

Presented to Parliament pursuant to Section 35(5) of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998)

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# Arts Council of Wales Lottery Distribution Account 2010-2011

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# Arts Council of Wales Lottery Distribution Account 2010-2011

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED ON 18 JULY 2011

The National Audit Office scrutinises public spending on behalf of Parliament.

The Comptroller and Auditor General, Amyas Morse,  
is an Officer of the House of Commons.  
He is the head of the NAO, which employs some 880 staff.  
He and the NAO are totally independent of government.

He certifies the accounts of all government departments  
and a wide range of other public sector bodies;  
and he has statutory authority to report to Parliament  
on the economy, efficiency and effectiveness with which departments  
and other bodies have used their resources.

Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.

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# Trustees' Annual Report

for the year ended 31 March 2011

## Reference and administrative details

### Trustees

Council Members who served since 1 April 2010 were:

|                                       |                                |
|---------------------------------------|--------------------------------|
| Professor Dai Smith, Chairman         | (b)                            |
| Dr Ian J Rees, Vice-chairman          | (a) (b) (e – to February 2011) |
| Norah Campbell (to 31 March 2011)     | (a) (g)                        |
| Emma Evans                            | (a)                            |
| John Geraint                          |                                |
| Maggie Hampton (to 29 September 2010) | (c)                            |
| Margaret Jervis MBE DL                | (b) (f) (iv)                   |
| Robin Morrison                        | (c) (i)                        |
| Osi Rhys Osmond                       | (d) (g)                        |
| Richard Turner                        | (f) (iii)                      |
| Alan Watkin                           | (e) (v)                        |
| Debbie Wilcox (to 23 November 2010)   | (f) (ii)                       |
| Professor Gerwyn Williams             | (c) (e)                        |
| John C Williams                       | (a)                            |
| Kate Woodward                         | (d)                            |

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

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

- i) Blaenau Gwent County Borough Council
- ii) Newport City Council
- iii) University of Wales
- iv) Wales Council for Voluntary Action
- v) Wrexham County Borough Council

### **Chief Executive**

Nicholas Capaldi

### **Offices**

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

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

South Wales region  
and national office:  
Bute Place  
Cardiff  
CF10 5AL

### **Auditor**

Comptroller and Auditor General  
157-197 Buckingham Palace Road  
London  
SW1W 9SP

### **Internal auditors**

to 31 March 2011  
RSM Tenon  
33-35 Cathedral Road  
Cardiff  
CF11 9HB

from 1 April 2011  
Deloitte LLP  
5 Callaghan Square  
Cardiff  
CF10 5BT

### **Solicitors**

Geldards LLP  
Dumfries House  
Dumfries Place  
Cardiff  
CF10 3ZF

### **Bankers**

The Co-operative Bank  
16-17 High Street  
Cardiff  
CF10 1AX

## **Structure, governance and management**

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

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

The Council is a Welsh Government sponsored body. The Council's lottery distribution activities are not a devolved function so these financial statements are, therefore, laid before both Parliament and the National Assembly for Wales, and are audited by the Comptroller and Auditor General under section 35 of the National Lottery etc. Act 1993 (as amended).

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

## Members' induction and training

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

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

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

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

## Accountability

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

- the Charities Acts 1960, 1993 and 2006 and guidance issued by the Charity Commission
- the Freedom of Information Act 2000 and Data Protection Act 1998 and guidance issued by the Information Commissioner
- a Management Statement, Financial Memorandum and Accounts Direction issued by the Welsh Ministers
- Lottery Policy Directions issued by the Welsh Ministers, and Finance Directions and an Accounts Direction issued by the Secretary of State for Culture, Olympics, Media and Sport in accordance with the terms of sections 26 and 35 of the National Lottery etc. Act 1993 (as amended)
- the power of the Parliamentary Commissioner for Administration to investigate the Council's affairs
- the power of the Public Services Ombudsman for Wales to investigate the Council's affairs
- a Code of Best Practice, applying to Members and staff, which sets out standards of behaviour required of those involved in financial decisions and in dealing with the public
- the Consumer Credit Act 1974 and guidance issued by the Office of Fair Trading

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

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

## Risk management

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

Council has identified key areas of risk which we have been evaluating and managing during the year. These include: the implementation and delivery of our Investment Review decisions; our Organisational Review to achieve significant cost savings and efficiencies to meet Welsh Government targets; and the management of major projects, including three Lottery-funded capital developments and three European-funded initiatives.

## Lottery distribution

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

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

Given the uncertainty of the level of future lottery funding in the period leading to the London Olympic Games in 2012 the Capital programme for major awards was suspended from April 2007 and remains so until March 2012. However, the Council has been committed to the continued management and delivery of projects in progress and those already registered for strategic funding, so an appropriate budget allocation has been available throughout this period. The Council is now consulting on a new Capital strategy which will operate from April 2012.

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

The Capital Committee members who served since 1 April 2010 were:

|  |  |
|--|--|
| Robin Morrison, Chairman (Council member)              | Isabel Hitchman (independent member)                     |
| Jonathan Adams (independent member)                    | Janet Roberts (independent member)                       |
| Maggie Hampton (Council member)<br>(to September 2010) | Gerwyn Williams (Council member)<br>(from February 2011) |

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

## Objectives, activities, achievements and performance for the public benefit

The Council's chartered objects are:

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

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

### Main objectives for the year

The Council's strategic priorities for 2010/11 are set out in the table below according to our corporate themes, alongside key achievements made in relation to each priority during the year:

| <b>Corporate theme/<br/>strategic area</b>   | <b>Priorities</b>  | <b>Achievements and performance</b>   |
|--|--|---|
| <b>Supporting the creation of high quality art</b>   |  |   |
| <p>We will support artists and arts organisations who demonstrate the highest standards of imagination, capability and enterprise.</p> <p>In return, we will expect them to strive for work of the highest quality that reaches out to, engages and grows audiences.</p> <p>By doing so, we will be able to highlight a range of high quality arts activity that inspires others to aspire to.</p> | <ul style="list-style-type: none"> <li>➤ We will have completed our Investment Review and identified our new nationwide network of revenue-funded organisations (RFOs).</li> <li>➤ We will have completed our review of grant-in-aid and Lottery funding programmes, and have published a new financial strategy.</li> <li>➤ We will have completed a further round of Creative Wales awards and made four Creative Wales Ambassadors Awards. We will have evaluated the Creative Wales programme to date and made recommendations for the future of the awards.</li> <li>➤ Working in partnership with our National Advisers we will have achieved quality appraisals for all revenue funded organisations to feed into 2011's annual review meetings.</li> </ul> | <ul style="list-style-type: none"> <li>➤ We announced the outcome of our Review in June 2010. The levels of funding for each RFO for 2011/12 were decided in December 2010 when we published <i>Delivering our Vision: A Strategy for Success</i>.</li> <li>➤ Guidelines were published in February 2011 as the first step in a wider overhaul that will be completed by autumn 2011. Recent consultations on new areas of funding policy have been completed.</li> <li>➤ 18 professional artists received Creative Wales awards and the panel made 1 Ambassador award. The main part of the evaluation of the scheme was completed in the autumn but further work on the future of the awards will take place in 2011/12.</li> <li>➤ National Advisers and officers are now completing quality appraisals. Our annual review meetings timetable has changed so we will now hold these in January/February each year from 2012.</li> <li>➤ The new Arts Council website was launched in August 2010. The main site and the Wales Arts International sub-site are fully operational and have the facility for online registration and delivery of our eNewsletters.</li> </ul> |

| <b>Corporate theme/<br/>strategic area</b>   | <b>Priorities</b>  | <b>Achievements and performance</b>   |
|--|--|---|
|  | <ul style="list-style-type: none"> <li>➤ We will have launched a new website providing practical information about the arts.</li> <li>➤ We will have completed our active programme of international arts activity by delivering year 3 of Wales Arts International's 5 year strategy, <i>Creating 2013</i>.</li> <li>➤ We will have had a high profile presence at key national and international events and completed preparation for 2012's events. These will include Hay Festival, the Urdd Eisteddfod, the National Eisteddfod and the Venice Biennale of Art.</li> <li>➤ We will have funded our Equalities Action Plan and be providing development funding to disability led and black and minority ethnic led arts organisations.</li> </ul> | <ul style="list-style-type: none"> <li>➤ During the year we have participated in the Welsh Government's new priority countries focus teams and will be informing new action plans. The Cerdd Cymru Music Wales partnership was developed and led to a bid to host WOMEX at Cardiff in 2013. The city has been shortlisted. We are managing 2 transnational projects, as part of which we hosted a successful European conference on public/private partnership in the arts.</li> <li>➤ Our presence at the Hay Festival was a collaboration between 5 partners under the <i>Culture Cymru</i> banner and was deemed an improvement on previous years. At the Urdd Eisteddfod we brought together partners from public and voluntary sectors on an open performance stage to showcase professional and amateur talent. Our presence there and at the National Eisteddfod was deemed successful. The curatorial team for the Venice Biennale is in place and working with the selected artist on the creation of new work which will be seen at a new and more central location. We have agreed to support over 70 artists and arts organisations from Wales to attend the 2011 exhibition.</li> <li>➤ As a result of our Investment Review we will be supporting 4 disability focussed RFOs and have also developed and consulted on a new programme, <i>Creative Steps</i>, to provide targeted funding to artists and organisations who will deliver projects with and for currently under represented groups. We are finalising the criteria for the programme and expect to launch it in 2011/12.</li> </ul> |
| <b>Encouraging more people to enjoy and take part in the arts</b>  |  |   |
| <p>We will support activity that increases and broadens public engagement in the arts.</p> <p>We want people to enjoy and experience work of quality that inspires, entertains and challenges.</p> <p>By doing so, we want to persuade more people that attending and taking part in the arts should be an important part of their everyday lives.</p> | <ul style="list-style-type: none"> <li>➤ We will have agreed with our portfolio of RFOs new targets for public engagement.</li> <li>➤ We will be supporting, as a result of our Investment Review, artistically exciting, financially durable community arts organisations.</li> <li>➤ We will have raised the quality of participatory arts by encouraging more organisations to use our evaluation toolkit.</li> <li>➤ We will have completed and evaluated our Summer Splash programme.</li> </ul>  | <ul style="list-style-type: none"> <li>➤ We worked with our RFOs throughout the autumn of 2010 and have entered into funding agreements, initially for 2011/12, with each of them. The agreements include targets for increased public engagement and we will use the results of our 2009/10 annual survey of RFOs to establish baseline data.</li> <li>➤ Our new portfolio includes 7 community arts organisations and we will work closely with them to establish procedures to monitor the impact of their work.</li> <li>➤ We held a development meeting in the spring of 2010 and then began work to build on our evaluation framework. As a result, our new revenue funding agreement includes a sector-specific requirement for community arts organisations to work with us to refine the present evaluation toolkit.</li> </ul>  |

