



Cyngor Celfyddydau Cymru  
Arts Council of Wales

## LOTTERY DISTRIBUTION ACCOUNT

Report and Financial Statements  
for the year ended 31 March 2009



Awarded funds from

**The National Lottery**<sup>®</sup>

Dyfarwyd arian

**Y Loteri Genedlaethol**

Charity number 1034245

**ARTS COUNCIL OF WALES  
LOTTERY DISTRIBUTION ACCOUNT**

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## TRUSTEES' ANNUAL REPORT

for the year ended 31 March 2009

### Reference and administrative details

#### *Trustees*

The Council Members who served since 1 April 2008 were:

Professor Dai Smith, Chairman	(b)
Rhiannon Wyn Hughes MBE, Vice-chairman	(a) (b) (e) (ii) (iii)
Norah Campbell	(a) (g)
Simon Dancey	(a) (f)
Emma Evans	
Maggie Hampton	(c)
Margaret Jervis MBE DL	
John Metcalf (to 23 April 2009)	(d)
Robin Morrison	(c) (i)
Christopher O'Neil (to 31 March 2009)	(g) (v)
Dr Ian J Rees	(e)
Clive Sefia (to 31 March 2009)	(a)
Ruth Till MBE	(f)
David Vokes	(a) (b)
Debbie Wilcox	(f) (iv)
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) Denbighshire County Council
- (iii) National Museum of Wales
- (iv) Newport City Council
- (v) University of Wales Institute, Cardiff

#### *Chief Executive*

Peter Tyndall (to 18 April 2008)  
 James Turner (from 19 April 2008 to 14 September 2008)  
 Nicholas Capaldi (from 15 September 2008)

#### *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  
 151 Buckingham Palace Road  
 London  
 SW1W 9SS

*Internal auditors*

Bentley Jennison  
33-35 Cathedral Road  
Cardiff  
CF11 9HB

*Bankers*

Bank of Ireland  
Bow Bells House  
1 Bread Street  
London  
EC4M 9BE

*Solicitors*

Geldards LLP  
Dumfries House  
Dumfries Place  
Cardiff  
CF10 3ZF

**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 an Assembly 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 Assembly, 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 eight 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 Assembly 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

- Policy Directions, Finance Directions and an Accounts Direction issued by the Welsh Assembly Government in accordance with the terms of sections 26 and 35 of the National Lottery etc. Act 1993 (as amended), by agreement with HM Treasury and the Department for Culture, Media and Sport
- 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 Finance and Central Services Director.

The Council is required to account separately for its general and lottery distribution activities. Under separate Accounts Directions the accounting treatment of general and lottery grants differs significantly so, with due regard to paragraph 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 a Risk Management Group 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.

### **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 Welsh Assembly Government with the agreement of HM Treasury and the Department for Culture, 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 has been suspended. However, the Council is committed to the continued management and delivery of projects in progress and those already registered for strategic funding. An appropriate budget allocation is available until at least 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 2008 were:

Robin Morrison, Chairman	Maggie Hampton
Jonathan Adams	Isabel Hitchman
Alun Bond	Richard Morgan
Gareth Davies (to 31 March 2009)	Janet Roberts

On 24 May 2007 Council 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

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 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 2008/09 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/ strategic area</b>	<b>Priorities</b>	<b>Achievements and performance</b>
<b>Supporting the creation of high quality art</b>		
<b>Artform development</b> – we will continue to drive forward our vision for the development of six art forms and aim to increase the resources available in order to achieve our 5 year vision	<ul style="list-style-type: none"> <li>Take forward and implement a series of actions for applied arts &amp; crafts, visual arts, music, dance, theatre &amp; drama and literature, related to the 5-year vision for artform development.</li> </ul>	<ul style="list-style-type: none"> <li>The finalised strategies were signed off by Council in July 2008 then acknowledged by the Arts Strategy Board in September. Publication followed in November 2008 and implementation has now begun.</li> </ul>
<b>International work</b> – through Wales Arts International (“WAI”) we will continue to work with key partners to place the arts and the contemporary culture of Wales on a world stage and to provide an international context to the arts in Wales	<ul style="list-style-type: none"> <li>Work through WAI to establish the European Cultural Desk to increase the flow of information about opportunities for cultural players in Wales to access European Union (“EU”) funds and prepare successful bids to the EU for the funding of WAI’s strategic priorities</li> </ul>	<ul style="list-style-type: none"> <li>WAI established a European Cultural Desk and published its new strategy in November 2008. A major cross-sector seminar was held in Brussels, raising the profile of Wales’s artists abroad. One bid for EU funding has been successful.</li> </ul>

