738	13,496	10,841
Total grant offers made	10,875	3,917	14,792	12,379
Offers not accepted	(27)	(12)	(39)	(113)
Soft commitments transferred to hard commitments	(10,336)	(3,717)	(14,053)	(10,970)
Soft commitments as at 31 March	512	188	700	1,296

9b Hard grant commitments

Hard commitments as at 1 April	14,592	4,265	18,857	30,864
Hard commitments in the year	10,336	3,717	14,053	10,970
Amounts not taken up	(1,029)	(286)	(1,315)	(4,916)
Charged to Income and Expenditure account ¹	9,307	3,431	12,738	6,054
Grants paid in the year	(8,601)	(4,345)	(12,946)	(18,061)
Hard commitments at 31 March	15,298	3,351	18,649	18,857
<i>Hard commitments</i>				
Payable within one year ¹	11,119	2,435	13,554	13,705
Payable after one year	4,179	916	5,095	5,152
	15,298	3,351	18,649	18,857

1 For 2005-2006 the National Assembly for Wales has included in its grant-in-aid allocation to the Council's general activities account £1,160,000 capital investment for theatres and agreed that £1,135,000 of this amount will be applied towards projects originally identified for funding in 2004-2005 from the Lottery distribution account. The appropriate proportion of these awards will be written back in the Lottery financial statements for 2005-2006. Had they been written back at 31 March 2005 the net grant commitments charged to the Income and Expenditure account would reduce from £12,738,000 to £11,603,000, the decrease in Lottery funds for the year would reduce from £2,793,000 to £1,658,000, and the provision for grant commitments included in the balance sheet under current liabilities would reduce from £13,554,000 to £12,419,000.

10 Movement in Lottery funds

	2005	2004
	£000	£000
Income and Expenditure account at 1 April	5,485	1,251
(Decrease)/increase in Lottery funds for the year	(2,793)	4,234
Income and Expenditure account at 31 March	2,692	5,485

11 Related party transactions*Public bodies*

The Council is an Assembly Sponsored Public Body.

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

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

Individuals

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

Council members

A number of Council members and/or their close family were members of the Boards of Management (or equivalent) or were senior employees of organisations offered Lottery grants by the Council in 2004-2005. In all such cases, in accordance with the Council's Code of Best Practice, the member concerned withdrew from any meeting during discussion of the application.

Member	Organisation	Transaction (number)	Total grants £
<i>Geraint Talfan Davies</i> (Self) – Director and (Family) – Director	Squint Films Ltd	Grant ¹	7,000
<i>Janet Roberts</i> Employee	Cyngor Gwynedd	Grant ¹	50,080
Chairman	Theatr Gwynedd	Grant ²	23,680
<i>Simon Dancey</i> Director	Community Music Wales	Grant ³	78,436
<i>Dai Davies</i> (Family) – Director	Sgript Cymru	Grant ¹	4,000
<i>Rhiannon Wyn Hughes MBE</i> Councillor	Denbighshire County Council	Grant ⁷	170,222
Board member	Llandrillo College	Grant ¹	5,000
Chairman	Prestatyn Youth Arts Festival	Grant ¹	4,020

Member	Organisation	Transaction (number)	Total grants £
<i>Harry James</i> Contracted architect	Arad Goch	Grant ¹	1,846,165
<i>John Metcalf</i> Employee	Vale of Glamorgan Festival	Grant ¹	5,020
<i>Christopher O'Neil</i> Trustee	CBAT: Arts & Regeneration Agency	Grant ¹	69,280
<i>Dr Francesca Rhydderch</i> Board member	The Taliesin Trust Ltd (Ty Newydd)	Grant ²	20,004
<i>Ruth Till MBE</i> Committee member	Community Dance Wales	Grant ²	24,950
Director	Rubicon Dance	Grant ²	43,620

Key managerial staff

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

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DG Ref: K04003 5692WC

Printed in the UK for The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
09/05

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