| <b>Corporate theme/<br/>strategic area</b> | <b>Priorities</b>   | <b>Achievements and performance</b>  |
|--|---|--|
|  | <ul style="list-style-type: none"> <li>➤ We will have completed and evaluated the first phase of our <i>Reach the Heights</i> programme.</li> <li>➤ We will have secured the support of Creative and Cultural Skills to fund apprenticeships that equip artists to work in participatory and educational settings.</li> <li>➤ We will have consulted on and produced a Touring and Distribution strategy designed to bring a diverse range of high quality arts to a wider audience across Wales, drawing together our existing policy positions in this sector.</li> <li>➤ We will have supported our <i>Night Out</i> scheme to promote a minimum of 550 events, 150 of which will be in Communities First areas.</li> <li>➤ We will have increased our investment in Communities First areas.</li> <li>➤ We will have seen an increase in the amount of arts activity taking place in schools.</li> <li>➤ We will have seen the introduction of a pilot Arts Plus scheme.</li> <li>➤ We will have established a delivery model for a virtual arts and health network and secured additional resources for the delivery of the action plan.</li> <li>➤ We will have completed a programme of research that assesses the impact of our investment in the arts.</li> <li>➤ We will have established a baseline and methodology for evaluating the impact of our Lottery schemes funding.</li> </ul> | <ul style="list-style-type: none"> <li>➤ 18 projects were approved and funded in 2010/11. We have begun work on the production of an evaluation booklet and DVD and held a very successful celebration event in March 2011. We are actively seeking ongoing support from the Youth Justice Board and plan to publish our evaluation booklet and DVD by September 2011.</li> <li>➤ We finalised our project evaluation process in summer 2010, produced an evaluation DVD and held a successful evaluation and networking event in February 2011. The Welsh European Funding Office has approved an extension to the first phase of the programme until September 2011.</li> <li>➤ Although we have been involved in initial discussions with Creative and Cultural Skills, and are members of the Wales Advisory Group, there has been no significant progress against this target.</li> <li>➤ We have developed and consulted on a new National Touring scheme. A final version of the programme will be published in the first quarter of 2011/12 and we will be open to applications for our September 2011 funding round.</li> <li>➤ We supported 574 events during the year, 163 of which were in Communities First areas. The scheme celebrated its 30th anniversary in 2010/11 and published a new Plan for the period 2010-12.</li> <li>➤ Of the 450 successful Lottery applications in 2010/11, 96 (21%) were recorded as hitting our priority for delivering activity in deprived communities.</li> <li>➤ The data to inform this target is drawn from our RFO surveys. We are currently collating the results and should be in a position to report by September 2011.</li> <li>➤ We received ministerial approval, from the Education and Heritage departments of the Welsh Government, to move forward with the Arts Plus scheme and developed the framework and guidelines in the summer and autumn of 2010. Work began on the pilot in the final quarter of the year and will continue into early 2011/12.</li> <li>➤ In the first quarter of the year a costed proposal was developed by an arts and health working group for the consideration of the Health Minister. There has been no further progress on the initiative since that time.</li> </ul> |

| <b>Corporate theme/<br/>strategic area</b>  | <b>Priorities</b>  | <b>Achievements and performance</b>  |
|---|--|--|
|   |  | <ul style="list-style-type: none"> <li>➤ The Arts in Wales survey 2010 was completed and published and we developed a comprehensive press campaign to highlight the key findings. We also prepared our RFO Survey report for 2008/09 for publication and continue to collate the results of the 2009/10 RFO Survey.</li> <li>➤ Work on the development of an evaluation framework began during the year but will now be rolled forward into 2011/12.</li> </ul>  |
| <b>Growing the arts economy</b>   |  |  |
| <p>We will increase the level of money and resources that is available for the arts in Wales.</p> <p>We want to foster a greater spirit of entrepreneurship in ourselves and the arts that we support.</p> <p>By doing so we want to encourage less dependency on government subsidy.</p> | <ul style="list-style-type: none"> <li>➤ We will have secured European funding for 3 transnational projects.</li> <li>➤ We will have met year 2 financial targets for <i>Reach the Heights</i> and secured funding for a second phase of delivery.</li> <li>➤ We will have levered in new private sector income through our investment in the Arts and Business <i>CultureStep</i> programme.</li> <li>➤ We will have increased the value and number of <i>Collectorplan</i> loans and researched initiatives in other market development potential for the visual and applied arts.</li> <li>➤ We will have agreed new income generation targets with our RFOs.</li> <li>➤ We will have put on a Marketing Symposium designed to improve professional and technical skills.</li> <li>➤ We will have produced a workforce/business development strategy as part of a new approach to the creative industries.</li> <li>➤ We will have published a fundraising strategy.</li> <li>➤ We will have a new capital funding strategy in place.</li> <li>➤ In partnership with Visit Wales we will have contributed to the implementation of the Cultural Tourism Action Plan.</li> </ul> | <ul style="list-style-type: none"> <li>➤ 2 transnational projects – <i>Toolquiz</i> and <i>Practics</i> – are progressing well and work is continuing to secure a third. We are exploring a proposal for a digital music and tourism project.</li> <li>➤ Although there was some delay in the release of funding in the early stages of the project – there were ongoing queries between the Wales European Funding Office and the lead sponsoring department of the Welsh Government – all of our claims have been submitted on time. The financial and beneficiary profiles were revised during the year but there is currently await a decision on the continuation of the project into a second phase.</li> <li>➤ Ring-fenced funding was allocated to a number of projects in the first half of the year. The annual report showed that third party income of £7.52 had been generated for every £1 invested. Across the whole of the <i>CultureStep</i> programme, £87,445 of public funding attracted business investment of £694,093.</li> <li>➤ Although rallying a little in the final quarter, purchases of works of visual and applied arts with the assistance of our interest-free loan scheme fell significantly during the year – 18% in number and 15% in value. 1,091 loans (value £762,104) were processed in 2009/10 and 895 (value £645,012) in 2010/11. This was probably to be expected in the current economic climate. As we move forward with a revision of our artform strategies we will consider the marketing of the scheme and review the terms and conditions. We will also be introducing online loan applications via the gallery network.</li> <li>➤ When negotiating the 2011/12 funding agreements with our RFOs we discussed the aspiration for reduced dependency on our annual revenue grants. It was concluded that we need more time to define appropriate and achievable targets so we will continue to work with the organisations to this end.</li> </ul> |

| <b>Corporate theme/<br/>strategic area</b>   | <b>Priorities</b>   | <b>Achievements and performance</b>   |
|--|---|---|
|  | <ul style="list-style-type: none"> <li>➤ We will have completed a programme of advocacy events and publications demonstrating the contribution that the arts make to the life of the nation.</li> <li>➤ We will have promoted at least one joint conference/ event with a peer WGSB in the cultural sector.</li> </ul>  | <ul style="list-style-type: none"> <li>➤ The Symposium took place in October 2010. 129 delegates registered and the event was deemed a success.</li> <li>➤ Initial dialogue has begun within the Welsh Government's Creative Industries Panel and a draft scoping document was produced. Our Chief Executive sits as a member of the Panel.</li> <li>➤ This work was not progressed during the year.</li> <li>➤ A draft capital strategy was approved by Council in March 2011 and will now proceed to public consultation.</li> <li>➤ We fed into the review of the work of the Cultural Tourism Partnership.</li> <li>➤ We issued a number of publications demonstrating the benefits of the arts. Targeted circulations to AMs, MPs, local authorities and other partners were supported by the release of case studies to the press and media. This work is ongoing. A programme of advocacy events was put in place.</li> <li>➤ We hosted a joint Arts and Heritage summit with Cadw, at Caerphilly Castle, in October 2010. We also organised a very well received Music of Wales showcase at WOMEX in Copenhagen.</li> </ul> |
| <b>Making the Arts Council an effective and efficient business</b>   |   |   |
| <p>We will scrutinise our use of resources to ensure that we are providing an effective, value for money public service.</p> <p>We want to create an organisation that is respected for the quality of its activities and recognised as an authoritative source of arts expertise.</p> <p>By doing so we will be able to demonstrate that we provide an essential public service to the people of Wales.</p> | <ul style="list-style-type: none"> <li>➤ We will have achieved a 1.5% reduction in our running costs through the simplification of our business processes, procurement, structures and use of IT.</li> <li>➤ We will have produced an action plan and begun implementation of the recommendations in our staff survey and Investors in People reports.</li> <li>➤ We will have produced an action plan in response to the Governance Review.</li> <li>➤ We will have introduced an environmental policy.</li> <li>➤ We will maintain our active involvement in 2 Local Authority partnerships designed to deliver joint shared services.</li> </ul> | <ul style="list-style-type: none"> <li>➤ During the year the Welsh Government set us a target of reducing our running costs by 12% over the 3 years to 2013/14. We have subsequently embarked on an Organisational Review and the terms of reference and project plan are in place. In-year initiatives to contain or reschedule expenditure resulted in an annual saving of approximately 10%.</li> <li>➤ Our Investors in People action plan was completed and a group was established to take forward the recommendations of our staff survey. The group, in consultation with all members of staff, developed an action plan and continues to meet to monitor its delivery.</li> <li>➤ The Welsh Government's proposed Governance Review was cancelled.</li> <li>➤ An environmental policy has been produced. Additional recycling facilities have been put in place and 3 copy/print devices have been replaced with equipment which has improved power consumption. Energy and cost savings have been achieved by reducing the operating times of the heating and cooling systems.</li> </ul>                                 |