<b>Corporate theme/ strategic area</b>	<b>Priorities</b>	<b>Achievements and performance</b>
<b>Support for artists</b> – we will continue to support artists of high quality and vision at key points in their professional practice	<ul style="list-style-type: none"> <li>• Continue to promote the Creative Wales Awards and examine the structure of support provided to individual artists</li> </ul>	<ul style="list-style-type: none"> <li>• 19 Creative Wales Awards were approved but evaluation of the impact of the awards, and the development of an appropriate measurement tool, was delayed due to ongoing work associated with beacon funding.</li> </ul>
<b>Excellence in the arts</b> – we will continue to encourage exemplar activity that is innovative and can be used as a model of good practice for others in the sector	<ul style="list-style-type: none"> <li>• Continue to implement the funding scheme for beacon companies and individuals</li> </ul>	<ul style="list-style-type: none"> <li>• 22 companies received Beacon Awards. Recipients' project details were agreed and all projects are in progress. The Creative Ambassadors scheme, allocating beacon funding to individuals, was established in the final quarter and four awards were announced in April 2009.</li> </ul>
<b>Encouraging more people to enjoy and take part in the arts</b>		
<b>Participation</b> – we will work towards increasing opportunities for people to actively participate in the arts. We will focus on supporting projects that target areas of high deprivation and on community arts activities that result in transformation of individuals, groups and communities.	<ul style="list-style-type: none"> <li>• Develop a targeted action plan for the implementation of the Arts &amp; Health Strategy over the next 3 years.</li> <li>• Develop and submit a fully-costed business plan for delivering the Legacy funded Cultural Olympiad programme in Wales</li> </ul>	<ul style="list-style-type: none"> <li>• An Arts and Health Action Plan was completed in partnership with the Welsh Assembly Government's Health Department and will be published in May 2009. Implementation of the Plan will begin in 2009/10.</li> <li>• A fully costed business plan was approved by the Legacy Trust and £1.6 million was awarded to the Council to distribute. Work began in the final quarter on delivering the first phases of the four major strands of the project. Four delivery partners were identified and confirmed.</li> </ul>
<b>The development of audiences</b> – we will work towards increasing opportunities for people to engage in quality arts experiences as audiences, participants and artists.	<ul style="list-style-type: none"> <li>• Continue to develop the network of regional performing arts centres through the Arts outside Cardiff funding</li> <li>• Continue to work, in partnership with the Welsh Assembly Government ("WAG"), on plans to develop a Cultural Enterprise Centre in Merthyr Tydfil.</li> </ul>	<ul style="list-style-type: none"> <li>• Arts outside Cardiff funding was awarded to a network of venues but evaluation of the impact of the funding has not been completed. This will be prioritised in 2009/10 and monitoring work will be tied into the Investment Review.</li> <li>• The planned feasibility study was completed and the findings were agreed by all stakeholders.</li> </ul>