| <b>Corporate theme/<br/>strategic area</b> | <b>Priorities</b> | <b>Achievements and performance</b>  |
|--|-------------------|--|
|  |                   | ➤ We continue to work with the <i>ArtsConnect</i> partnership of 7 local authorities in South Wales. The partnership is committed to achieving a 10% efficiency saving and is working towards a formal implementation by autumn 2011. Development of a partnership in North Wales is at an early stage with only an initial planning meeting held during the year. |

Detailed monitoring of performance against these performance indicators is carried out and reported quarterly to the Senior Management Team, Council and the Welsh Government.

### **Grant making policies**

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

Capital grants, to organisations only, support the purchase, improvement, restoration, building or creation of an asset that will be used continuously. As noted above, the Council has not taken applications for major awards since April 2007 but the Capital programme is open for small grants from £2,000 to £10,000, subject to a maximum of 90% of eligible costs. The programme is due to re-open in April 2012.

Council has delegated its grant making for film to the Film Agency for Wales ('the Agency'). The terms of the external delegation are set out in a formal agreement between the Council and the Agency and satisfy the conditions of the Council's Statement of Financial Requirements. The latest agreement, renewed with effect from 1 April 2011, expires on 31 March 2012. The obligations of the Council's Accounting Officer are unchanged by the delegation but he has satisfied himself that the Agency and its systems are suitable to undertake the delegated functions, including: the assessment of applications for film funding; holding, accounting for and distributing Lottery money allocated to it by the Council for that purpose; and monitoring funded projects. The delegation agreement allows for appropriate access to the Agency by the Council's internal auditors and by the Auditor General for Wales for the review of the operation of the delegated functions.

Revenue scheme grants are available to help fund time-limited artistic projects of high quality which best meet the Council's funding priorities. There have been some policy changes from 1 April 2011 in respect of these grants:

| <b>Grant type</b>   | <b>up to 31 March 2011</b>  | <b>from 1 April 2011</b>  |
|---|---|---|
| <b>Training grants</b> support the undertaking or purchase of training and also the provision of arts training                                  | <ul style="list-style-type: none"> <li>➤ £250 – £5,000 (organisations undertaking training)</li> <li>➤ £250 – £2,000 (individuals)</li> <li>➤ 4 application deadlines each year – April, June, September &amp; January</li> <li>➤ £1,000 – £30,000 (organisations providing training)</li> <li>➤ 2 application deadlines each year – May &amp; September</li> </ul> | <ul style="list-style-type: none"> <li>➤ £250 – £5,000 (organisations undertaking training)</li> <li>➤ £250 – £2,000 (individuals)</li> <li>➤ 4 application deadlines each year – April, June, September &amp; January</li> <li>➤ £1,000 – £30,000 (organisations providing training)</li> <li>➤ 2 application deadlines each year – April &amp; September</li> </ul> |
| <b>Small grants</b> support organisations or individuals for pilot projects or where there are significant levels of funding from other sources | <ul style="list-style-type: none"> <li>➤ £250 – £5,000</li> <li>➤ 4 application deadlines each year (organisations) – April, June, September &amp; January</li> <li>➤ 3 application deadlines each year (individuals) – June, September &amp; January</li> </ul>  | <ul style="list-style-type: none"> <li>➤ £250 – £5,000</li> <li>➤ 4 application deadlines each year (organisations &amp; individuals) – April, June, September &amp; January</li> </ul>   |
| <b>Creative Wales Awards</b> enable artists to develop their creative practice  | <ul style="list-style-type: none"> <li>➤ £5,001 – £12,000 &amp; £20,000 – £25,000</li> <li>➤ 1 application deadline each year – June</li> </ul>   | <ul style="list-style-type: none"> <li>➤ £5,001 – £12,000 &amp; £20,000 – £25,000</li> <li>➤ 1 application deadline each year – September</li> </ul>  |
| <b>Mainline Production and Development grants</b> support larger programmes of work for established individual artists and organisations.       | <ul style="list-style-type: none"> <li>➤ £5,001 – £30,000 (organisations)</li> <li>➤ £5,001 – £20,000 (individuals)</li> <li>➤ 2 application deadlines each year – May &amp; September</li> </ul>   | <ul style="list-style-type: none"> <li>➤ £5,001 – £30,000 (organisations)</li> <li>➤ £5,001 – £20,000 (individuals)</li> <li>➤ 2 application deadlines each year – April &amp; September</li> </ul>   |
| Maximum level of funding for organisations and individuals  | <ul style="list-style-type: none"> <li>➤ 75% of eligible costs (organisations)</li> <li>➤ 90% of eligible costs (individuals)</li> </ul>  |   |
| Maximum level of funding for local authorities and school clusters  | <ul style="list-style-type: none"> <li>➤ 50% of eligible costs</li> </ul>   |   |
| Maximum level of funding where the main aim of an application is to promote non-arts issues   | <ul style="list-style-type: none"> <li>➤ 50% of eligible costs</li> </ul>   |   |
| Over-arching funding priorities when assessing grant applications   | <ul style="list-style-type: none"> <li>➤ Projects delivered in acknowledged deprived communities</li> <li>➤ Projects to promote the work of artists from under-represented groups (e.g. disabled people, people from black and minority ethnic backgrounds)</li> <li>➤ Projects delivered in Welsh or bilingually</li> </ul>  |   |

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

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

### **Principal Lottery distribution activities**

The Council received 588 (2009/10: 452) lottery applications in the year of which 7 (2009/10: 4) were for capital schemes and 581 (2009/10: 448) for revenue schemes. In total 450 (2009/10: 365) offers of grant were made amounting to £6,169,000 (2009/10: £8,977,000) of which £516,000 (2009/10: £5,467,000) were capital grants, and £5,653,000 (2009/10: £3,510,000) were revenue scheme grants. Commitments (i.e. grants accepted but not yet paid over) at the end of the year amounted to £9,163,000 (2010: £8,700,000), of which £6,496,000 (2010: £7,226,000) were for capital grants and £2,667,000 (2010: £1,474,000) were for revenue schemes grants.

### **Financial review**

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

### **Investment**

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

Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Culture, Olympics, 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 2010/11 share of the proceeds from the National Lottery of £12,878,000 (2009/10: £12,338,000), and an increase in funds for the year of £2,533,000 (2009/10: a decrease of £861,000) which was transferred to reserves.

In February 2008 a statutory instrument was passed which allowed for the transfer of up to £1,085,000,000 from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund in order to meet some of the costs of hosting the 2012 London games. The Council was committed to contribute up to £3,552,000 in the original bid and this order allows for the transfer of up to a further £4,509,000. Similar amounts are expected to be transferred every three months until August 2012. During 2010/11 there were transfers totalling £2,169,000 (2009/10 £2,169,000).

Grant offers made in the year totalled £6,169,000 (2009/10: £8,977,000). £5,805,000 (2009/10: £8,880,000) 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 2011, not recorded as expenditure in the Statement of Comprehensive Net Expenditure, totalled £246,000 (2010: £157,000).

The large increase in Lottery funds for the year, and large decrease in grant offers made, has arisen due to the timing of a capital development project. Funding of approximately £3,000,000 has been ring-fenced but the application has not yet reached decision stage. It is expected to be assessed in July 2011.

The balance held in the National Lottery Distribution Fund at 31 March 2011 was £14,120,000 (2010: £11,994,000). The accounts show a cumulative surplus of funds of £5,305,000 (2010: £2,772,000).

## Plans for future periods

The Council will continue to be a lottery distributor until 2019 which amounts to an investment of some £12 million every year for the arts in Wales.

The Council has prepared a new Operational Plan for 2011/12, which is the final year of our Corporate Plan first published in 2008 and updated in 2009.

As set out in these Plans, we remain committed to our mission and priorities, and continue in our determination to support activity of the highest artistic quality, and to work towards making such activity as widely available as possible to the people of Wales. We build on firm foundations. Our Arts in Wales Survey 2010 shows levels of attendance at record levels, with participation in arts activity growing fastest amongst some of our most disadvantaged communities.

Having completed our Investment Review in 2010/11, a key task for us this year is to support our new portfolio of revenue-funded organisations and to manage the associated risks in order to achieve our aspirations. Over the coming period we will be working with this portfolio to help them improve their efficiency and effectiveness as organisations. Consistent with these goals is the aspiration – shared with the Welsh Government – that we should encourage funded organisations to develop new sources of income beyond existing public funding.

With effect from 1 April 2011 the Heritage Minister transferred responsibility for funding the Wales Millennium Centre from the Welsh Government to the Arts Council. A three year package of revenue and capital funding has been agreed. We had evaluated Wales Millennium Centre's position against key risk areas and been in discussion with the organisation's Board and executive staff. We had also been attending Board meetings and contributing to the Welsh Government's monitoring for some time before the transfer and are confident that we have the capacity to manage this new relationship.

Other aspects of our development of the revenue-funded portfolio will involve important strategic initiatives to develop artform practice. We will, for example, be creating a new single national organisation for the development of Literature (in English and in Welsh), and new structures for the promotion of creative opportunities for dance artists.

Policy developments will see us implementing exciting proposals for engaging children and young people in the arts, the promotion of public art, and increased investment in national touring. We have also been tasked by the Heritage Minister to look closely at access to arts provision across Wales, especially those who are involved at a community and voluntary level.

Ensuring that our own operations are efficient and cost-effective is an important priority. We have begun an organisational review through which we aim to achieve a reduction of at least 12% in our running costs by March 2014. This will be challenging but we will look at every aspect of our operation, including our business processes, procurement, structures and our investment in technology. We will incorporate into our efficiency plans means of reducing our environmental impact.

In 2011/12 we will develop a new three year Corporate Plan for 2012 to 2015. Following the May 2011 elections to the National Assembly for Wales, the preparation of our Plan will be informed by the policy priorities of the new Welsh Government, working with the Minister for Housing, Regeneration and Heritage.

Our corporate themes and planned activities for 2011/12 are as follows:

| <b>Corporate theme/<br/>strategic area</b>  | <b>Priorities 2011/12</b>  |
|---|--|
| <b>Supporting the creation of the best in great art</b>   |  |
| By 2012 we will be investing in a portfolio of funded organisations better able to succeed artistically and financially | <ul style="list-style-type: none"> <li>➤ We will have published the annual review meeting reports of all our revenue-funded organisations (RFOs), reporting on the RFOs' progress and achievement in attaining specific targets and the beneficial outcomes of these achievements.</li> <li>➤ Working in partnership with our national advisers, we will have achieved quality appraisals for all RFOs to feed into their 2012 annual review meetings.</li> <li>➤ RFOs will have achieved their agreed income generation targets as detailed in their own budgets and consequently be working towards reduced reliance on Arts Council funding.</li> <li>➤ We will have completed our review of grant-in-aid and Lottery funding programmes and we will have implemented our new schemes programme. We will have produced a report showing the distribution of this funding and the expected impact.</li> <li>➤ We will have agreed a new three year partnership with the British Council and created a joint annual action plan. We will have created and be operating an evaluation tool for our international projects.</li> </ul>  |
| <b>Encouraging more people to enjoy and take part in the arts</b>   |  |
| By 2012 we will have increased levels in attendance and participation in the arts in Wales by 3%                        | <ul style="list-style-type: none"> <li>➤ Our RFOs will have achieved agreed targets in attendance and participation and have clearly demonstrated their approach to increasing the number of people attending and taking part in the activities that we have funded.</li> <li>➤ We will have raised the quality of participatory arts by encouraging more organisations to use our evaluation toolkit.</li> <li>➤ We will have supported our <i>Night Out</i> scheme to promote a minimum of 550 events, 150 of which will be in Communities First areas, and a further 10 Young Promoters projects.</li> <li>➤ We will have secured ongoing support for our <i>Splash Arts</i> programme and delivered a further 18 projects involving 800 young people at risk.</li> <li>➤ We will have secured funding for and be delivering the second phase of our <i>Reach the Heights</i> programme, involving 3,750 young people in arts activities.</li> <li>➤ We will have developed an action plan to deliver <i>Changing Lives</i>, our strategy for children, young people and the arts, which includes reducing inequalities in cultural activities amongst children and parents, as required by the Welsh Government's Child Poverty strategy for Wales.</li> <li>➤ We will have seen the introduction of a pilot <i>Arts Plus</i> scheme and secured Ministerial approval for the scheme to be rolled out.</li> <li>➤ We will have established a delivery model for a virtual arts and health network and secured additional resources for the delivery of the action plan.</li> <li>➤ Through increased investment we will have increased engagement and participation in Communities First areas by 5% on current levels.</li> <li>➤ Through Legacy Trust UK partners we will have engaged 45,000 people in arts programmes across Wales.</li> </ul> |

| <b>Corporate theme/<br/>strategic area</b>  | <b>Priorities 2011/12</b>  |
|---|--|
| <b>Growing the arts economy</b>   |  |
| <p>By 2012 we will have increased our own turnover with at least 10% of our income coming from new sources.</p> <p>In addition, we will have increased the value and impact of our existing investment in the arts.</p> | <ul style="list-style-type: none"> <li>➤ We will have been successful in applying for a third European Union transnational project.</li> <li>➤ We will have met our financial targets for the first phase of <i>Reach the Heights</i> and secured funding for a second phase of delivery.</li> <li>➤ We will have a new capital funding strategy in place.</li> <li>➤ We will have levered in private sector income to support the arts.</li> <li>➤ We will have worked with artists and arts organisations to improve the quality of their technical and professional skills.</li> <li>➤ We will have completed a programme of advocacy events and publications demonstrating the contribution that the arts make to the life of the nation.</li> <li>➤ We will have increased the value and number of <i>Collectorplan</i> loans.</li> </ul>   |
| <b>Making the Arts Council an effective and efficient business</b>  |  |
| <p>By 2012 we will be able to demonstrate that we are a more efficient and effective organisation.</p>  | <ul style="list-style-type: none"> <li>➤ We will have achieved at least a 12% reduction in our running costs as part of our Organisational Review.</li> <li>➤ We will have created a positive workplace that encourages staff to realise their full potential.</li> <li>➤ We will have reduced our paper and printing consumables usage by 15%.</li> <li>➤ We will have created and maintained a database that will clearly evidence our achievements against our Corporate Plan targets.</li> <li>➤ We will have in place at least 1 joint working protocol agreement with another organisation.</li> <li>➤ We will have had a high profile presence at key national and international events including Hay Festival, Urdd Eisteddfod, National Eisteddfod and Venice Biennale. Through these events we will have raised the profile of the Arts Council of Wales and, thus, of the arts in Wales.</li> </ul> |

## Human resources

### Equal opportunities

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.

### Sickness absence

During 2010/11 staff sickness absence totalled 725 days (2009/10 923 days). This represented 3.53% (2009/10 3.72%) of working days, including 0.64% (2009/10 1.32%) as a result of long term absence (over 28 days).

## Employee communication

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

## Pension scheme

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. In accordance with the Council's accounting policies, the scheme has therefore been accounted for as if it were a defined contribution scheme, in accordance with IAS 19.

## Payment of trade and other payables

Under the Late Payment of Commercial Debts (Interest) Act 1998, and the UK Government's Better Payment Practice Code, the Council is required to pay suppliers' invoices not in dispute within 30 days of receipt of goods or services or valid invoice, whichever is the later.

The Council aims to pay 100% of invoices, including disputed invoices once the dispute has been settled, in line with these terms. During the year ended 31 March 2011, the Council paid 96% (2009/10: 97%) of all invoices within the terms of its payment policy. Since November 2008 the Council, in line with Welsh Government policy, aims to pay invoices with 10 days. For 2010/11 87% (2009/10 88%) of invoices have been paid with 10 days. It is not anticipated that our policy will alter in future years.

## Financial risk and capital management

The Council mainly holds financial instruments to finance its operations, for example trade and other receivables and trade and other payables, and cash and cash equivalents arising directly from its operations. The financial risk management of exposures arising from trading financial instruments, primarily trade and other receivables and trade and other payables, is through a series of policies and procedures. These risks are managed as follows:

*Liquidity risk* – The Council does not consider that its Lottery Distribution function is exposed to any significant liquidity risks, and is satisfied that the balance within the National Lottery Distribution Fund and projected future Lottery proceeds are sufficient to meet its hard commitments.

*Interest rate risk* – Cash and cash equivalents balances, which are drawn down from the National Lottery to pay grant commitments and operating costs, are held in instant access variable rate bank accounts which on average carried an interest rate of 0.50% (2009/10: 0.50%) in the year. The year-end Cash and cash equivalents balance held by the Council in the bank was £759,000 (2010: £3,000). The Council does not consider that its Lottery Distribution function is exposed to significant interest rate risks.

*Foreign currency risk* – The Council is not exposed to any significant foreign exchange risks.

*Cash and cash equivalents flow risk* – The Council is not exposed to any significant Cash and cash equivalents flow risks.

## Personal data related incidents

The Council has controls and policies in place to ensure data integrity. IT systems ensure that the physical security of data is tightly controlled. As far as we are aware, no loss of data occurred during the period under review.

## Responsibility towards the environment

We believe that we have a responsibility to operate our business in a sustainable manner, and to apply good environmental practice. We are committed to reducing our environmental impact and to continually improving our environmental performance as an integral part of our business and operating methods.

We have reviewed and strengthened our environmental policy and are reviewing the whole of our operations to ensure they are as efficient as possible. Initiatives introduced include:

- actively promoting the use of video conferencing equipment;
- restricting travel to necessary journeys only and ensuring those journeys are made by the most efficient means possible taking account of both environmental and financial considerations;
- actively promoting recycling and waste separation internally;
- limiting the number of paper copies of our publications, and actively using electronic means wherever possible;
- making use of energy saving devices and equipment to reduce electricity consumption; and
- using licensed and appropriate organisations to dispose of our waste.

We encourage high environmental standards in all building projects we fund, and have funded a project that will help promote sustainability awareness and provide practical advice to artists and arts organisations.

We became a signatory to the Welsh Government's Sustainable Development Charter in May 2011.

## Social and community issues

We are committed to ensuring that the Council's funding is accessible and of benefit to all the citizens of Wales. Ensuring greater access to the arts is a natural priority for a body, such as us, that is in receipt of public funds. We are fully committed to removing the barriers that prevent and impede people from enjoying and taking part in the arts.