<b>Corporate theme/ strategic area</b>	<b>Priorities</b>	<b>Achievements and performance</b>
<p><b>Young people</b> – we will increase opportunities for young people to engage with the arts as participants, artists and audiences.</p>	<ul style="list-style-type: none"> <li>• Develop a fully-costed proposal for an Expressive Schools pilot programme, in partnership with schools, local authorities and Assembly departments.</li> <li>• Secure Convergence funding for 7-years' implementation of the <i>Progression through the Arts</i> European Social Fund ("ESF") development project, as a key partner in WAG's <i>Reach the Heights</i> umbrella project.</li> <li>• In partnership with WAG and the Sports Council for Wales, develop and implement phase 1 of the pilot programme of delivering arts activities related to Saturday and Summer School opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>• A costed proposal was developed and agreed by the Steering Group and the proposal was discussed with the Curriculum &amp; Qualifications Policy Group of WAG's Department for Children, Education, Lifelong Learning and Skills ("DCELLS").</li> <li>• The Council was confirmed as a joint sponsor in the DCELLS-managed <i>Reach the Heights</i> Convergence project. Funding has been secured for the first 24 months of a 3 year programme to benefit more than 15,000 young people who are not in employment, education or training. Additional funding for the arts will be in the region of £5 million over the life of the project.</li> <li>• The partners established a broad framework and it was agreed that the 2008/09 funding would be used to support the development of the <i>Splash Arts</i> programme. Young people at risk of offending participated in 17 exciting, challenging and potentially life-changing projects run by Youth Offending Teams and Youth Inclusion programmes across Wales. Detailed evaluation reports are being compiled.</li> </ul>
<p><b>Growing the arts economy</b></p>		
<p><b>Diversifying our funding base</b> – we will work with WAG and other Assembly Government Sponsored Bodies towards identifying ways in which we can diversify our funding base for the wider benefit of the arts economy in Wales.</p>	<ul style="list-style-type: none"> <li>• Work with Arts &amp; Business Cymru to develop effective mechanisms for supporting arts organisations who are forging links with businesses in Wales.</li> <li>• Work through Wales Arts International to support a targeted number of bids for transnational funding for arts organisations.</li> </ul>	<ul style="list-style-type: none"> <li>• Funding was provided to support Arts &amp; Business Cymru's CultureScope investment programme. An interim report has been received and agreement reached on proposals for the 2009/10 funding relationship.</li> <li>• Two funding bids have been submitted: the <i>Practics</i> proposal seeks to facilitate and improve cultural mobility across the EU, whilst the <i>Toolquiz</i> proposal seeks to establish an environment, even in the most deprived areas, where creativity can flourish and contribute towards economic development.</li> </ul>



<b>Corporate theme/ strategic area</b>	<b>Priorities</b>	<b>Achievements and performance</b>
<p><b>Stimulating enterprise and business growth</b> – we will work, with other partners, to identify the most efficient and appropriate method for delivering business start-up and business development services for micro-businesses and SMEs in the creative and cultural industries.</p>	<ul style="list-style-type: none"> <li>• Work with WAG (Department for the Economy and Transport) to secure appropriate and relevant business support advice, mentoring and training for creative and cultural organisations within the umbrella of generic business support development for Wales.</li> </ul>	<ul style="list-style-type: none"> <li>• An appropriate mechanism for supporting start-up and business development services has not yet been identified. This work will be prioritised in 2009/10.</li> </ul>
<p><b>Skills for the workforce</b> – we will work with Creative &amp; Cultural Skills to develop the diversity of the creative and cultural industries workforce, and to create opportunities and access to appropriate training and other development opportunities.</p>	<ul style="list-style-type: none"> <li>• Work with Creative &amp; Cultural Skills and other partners to develop an ESF bid for the development of skills for the creative industries' workforce to be implemented over the next 4 years.</li> </ul>	<ul style="list-style-type: none"> <li>• A discrete Council bid has not been taken forward but Creative and Cultural Skills has developed a business plan based on a creative blueprint and Council is working closely with them in relation to a partnership agreement.</li> </ul>
<p><b>Regenerating communities</b> – we will continue to focus our work and prioritise our funding in areas of social deprivation in Wales.</p>	<ul style="list-style-type: none"> <li>• Contribute towards the regeneration and development of businesses, communities and individuals through the strategic prioritisation of our funding schemes.</li> </ul>	<ul style="list-style-type: none"> <li>• Progress in this area has been limited to impact measurement work focussed on community arts evaluation and a review of our research strategy.</li> </ul>