We continue to have strategies targeted at young people, community arts and broadening public engagement in the arts. We have supported a very successful festival – Gwanwyn – celebrating older people, and are involved in a major project aimed at working with young people who are not in employment, education or training.

Our grant schemes have over-arching funding priorities directed at projects promoting the work of artists from under-represented groups such as disabled people and people from black and minority ethnic backgrounds. Recognising the bilingual culture of Wales, we also prioritise applications that will be delivered in Welsh or bilingually.

In order to change the way we approach issues of race, diversity and disability equality we provide our staff with appropriate training. We are also carrying out a programme of equality impact assessments on all of our internal policies in order to ensure they reflect these priorities.

## Audit

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

## Remuneration report

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

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

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

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

Council members are appointed by the Welsh Ministers for a period of three years and may be re-appointed for a further three year period. The current Chairman, Professor Dai Smith, was appointed as a Council member on 1 April 2004 but took over the chairmanship on 1 April 2006. The Minister for Culture, Sport and the Welsh Language subsequently appointed Professor Smith for a term of three years from 1 April 2007 until 31 March 2010 and the Heritage Minister renewed his appointment for a further three years to 31 March 2013. The Chief Executive and senior directors are all employed on permanent contracts on the Council's standard terms and conditions.

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

The dates of commencement of employment are: Professor Dai Smith (Chairman) 1 April 2006; Nicholas Capaldi (Chief Executive) 15 September 2008; David Alston (Director of Arts) 1 July 2005; and Hywel Tudor (Director of Finance and Central Services) 21 January 2002.

The Chief Executive, Director of Arts and Director of Finance and Central Services are responsible for directing the Council's activities. Their actual emoluments were as follows, 37.5% (2009/10: 37.5%) of which is charged in these financial statements and the remainder to general activities.

The figures within this Remuneration Report have been audited.

| Name and position  | 2011                             | 2010          | 2011   | 2011  | 2011   | 2011  | 2011   |
|--|----------------------------------|---------------|--|---|--|---|--|
|  | Emoluments <sup>1</sup><br>£'000 | band<br>£'000 | Real increase<br>in pension<br>and related<br>lump sum<br>at age 65<br>£'000 | Total accrued<br>pension at<br>age 65 as at<br>31/03/11 and<br>related lump<br>sum<br>£'000 | Cash <sup>2</sup><br>Equivalent<br>Transfer<br>Value at<br>31/03/10<br>£'000 | Cash<br>Equivalent<br>Transfer<br>Value at<br>31/03/11<br>£'000 | Real <sup>3</sup><br>Increase in<br>Cash<br>Equivalent<br>Transfer<br>Value<br>£'000 |
| Nicholas Capaldi<br><i>Chief Executive</i>                             | 90-95                            | 90-95         | Pension 0-2.5<br>Lump sum<br>2.5-5   | Pension 0-5<br>Lump sum 5-10  | 19   | 31  | 11   |
| David Alston<br><i>Director of Arts</i>                                | 65-70                            | 65-70         | Pension 0-2.5<br>Lump sum<br>0-2.5   | Pension 0-5<br>Lump sum 10-15   | 47   | 58  | 10   |
| Hywel Tudor<br><i>Director of Finance<br/>and Central<br/>Services</i> | 65-70                            | 65-70         | Pension 0-2.5<br>Lump sum<br>0-2.5   | Pension 5-10<br>Lump sum 25-30  | 101  | 107   | 2  |

1 **Emoluments** – The Chief Executive's emoluments includes a performance-related non-consolidated award as disclosed below. The other Directors have no entitlement to performance-related awards.

2 **Cash Equivalent Transfer Values** – A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Arts Council Retirement Plan 1994. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

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

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

An aggregate amount of £10,458 (2009/10: £12,023) was reimbursed to 15 (2009/10: 15) Council members for travel and subsistence costs incurred on Council business. The aggregate amount allocated to Lottery Distribution activities was £2,376 (2009/10: £2,732).

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

|  | <b>2011</b>    | 2010    |
|--|----------------|---------|
|  | <b>£</b>       | £       |
| <b>Chairman</b>  |                |         |
| Salary   | <b>43,810</b>  | 43,810  |
| <b>Chief Executive</b>   |                |         |
| Salary   | <b>93,380</b>  | 93,380  |
| Performance-related non-consolidated award   | <b>934</b>     | –       |
| Pension contribution   | <b>17,368</b>  | 18,302  |
| Benefit in kind: contribution towards accommodation (including tax and national insurance) | –              | 3,389   |
|  | <b>111,682</b> | 115,071 |

The Chief Executive waived his entitlement to the balance of his non-consolidated award for 2010/11, based on performance against his objectives for 2009/10.

|  | <b>2011</b>  | 2010  |
|--|--------------|-------|
|  | <b>£</b>     | £     |
| Reimbursed travel and subsistence expenses incurred and defrayed whilst on Council business: |              |       |
| Chairman   | <b>2,643</b> | 2,951 |
| Chief Executive  | <b>5,751</b> | 4,406 |

37.50% (2009/10: 37.50%) of the Chairman's and Chief Executive's emoluments are charged in these financial statements and the remainder to general activities.

The Remuneration Committee members who served since 1 April 2010 were:

Professor Dai Smith (Council member); Dr Ian Rees (Council member); Margaret Jervis MBE DL (Council member); and Bethan Guilfoyle CBE (independent member).

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

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

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by the Secretary of State for Culture, Olympics, Media and Sport, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

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

*Nicholas Capaldi*  
Accounting Officer

7 July 2011

*Dai Smith*  
Chairman

7 July 2011

# Statement on Internal Control

## 1. Scope of responsibility

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

## 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 2011 and up to the date of approval of the trustees' annual report and financial statements, 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. Audit Committee monitors the Council's approach to risk management, including periodic review of its risk policy, the monitoring of the corporate risk register and any reports arising.

The Chief Executive has overall responsibility for the system of internal control and securing adherence to our policy on risk management and is supported by the Senior Management Team and Management Board.

There is 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 2011, for example, the Council's Investment Review was identified as a risk priority and managed accordingly.

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

Policies and procedures have been drafted to ensure that there is adequate detection and response to inefficiency, conflict of interest and, as far as reasonably possible, fraud and to minimise the loss of grant. These are reviewed regularly and updated as necessary. Policies are also in place covering the acceptable use of IT systems and data protection.

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, in accordance with Government Internal Audit Standards, 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;
- the identification and discussion of emerging risks by the Management Board at its monthly meetings;
- maintenance of an organisation-wide risk register; and
- 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 also receive a Statement of Assurance from the Accountable Officer of the Film Agency for Wales in respect of the systems applied for distributing their delegated Lottery funding. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by Council, the Audit Committee and the internal auditors and a plan to address weaknesses and ensure continuous improvement of the system is in place.

IT systems ensure that the physical security of data is tightly controlled. As far as I am aware, no loss of data occurred during the year.

The internal auditors undertook ten reviews during the year: five assurance audits; four advisory reviews; and a follow-up of recommendations made in previous audit years. All five assurance reviews provided a substantial level of assurance, and the follow-up review concluded that good progress had been made towards the implementation of recommendations. The internal auditors provided the following assurance statement in their Annual Report: 'In our opinion, based upon the work we have undertaken for the 12 months ended 31 March 2011, the Arts Council of Wales has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives.'

*Nicholas Capaldi*  
Accounting Officer

7 July 2011

*Dai Smith*  
Chairman

7 July 2011

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

I certify that I have audited the financial statements of the Arts Council of Wales Lottery Distribution Account for the year ended 31 March 2011 under the National Lottery etc. Act 1993. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of 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 being audited.

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

As explained more fully in the Statement of Council's and the Accounting Officer's Responsibilities, the Council and 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 the Arts Council of Wales Lottery Distribution Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Arts Council of Wales; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Trustees' Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

## Opinion on Regularity

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

## Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the Arts Council of Wales Lottery Distribution Account's affairs as at 31 March 2011 and of its net expenditure 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 Olympics, with the approval of HM Treasury.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Secretary of State directions issued with HM Treasury approval under the National Lottery etc. Act 1993; and
- the information given in the Reference and administrative details, Financial review, Human resources, Pension scheme, Payment of trade and other payables, Financial risk and capital management, Personal data related incidents, Responsibility towards the environment, and Social and community issues sections of the Trustees' Annual 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
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

### **Report**

I have no observations to make on these financial statements.