<b>Corporate theme/ strategic area</b>	<b>Priorities</b>	<b>Achievements and performance</b>
<b>Making the Arts Council an effective and efficient business</b>		
<p><b>Implementing the recommendations from the Wales Arts Review</b> – we will continue to progress work, in partnership with WAG, to implement the recommendations from the Wales Arts Review.</p>	<ul style="list-style-type: none"> <li>• Work with WAG in the development of a new Culture Strategy for Wales; develop arts policies and strategies at the Arts Strategy Board.</li> <li>• Develop proposals for and begin implementation of regional partnerships, working with WAG and Welsh Local Government Association.</li> <li>• Examine future funding models for the arts in Wales and submit proposals which could be implemented within current spending limits.</li> <li>• Examine the nature and level of support provided to organisations to ensure a sustainable basis for the delivery of strategic objectives</li> </ul>	<ul style="list-style-type: none"> <li>• This work is being led by WAG and is now expected to be taken forward during 2009/10.</li> <li>• The Council is closely involved in the development of the significant <i>Arts Connect</i> partnership in South Wales and has procured a pilot for a North Wales partnership model which will be implemented in 2009/10.</li> <li>• Work commenced on the Council's major review of our portfolio of revenue-funded organisations. This Investment Review will continue throughout 2009/10. An internal working group has been established, external briefings have been held and full terms of reference for the review have been drafted for public consultation.</li> </ul>
<p><b>Culture change programme</b> – we will drive forward our cultural change programme, implement changes and monitor their effectiveness in relation to our future business strategy.</p>	<ul style="list-style-type: none"> <li>• Continue to work with our culture change consultant, staff and Council members to deliver the next stage of our agreed culture change programme.</li> </ul>	<ul style="list-style-type: none"> <li>• Cross-Council work on the development of our vision and values was completed and a SIMA programme was implemented with senior staff and our culture change consultant. A Management Board, comprising all directors and departmental heads, was subsequently established by the incoming Chief Executive and a successful all staff Away Day was held.</li> </ul>
<p><b>Managing our processes</b> – we will work towards improving our processes in relation to corporate planning, partnership working and grants and client management.</p>	<ul style="list-style-type: none"> <li>• Develop an appropriate monitoring and evaluation framework, to ensure the achievement of the strategic vision for the arts.</li> </ul>	<ul style="list-style-type: none"> <li>• Work began on this during the year and it will now form an important part of the terms of reference for the Investment Review.</li> </ul>

<b>Corporate theme/ strategic area</b>	<b>Priorities</b>	<b>Achievements and performance</b>
<b>Developing our workforce</b> – we will continue to develop the skills of our workforce in line with the needs of our future business strategy.	<ul style="list-style-type: none"> <li>Plan our training and workforce development, including a reassessment of our appraisal system, to align with our corporate objectives.</li> </ul>	<ul style="list-style-type: none"> <li>There was a significant change to our corporate planning process during the year, culminating with each division holding workshops to prioritise and align actions with agreed high level outcomes. This will cascade into team and individual work plans for 2009/10.</li> </ul>
<b>Operations</b> – we will manage our operations strategy to make the best use of available resources, and achieving maximum efficiency whilst being aware of the need for environmental sustainability.	<ul style="list-style-type: none"> <li>Implement our Customer Service Strategy action plan for 2008/09.</li> </ul>	<ul style="list-style-type: none"> <li>A Best Practice Review framework was developed during the year and will be progressed in 2009/10.</li> </ul>

Detailed monitoring of performance against performance indicators (PIs) is carried out and reported on quarterly to the Senior Management Team, Council and the Welsh Assembly Government. There were 83 PIs in 2008/09, 40% of which were achieved, 37% partially achieved and 23% not achieved.

### *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 is not presently taking applications for major awards but the Capital programme is open for small grants from £2,000 to £10,000, subject to a maximum of 90% of eligible costs.

On 24 May 2007 Council 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 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. Due to the decline in Lottery income there have been some policy changes from 1 April 2009 in respect of these grants:

<b>Grant type</b>	<b>up to 31 March 2009</b>	<b>from 1 April 2009</b>
<b>Training grants</b> support the undertaking or purchase of training and also the provision of arts training	£250 - £5,000 (organisations undertaking training) £250 - £2,000 (individuals) 5 application deadlines each year – April, June, September, January & March £1,000 - £30,000 (organisations providing training) 2 application deadlines each year – April & September	£250 - £5,000 (organisations undertaking training) £250 - £2,000 (individuals) 4 application deadlines each year – April, June, September & January £1,000 - £30,000 (organisations providing training) 2 application deadlines each year – May & September
<b>Small grants</b> support organisations or individuals for pilot projects or where there are significant levels of funding from other sources	£250 - £5,000 5 application deadlines each year (organisations) – April, June, September, January & March 3 application deadlines each year (individuals) – June, September & January	£250 - £5,000 4 application deadlines each year (organisations) – April, June, September & January 3 application deadlines each year (individuals) – June, September & January
<b>Creative Wales Awards</b> enable artists to develop their creative practice	£5,001 - £12,000 & £20,000 - £25,000 1 application deadline each year - November	£5,001 - £12,000 & £20,000 – £25,000 1 application deadline each year - January
<b>Production grants</b> support larger programmes of work for established individual artists and organisations.	£5,001 - £30,000 (organisations) £5,001 - £20,000 (individuals) 2 application deadlines each year – April & September	£5,001 - £30,000 (organisations) £5,001 - £20,000 (individuals) 2 application deadlines each year – May & September
Maximum level of funding for organisations and individuals	75% of eligible costs (organisations) 90% of eligible costs (individuals)	
Maximum level of funding for local authorities and school clusters	50% of eligible costs	
Maximum level of funding where the main aim of an application is to promote non-arts issues	No funding	50% of eligible costs
Over-arching funding priorities when assessing grant applications	<ol style="list-style-type: none"> <li>1. Projects delivered in acknowledged deprived communities</li> <li>2. Projects to promote the work of artists from under-represented groups (e.g. disabled people, people from black and minority ethnic backgrounds)</li> <li>3. Projects delivered in Welsh or bilingually</li> </ol>	

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.artswales.org.uk](http://www.artswales.org.uk).

### *Principal Lottery distribution activities*

The Council received 735 (2008: 879) lottery applications in the year of which 10 (2008: 28) were for capital schemes and 725 (2008: 851) for revenue schemes. In total 423 (2008: 483) offers of grant were made amounting to £3,919,000 (2008: £8,749,000) of which £322,000 (2008: £5,049,000) were capital grants, and £3,597,000 (2008: £3,700,000) were revenue scheme grants. Commitments (i.e. grants accepted but not yet paid over) at the end of the year amounted to £7,661,000 (2008: £12,144,000), of which £5,673,000 (2008: £9,879,000) were for capital grants and £1,988,000 (2008: £2,265,000) were for revenue schemes grants.

### **Financial review**

The Council has two principal funding sources: grant-in-aid from the Welsh Assembly 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 and Statement of Financial Requirements issued by the Welsh Ministers. 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, 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 2008/09 share of the proceeds from the National Lottery of £10,410,000 (2007/08: £10,019,000), and an increase in funds for the year of £3,893,000 (2007/08: a decrease of £647,000) 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. The first transfer of funds took place on 1 February 2009 when the Council contributed £542,000 out of its £10,410,000 share of Lottery proceeds. Similar amounts are expected to be transferred every three months until August 2012.

The first transfer of funds took place on 1 February 2009 when the Arts Council of Wales contributed £0.542m.

Grant offers made in the year totalled £3,919,000 (2007/08: £8,749,000). £4,241,000 (2007/08: £8,997,000) 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 2009, not recorded as expenditure in the Income and Expenditure Account, totalled £206,000 (2008: £636,000).

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 grant application. Funding of approximately £3,900,000 ring-fenced in 2008/09 was not approved by Council until April 2009 so will appear in the financial statements for 2009/10.