*Amyas C E Morse*  
Comptroller and Auditor General

13 July 2011

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

## Statement of Comprehensive Net Expenditure for the year ended 31 March 2011

|   | Notes  | £'000        | 2011<br>£'000 | 2010<br>£'000 |
|---|--------|--------------|---------------|---------------|
| <b>Expenditure</b>  |        |              |               |               |
| Management and administration:  |        |              |               |               |
| Staff costs   | 3      |              | <b>1,041</b>  | 1,032         |
| Other operating costs   | 5a     |              | <b>600</b>    | 612           |
| Provision for doubtful debts  | 8b     |              | <b>–</b>      | 665           |
|   |        |              | <b>1,641</b>  | 2,309         |
| Expenditure on the arts:  |        |              |               |               |
| Grant commitments made (hard) <sup>1</sup>  |        | <b>6,080</b> |               | 9,026         |
| Less: Lapsed and revoked commitments (hard) <sup>1</sup>  |        | <b>(275)</b> |               | (146)         |
| Net grant commitments made (hard) <sup>1</sup>  | 10b    |              | <b>5,805</b>  | 8,880         |
| Delegated distributor: Film Agency for Wales  | 9a, 12 |              | <b>785</b>    | 785           |
| Other arts awards   | 6      |              | <b>75</b>     | –             |
| Direct costs of grant making  | 5b     |              | <b>20</b>     | 38            |
|   |        |              | <b>6,685</b>  | 9,703         |
| Statutory transfer to Olympic Lottery Distribution Fund   | 7      |              | <b>2,169</b>  | 2,169         |
| <b>Total expenditure</b>  |        |              | <b>10,495</b> | 14,181        |
| <b>Income</b>   |        |              |               |               |
| Share of proceeds from the National Lottery   | 7      |              | <b>12,878</b> | 12,338        |
| Investment income on balances in the National Lottery Distribution Fund                               | 7      |              | <b>97</b>     | 88            |
|   | 7      |              |               |               |
| Other income  |        |              | <b>16</b>     | 16            |
| Interest receivable   |        |              | <b>2</b>      | 1             |
| Grants recoverable  |        |              | <b>–</b>      | 896           |
| <b>Total income</b>   |        |              | <b>12,993</b> | 13,339        |
| Net income/(expenditure)  |        |              | <b>2,498</b>  | (842)         |
| <b>Other Income/(Comprehensive Expenditure)</b>   |        |              |               |               |
| Net Unrealised gain/(loss) on the revaluation of investment in the National Lottery Distribution Fund | 7      |              | <b>35</b>     | (19)          |
| <b>Total Income/(Comprehensive Expenditure) for the year ended 31 March 2011</b>                      |        |              | <b>2,533</b>  | (861)         |

1 See note 1d for details of the different categories of grant commitments

There are no discontinued activities and there have been no acquisitions during the year.

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

The notes on pages 30 to 41 form part of these financial statements.

## Statement of Financial Position as at 31 March 2011

|   | Notes  | 31 March<br>2011<br>£'000 | 31 March<br>2010<br>£'000 |
|---|--------|---------------------------|---------------------------|
| <b>Non-current assets:</b>  |        |                           |                           |
| Trade and other receivables   | 8a     | 150                       | 150                       |
| <b>Current assets:</b>  |        |                           |                           |
| Financial assets:   |        |                           |                           |
| Investments – balance held in the<br>National Lottery Distribution Fund                         | 7      | 14,120                    | 11,994                    |
| Trade and other receivables   | 8b     | 9                         | 218                       |
| Cash and cash equivalents   | 11c    | 759                       | 3                         |
| <b>Total current assets</b>   |        | <b>14,888</b>             | <b>12,215</b>             |
| <b>Total assets</b>   |        | <b>15,038</b>             | <b>12,365</b>             |
| <b>Trade payables and other current liabilities –<br/>amounts falling due within one year:</b>  |        |                           |                           |
| Trade and other payables  | 9      | (274)                     | (234)                     |
| Other liabilities:  |        |                           |                           |
| Delegated distributor: Film Agency for Wales  | 9, 12  | (296)                     | (659)                     |
| Provision for grant commitments (hard) <sup>1</sup>   | 9, 10b | (7,381)                   | (4,132)                   |
| <b>Total payables and other current liabilities</b>   |        | <b>(7,951)</b>            | <b>(5,025)</b>            |
| <b>Non-current assets plus net current assets</b>   |        | <b>7,087</b>              | <b>7,340</b>              |
| <b>Trade payables and other liabilities – amounts<br/>amounts due after more than one year:</b> |        |                           |                           |
| Provision for grant commitments falling due after<br>more than one year (hard) <sup>1</sup>     | 10b    | (1,782)                   | (4,568)                   |
| <b>Assets less liabilities</b>  |        | <b>5,305</b>              | <b>2,772</b>              |
| <b>Equity/Reserves:</b>   |        |                           |                           |
| Net Expenditure account   |        | <b>5,305</b>              | <b>2,772</b>              |

<sup>1</sup> See note 1d for details of the different categories of grant commitments

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

Nicholas Capaldi  
Accounting Officer

7 July 2011

Dai Smith  
Chairman

7 July 2011

The notes on pages 30 to 41 form part of these financial statements.

## Statement of Cash Flows for the year ended 31 March 2011

|   | Notes | 2011<br>£'000  | 2010<br>£'000 |
|---|-------|----------------|---------------|
| <b>Cash flows from operating activities</b>                               |       |                |               |
| Funds drawn down from the National Lottery Distribution Fund              | 7     | <b>8,715</b>   | 9,585         |
| Other cash receipts   |       | <b>222</b>     | 30            |
| Grants paid   | 10b   | <b>(5,342)</b> | (7,841)       |
| Cash paid to and on behalf of employees                                   |       | <b>(975)</b>   | (965)         |
| Other cash payments   |       | <b>(718)</b>   | (787)         |
| Film Agency payments  | 9a    | <b>(1,148)</b> | (566)         |
| <b>Net cash inflow/(outflow) from operating activities</b>                | 11a   | <b>754</b>     | (544)         |
| <b>Cash flows from investing activities</b>                               |       |                |               |
| Interest received   |       | <b>2</b>       | 1             |
| <b>Net cash inflow from investing activities</b>                          |       | <b>2</b>       | 1             |
| <b>Net increase/(decrease) in cash and cash equivalents in the period</b> | 11b   | <b>756</b>     | (543)         |

## Statement of Changes in Equity for the year ended 31 March 2011

|                                       | 2011<br>£'000 | 2010<br>£'000 |
|---------------------------------------|---------------|---------------|
| Balance at beginning of year          | <b>2,772</b>  | 3,633         |
| Net income/(expenditure) for the year | <b>2,533</b>  | (861)         |
| <b>Balance at end of year</b>         | <b>5,305</b>  | 2,772         |

The notes on pages 30 to 41 form part of these financial statements.

# Notes forming part of the Financial Statements

## 1 Accounting policies

### *a Basis of preparation*

These financial statements are prepared under the historical cost convention. They have been prepared in accordance with Section 35 of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998) in the form and on the basis determined by the Secretary of State for Culture, Olympics, Media and Sport.

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS).

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

### *b Recognition of income and expenditure*

All income is accounted for on an accruals basis. All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category. Where costs cannot be directly attributed to particular headings they have been allocated to activities on a basis consistent with use of the resources.

### *c General activities*

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

### *d Grant commitments*

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

Hard commitments payable within one year of the year end are recognised in the Statement of Financial Position as current liabilities. Those payable more than one year after the Statement of Financial Position 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, Olympics, Media and Sport. However, the share of such balances attributable to the Council is shown in the accounts at market value and, at the Statement of Financial Position date, has been notified by the Secretary of State for Culture, Olympics, Media and Sport as being available for distribution by the Council in respect of current and future commitments.

It is appropriate to classify the National Lottery Distribution Fund investments as 'available for sale', being in line with the Department for Culture, Media and Sport accounting policy, and this accounting treatment is appropriate to the Council. The policy is that investments are held at fair value with any unrealised profit or loss recognised through reserves.

*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 Statement of Comprehensive Net Expenditure so as to spread the cost of pensions over employees' working lives.

The fund is a defined benefit, 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 IAS 19.

*g Taxation*

Non-recoverable Value Added Tax arising from expenditure is charged to the Statement of Comprehensive Net Expenditure 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 its Financial Directions 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.

*i Financial Instruments*

Financial assets: Trade receivables and other current assets do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Cash and cash equivalents comprises cash in hand and cash at bank on instant access terms.

Financial liabilities: Trade payables and other current liabilities are not interest bearing and are stated at their nominal value.

**2 Reclassification of costs**

Staff and operating costs have been reclassified within the Council's General Activities Account to provide greater clarity and further information on the total costs incurred by the Council, with detail of the recharges to our Lottery Distribution function. The operating costs disclosed in note 5a now reflect the analysis of costs disclosed in the General Activities Account.

**3 Staff costs**

|   | <b>2011</b>         | 2010         |
|---|---------------------|--------------|
|   | <b>£'000</b>        | £'000        |
| Wages and salaries charged to Lottery distribution activity | <b>820</b>          | 800          |
| Social security costs                                       | <b>65</b>           | 68           |
| Other pension costs   | <b>154</b>          | 154          |
| Agency costs  | <b>2</b>            | 7            |
| Compensation payment  | <b>-</b>            | 3            |
|   | <b><u>1,041</u></b> | <u>1,032</u> |

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

|   | <b>No</b>        | No        |
|---|------------------|-----------|
| Direct delivery of our activities                             | <b>24</b>        | 25        |
| Recharged to direct delivery and in support of our operations | <b>69</b>        | 70        |
| Agency staff  | <b>1</b>         | -         |
|   | <b><u>94</u></b> | <u>95</u> |

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

|                              |                  |           |
|------------------------------|------------------|-----------|
| In support of our operations | <b><u>26</u></b> | <u>26</u> |
|------------------------------|------------------|-----------|

The balance of 68 (2009/10: 69) staff were employed on general activities.

**4 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 IAS 19.

An independent actuarial valuation of the Arts Council Retirement Plan 1994 normally takes place every three years. The most recent valuation was not finalised until June 2011. Contributions in 2010/11 therefore continued to reflect the last valuation, as at 31 March 2007, at which time the overall market value of the Plan's assets was £58.5m. The actuary concluded that at the valuation date the Plan had a past service deficit of £18.8m and a funding ratio of 76%. In order to eliminate the deficit, the actuary recommended increased employer contributions over the next 9 years. The reduction to 9 years compared to the 12 years used previously took account of the guidance issued by the Pensions Regulator.

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

Contributions by the Council and its employees were:

| <b>For staff joining the Plan:</b>     | <b>Council</b> |       | <b>Employees</b> |      |
|--|----------------|-------|------------------|------|
|  | <b>2011</b>    | 2010  | <b>2011</b>      | 2010 |
| on or before 31 August 2006            | <b>20.6%</b>   | 20.6% | <b>1.5%</b>      | 1.5% |
| from 1 September 2006 to 31 March 2010 | <b>18.6%</b>   | 18.6% | <b>3.5%</b>      | 3.5% |
| on or after 1 April 2010               | <b>16.1%</b>   | 16.1% | <b>6.0%</b>      | 6.0% |

The Council also pays 0.2% of pensionable salary in respect of each life assurance only member.

Following completion of the latest valuation, as at 31 March 2010, new contribution rates will be applied, beginning 1 April 2011. The Council's contribution rates will alter to 20.8%, 18.8% and 16.3%. Payments in respect of the deficit are subject to a minimum level each year during the period of the deficit recover to 2023, at a rate advised by the scheme actuary.

## 5 Costs in support of our operations

### a) Management and administration: Other operating costs

|   | <b>2011</b>  | 2010       |
|---|--------------|------------|
|   | <b>£'000</b> | £'000      |
| Staff related costs   | <b>63</b>    | 63         |
| Infrastructure  | <b>243</b>   | 262        |
| Lottery promotion   | <b>25</b>    | 29         |
| Office running costs  | <b>21</b>    | 24         |
| Professional fees   | <b>98</b>    | 86         |
| Irrecoverable VAT   | <b>68</b>    | 65         |
| Charge for use of fixed assets                              | <b>46</b>    | 44         |
| Auditor's remuneration – Audit <sup>1</sup>                 | <b>17</b>    | 18         |
| Internal audit  | <b>9</b>     | 7          |
| Council meetings, including Members' travel and subsistence | <b>10</b>    | 14         |
|   | <b>600</b>   | <b>612</b> |

<sup>1</sup> The audit fee is for audit services and no non-audit services were provided.

Management and administration 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 37.5% (2009/10: 37.5%).

### b) Expenditure on the arts: Direct costs of grant making

|   | <b>2011</b>  | 2010      |
|---|--------------|-----------|
|   | <b>£'000</b> | £'000     |
| Assessors' fees                         | <b>8</b>     | 21        |
| Creative Wales Awards – scheme expenses | <b>12</b>    | 17        |
|   | <b>20</b>    | <b>38</b> |

**6 Other arts awards**

|  | <b>2011</b>      | 2010     |
|--|------------------|----------|
|  | <b>£'000</b>     | £'000    |
| <i>Unlimited</i> awards for the London 2012 Cultural Olympiad in association with Arts Council England | <b>35</b>        | –        |
| New Music Works! awards in association with the PRS Foundation   | <b>40</b>        | –        |
|  | <u><b>75</b></u> | <u>0</u> |

**7 National Lottery Distribution Fund**

|  | <b>2011</b>          | 2010          |
|--|----------------------|---------------|
|  | <b>£'000</b>         | £'000         |
| Balance held in the National Lottery Distribution Fund (NLDF) at 1 April   | <b>11,994</b>        | 11,341        |
| Allocation of Lottery proceeds   | <b>12,878</b>        | 12,338        |
| Investment income receivable   | <b>97</b>            | 88            |
| Payments to the Olympic Lottery Distribution Fund                          | <b>(2,169)</b>       | (2,169)       |
| Adjustment to previous year's unrealised gain/(loss) on investment in NLDF | <b>(18)</b>          | (31)          |
| Unrealised gain on investment in NLDF during the year                      | <b>53</b>            | 12            |
| Drawn down in the year   | <b>(8,715)</b>       | (9,585)       |
| Balance held in the National Lottery Distribution Fund at 31 March         | <u><b>14,120</b></u> | <u>11,994</u> |

The balance held at 31 March 2011 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 2011/12 accounts. A corresponding adjustment for an unrealised loss on investment of £31,000 in 2009/10 has been made in these accounts.

In February 2008 a statutory instrument (SI 2008 No. 255 The Payments into the Olympic Lottery Distribution Fund etc. Order 2008) was passed which allowed for the transfer of up to £1,085,000,000 from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund in order to meet some of the costs of hosting the 2012 games. This comprises £410,000,000 as originally envisaged when the Government decided to support London's Olympic bid in 2003, and a proposed further £675,000,000 arising from the subsequent budget review.

The Council was committed to contribute up to £3,552,000 in the original bid and this order allows for the transfer of up to a further £4,509,000.

During 2010/11 there was a transfer of £2,169,000 (2009/10 £2,169,000).

**8 Trade and other receivables**

|  | <b>2011</b>  | 2010         |
|--|--------------|--------------|
|  | <b>£'000</b> | £'000        |
| <i>a) Non-current assets</i>                             |              |              |
| <b>Analysis by type</b>                                  |              |              |
| Other receivables  | <u>150</u>   | <u>150</u>   |
| Intra-government balances                                |              |              |
| Balances with bodies external to government              | <u>150</u>   | <u>150</u>   |
| <i>b) Current assets</i>                                 |              |              |
| <b>Analysis by type</b>                                  |              |              |
| Grants recoverable <sup>1</sup>                          | <b>694</b>   | 903          |
| Less: Specific provision for doubtful debts <sup>1</sup> | <u>(685)</u> | <u>(685)</u> |
|  | <u>9</u>     | <u>218</u>   |
| <b>Intra-government balances</b>                         |              |              |
| Balances with bodies external to government              | <u>9</u>     | <u>218</u>   |

1 A property which was refurbished with the assistance of a Lottery capital award has been sold and the full amount of the grant is recoverable. The Council has received 50% of the sale proceeds but the remainder is included in the provision for doubtful debts. As disclosed in note 15, further unquantifiable repayment may be received.

**9 Trade payables and other current liabilities – amounts falling due within one year**

|  | <b>31 March</b> | 31 March     |
|--|-----------------|--------------|
|  | <b>2011</b>     | 2010         |
|  | <b>£'000</b>    | £'000        |
| <i>a) Analysis by type</i>   |                 |              |
| Trade and other payables:  |                 |              |
| Trade payables   | <b>9</b>        | 18           |
| Due to the Arts Council of Wales General Activities account <sup>1</sup> | <b>207</b>      | 198          |
| Accruals and deferred income   | <b>58</b>       | 18           |
| Sub-total: Trade and other payables                                      | <u>274</u>      | <u>234</u>   |
| Other liabilities:   |                 |              |
| Film Agency for Wales <sup>2</sup>                                       | <b>296</b>      | 659          |
| Provision for grant commitments (hard) (note 10b)                        | <b>7,381</b>    | 4,132        |
| Sub-total: Other liabilities   | <u>7,677</u>    | <u>4,791</u> |
| Total current liabilities  | <u>7,951</u>    | <u>5,025</u> |

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

|                                |            |            |
|--------------------------------|------------|------------|
| Recharges of apportioned costs |            |            |
| – Staff                        | <b>89</b>  | 64         |
| – Overheads                    | <b>72</b>  | 90         |
| – Charge for use of assets     | <b>46</b>  | 44         |
|                                | <u>207</u> | <u>198</u> |

## 2 The Film Agency for Wales is the Council's delegated distributor of Lottery funding for film:

|                                     |                |       |
|-------------------------------------|----------------|-------|
| Undrawn funds at 1 April            | <b>659</b>     | 440   |
| Allocation of funds during the year | <b>785</b>     | 785   |
|                                     | <b>1,444</b>   | 1,225 |
| Drawn down in the year              | <b>(1,148)</b> | (566) |
| Undrawn funds at 31 March           | <b>296</b>     | 659   |

b) *Intra-government balances*

|   |              |       |
|---|--------------|-------|
| Balances with central government bodies     | <b>207</b>   | 198   |
| Balances with local authorities             | <b>1,151</b> | 643   |
| Balances with NHS bodies                    | -            | 5     |
| Sub-total: Intra-government balances        | <b>1,358</b> | 846   |
| Balances with bodies external to government | <b>6,593</b> | 4,179 |
| Total creditors                             | <b>7,951</b> | 5,025 |

**10 Grant commitments***a) Soft commitments*

|  | £'000          | £'000                      | 2011<br>£'000 | 2010<br>£'000 |
|--|----------------|----------------------------|---------------|---------------|
|  | <b>Capital</b> | <b>Revenue<br/>schemes</b> | <b>Total</b>  | Total         |
| Soft commitments at 1 April                      | -              | 157                        | 157           | 206           |
| Soft commitments made in the year <sup>1</sup>   | 516            | 5,653                      | 6,169         | 8,977         |
| Total grant offers made                          | <u>516</u>     | <u>5,810</u>               | <u>6,326</u>  | 9,183         |
| Soft commitments transferred to hard commitments | (496)          | (5,584)                    | (6,080)       | (9,026)       |
| Soft commitments at 31 March                     | <u>20</u>      | <u>226</u>                 | <u>246</u>    | <u>157</u>    |

1 The large increase in Lottery funds for the year, and large decrease in grant offers made, has arisen due to the timing of a capital development project. Funding of approximately £3,000,000 has been ring-fenced but the application has not yet reached decision stage. It is expected to be assessed in July 2011.

*b) Hard commitments*

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| Hard commitments at 1 April  | 7,226        | 1,474        | 8,700        | 7,661        |
| Hard commitments in the year                                       | 496          | 5,584        | 6,080        | 9,026        |
| Amounts not taken up   | (78)         | (197)        | (275)        | (146)        |
| Charged to Statement of Comprehensive Net Expenditure <sup>2</sup> | 418          | 5,387        | 5,805        | 8,880        |
| Grants paid in the year  | (1,148)      | (4,194)      | (5,342)      | (7,841)      |
| Hard commitments at 31 March <sup>3</sup>                          | <u>6,496</u> | <u>2,667</u> | <u>9,163</u> | <u>8,700</u> |
| Falling due within one year to:                                    |              |              |              |              |
| Local authorities  | 803          | 348          | 1,151        | 643          |
| NHS bodies   | -            | -            | -            | 5            |
| Bodies external to government                                      | 4,147        | 2,083        | 6,230        | 3,484        |
|  | <u>4,950</u> | <u>2,431</u> | <u>7,381</u> | 4,132        |
| Falling due after more than one year to:                           |              |              |              |              |
| Local authorities  | 1,500        | 50           | 1,550        | 2,025        |
| Bodies external to government                                      | 46           | 186          | 232          | 2,543        |
|  | <u>1,546</u> | <u>236</u>   | <u>1,782</u> | 4,568        |
| Total  | <u>6,496</u> | <u>2,667</u> | <u>9,163</u> | <u>8,700</u> |

|                           |              |              |
|---------------------------|--------------|--------------|
| 2 Grants to public bodies | 766          | 533          |
| Grants to private bodies  | 5,039        | 8,347        |
|                           | <u>5,805</u> | <u>8,880</u> |

## 3 Ageing of hard commitments:

|         |              |              |              |              |
|---------|--------------|--------------|--------------|--------------|
| 2010/11 | -            | -            | -            | 4,132        |
| 2011/12 | 4,950        | 2,431        | 7,381        | 4,565        |
| 2012/13 | 1,546        | 231          | 1,777        | 3            |
| 2013/14 | -            | 5            | 5            | -            |
|         | <u>6,496</u> | <u>2,667</u> | <u>9,163</u> | <u>8,700</u> |

**11 Cash flow reconciliation**

|   | <b>2011</b>    | 2010   |
|---|----------------|--------|
|   | <b>£'000</b>   | £'000  |
| <i>a) Reconciliation of net income/(expenditure) to net cash flow from operating activities</i> |                |        |
| Net income/(expenditure)  | <b>2,533</b>   | (861)  |
| Bank interest   | <b>(2)</b>     | (1)    |
| (Increase)/Decrease in the balance held in the National Lottery Distribution Fund               | <b>(2,126)</b> | (653)  |
| (Increase)/Decrease in trade and other receivables  | <b>209</b>     | (214)  |
| Increase/(Decrease) in trade and other payables and other liabilities                           | <b>(323)</b>   | 146    |
| Increase/(Decrease) in provision for grant commitments  | <b>463</b>     | 1,039  |
| Net cash inflow/(outflow) from operating activities   | <b>754</b>     | (544)  |
| <i>b) Reconciliation of net cash flow to movements in net funds</i>                             |                |        |
| Increase/(Decrease) in cash and cash equivalents  | <b>756</b>     | (543)  |
| Increase/(Decrease) in the balance held in the National Lottery Distribution Fund               | <b>2,126</b>   | 653    |
|   | <b>2,882</b>   | 110    |
| Net funds at 1 April  | <b>11,997</b>  | 11,887 |
| <b>Net Funds at 31 March</b>  | <b>14,879</b>  | 11,997 |
| <b>Cash and cash equivalents</b>  |                |        |
| Balance at 1 April  | <b>3</b>       | 546    |
| Net change in cash and cash equivalent balances   | <b>756</b>     | (543)  |
| Balance at 31 March   | <b>759</b>     | 3      |
| The following balances at 31 March were held at:  |                |        |
| Commercial banks and cash in hand   | <b>759</b>     | 3      |

## 12 Delegated Lottery distributor: Film Agency for Wales

A delegation agreement with the Film Agency for Wales is in place, and fully operational, for the purpose of the distribution of Lottery funds. The following Lottery distribution information is extracted from the unaudited draft financial statements<sup>1</sup> of the Film Agency for Wales for the year ended 31 March 2011:

|  | £'000   |
|--|---------|
| Reserves at 1 April 2010                       | 354     |
| Incoming funds: Arts Council of Wales          | 785     |
| Incoming funds: Other                          | 71      |
| Outgoing funds                                 | (1,174) |
| Reserves at 31 March 2010                      | 36      |
| Details of grant commitments at 31 March 2011: |         |
| Hard commitments                               | 1,029   |
| Soft commitments                               | –       |
|  | 1,029   |

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

<sup>1</sup> The draft financial statements will be audited in June 2011 and are expected to be approved by the Board in September 2011.

## 13 Events after the reporting period

### *Authorisation of these financial statements for issue*

The financial statements were authorised for issue by the Accounting Officer on the same date as the Comptroller and Auditor General certified them.

## 14 Financial instruments

International Financial Reporting Standard 7, *Financial Instruments: Disclosures*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks the Council's function faces in undertaking its role.

*Liquidity risks* – In 2010/11 £12,878,000 or 99.0% of the Council's Lottery distribution income was derived from the National Lottery (2009/10: £12,338,000 or 98.3%). Of the remaining income £97,000 or 0.8% was derived from investment returns from the balance held with the National Lottery Distribution Fund (2009/10: £88,000 or 0.7%) and £18,000 or 0.2% from bank interest and sundry income (2009/10: £123,000 or 1.0%). The Council does not consider that its Lottery Distribution function is exposed to any significant liquidity risk, and is satisfied that the balance within the National Lottery Distribution Fund and projected future Lottery proceeds are sufficient to meet its hard commitments.

*Interest rate risks* – The financial assets of the Lottery are invested in the National Lottery Distribution Fund, which invests in a narrow band of low risk assets such as government bonds and cash. The Council has no control over the investment of funds in the National Lottery Distribution Fund. Cash and cash equivalents which are drawn down from the Fund to pay grant commitments and operating costs are held in an instant access, variable rate bank account which on average carried an interest rate of 0.50% in the year (2009/10: 0.5%). The cash and cash equivalents balance at the year end was £759,000 (2010: £3,000). The Council does not consider that its Lottery Distribution function is exposed to significant interest rate risks.

*Foreign currency risk* – The lottery distribution function of the Council is not exposed to any significant foreign exchange risks.

*Cash flow risk* – The Council is not exposed to any significant cash flow risks.

## **15 Contingent asset**

A property which was refurbished with the assistance of Lottery capital award has been sold and the Council received 50% of the proceeds in 2010/11 as partial repayment of the grant. When all other creditors of the vendor organisation have been paid, any remaining balance will also be due to the Council.

## **16 Related party transactions**

### *Public bodies*

The Council is a Welsh Government sponsored body.

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

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

### *Delegated Lottery distributor*

As disclosed in note 12, the Film Agency for Wales is the Council's delegated distributor of Lottery funding for film so is regarded as a related party. During the year the Council had no material transactions with the Agency other than those shown in the Statement of Comprehensive Net Expenditure.

### *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 or other payments by the Council in 2010/11. In all such cases, in accordance with the Council's Code of Best Practice, the member concerned withdrew from any meeting during discussion of the application.

| <b>Member</b>                   | <b>Organisation</b>   | <b>Transaction<br/>(number)</b> | <b>Total<br/>value<br/>£</b> | <b>Balance<br/>outstanding<br/>at 31 March<br/>2011<br/>£</b> |
|---------------------------------|---|---------------------------------|------------------------------|---|
| <b>Norah Campbell</b>           |   |                                 |                              |   |
| Non executive director          | Oriel Mostyn  | Grant (1)                       | 30,000                       | 16,500  |
| <b>Emma Evans</b>               |   |                                 |                              |   |
| Trustee/Director                | Creu Cymru  | Grant (2)                       | 59,650                       | 47,448  |
| <b>Maggie Hampton</b>           |   |                                 |                              |   |
| Director                        | Disability Arts Cymru   | Grant (1)                       | 5,000                        | Nil   |
| Board Member<br>(family member) | India Dance Wales   | Grant (1)                       | 20,000                       | 11,000  |
| <b>Margaret Jervis</b>          |   |                                 |                              |   |
| Director                        | Valleys Kids  | Grant (1)                       | 50,000                       | 27,500  |
| <b>Robin Morrison</b>           |   |                                 |                              |   |
| Employee                        | Blaenau Gwent County Borough Council<br>(including Beaufort Theatre)    | Grant (1)                       | 27,969                       | 27,969  |
| Trustee (elect)                 | Borough Theatre   | Grant (1)                       | 26,580                       | 26,580  |
| <b>Osi Rhys Osmond</b>          |   |                                 |                              |   |
| Trustee                         | Joseph Herman Art Foundation Cymru                                      | Grant (1)                       | 4,600                        | Nil   |
| <b>Richard Turner</b>           |   |                                 |                              |   |
| Chairman                        | South Wales Intercultural Community Arts                                | Grant (1)                       | 30,000                       | 16,500  |
| <b>Alan Watkin</b>              |   |                                 |                              |   |
| Employee                        | Wrexham County Borough Council<br>(including Oriel Wrecsam)             | Grant (4)                       | 80,000                       | 28,500  |
| <b>Debbie Wilcox</b>            |   |                                 |                              |   |
| Councillor                      | Newport City Council<br>(including Newport Museum and Art<br>Gallery)   | Grant (2)                       | 42,000                       | 15,540  |
| <b>John C Williams</b>          |   |                                 |                              |   |
| Employment (family<br>member)   | Clwyd Theatr Cymru  | Grant (1)                       | 25,000                       | 13,750  |
| <b>Dr Kate Woodward</b>         |   |                                 |                              |   |
| Employee                        | Aberystwyth University (including<br>Aberystwyth UniversityArts Centre) | Grant (3)                       | 101,149                      | 10,115  |
| Employment<br>(family member)   | Audiences Wales   | Grant (2)                       | 33,391                       | 27,653  |

**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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