The balance held in the National Lottery Distribution Fund at 31 March 2009 was £11,341,000 (2008: £11,514,000). The accounts show a cumulative surplus of funds of £3,633,000 (2008: a cumulative deficit of £260,000 as a result of the Council's policy of forward commitment).

### **Plans for future periods**

The Council will continue to be a lottery distributor until 2019 which amounts to an investment of some £10 million every year for the arts in Wales, subject to the effects of Lottery funding for the London Olympics in 2012.

The Council has drafted a new Operational Plan for 2009/10. We are developing our business strategy in a difficult economic climate but will continue to campaign for the level of funding that we believe the arts in Wales need. However, we do so in the full knowledge of the wider economic recession. In the short to medium term we must withstand the challenge of reduced public funding for the arts, but with our clients and other partners we must also prepare our plans for the economic upturn which is predicted in the longer term.

Our corporate themes and planned activities are as follows:

<b>Corporate theme/strategic area</b>	<b>Priorities 2009/10</b>
<b>Supporting the creation of high quality art</b>	
<b>Artform development &amp; support for artists</b> – we will implement all actions under Resource Category One in the Artform Strategies	<ul style="list-style-type: none"> <li>• Support the gallery network to further promote excellent curatorial practice</li> <li>• Develop new support for artist-filmmakers through two new film/sound commissions</li> <li>• Set up the framework for dance and disability for Wales</li> <li>• Develop a funding proposition to support new composition in music</li> <li>• Support the development of the National Theatre of Wales</li> <li>• Establish a new partnership agreement with Academi, the Welsh National Literature Promotion Agency</li> </ul>

<b>Corporate theme/strategic area</b>	<b>Priorities 2009/10</b>
<p><b>International work</b> – we will deliver the first year’s work outlined in <i>Creating 2013</i> to maximise international opportunities for the arts in Wales, increase investment into WAI’s programme of activities and ensure international impact and recognition for arts from Wales.</p>	<ul style="list-style-type: none"> <li>• Develop and deliver the Writers’ Chain project partnership with British Council</li> <li>• Develop and deliver the Cultural Relations Programme with China in partnership with WAG and British Council</li> <li>• Review and develop WAI’s long-term programme with North America</li> </ul>
<p><b>Encouraging more people to enjoy and take part in the arts</b></p>	
<p><b>Participation</b> – we will deliver year one of the Legacy Trust business plan, develop an evaluation toolkit for measuring the impact of participatory arts activity in a community arts context, and deliver the agreed actions in the joint Arts &amp; Health Action Plan.</p>	<ul style="list-style-type: none"> <li>• Engage up to 8,000 participants in Legacy Trust-funded projects</li> <li>• Roll out the community arts evaluation toolkit</li> <li>• Hold at least one practical workshop with senior health managers from across Wales following the launch of the Arts &amp; Health Action Plan and the associated guidance document</li> </ul>
<p><b>Audience development</b> – we will have a new plan for the future support of venues in Wales and have progressed work on the development of the Cultural Enterprise Centre in Merthyr Tydfil</p>	<ul style="list-style-type: none"> <li>• Evaluate the impact of Arts outside Cardiff funding and present clear proposals for the future development of regional performing arts centres</li> <li>• Work in partnership with WAG to continue the development of the Cultural Enterprise Centre in Merthyr Tydfil</li> </ul>
<p><b>Young people</b> – we will progress our Arts &amp; Young People Strategy, our <i>Reach the Heights</i> project, and develop the Expressive Schools Wales initiative.</p>	<ul style="list-style-type: none"> <li>• Publish the Arts &amp; Young People Strategy and commence implementation</li> <li>• Meet our year one targets for the <i>Reach the Heights</i> project</li> <li>• Establish two Expressive Schools Wales pilot projects</li> </ul>
<p><b>Research</b> – we will collate survey and research data that will inform progress towards the 2012 target of increasing engagement, setting clear, measurable outcomes and impact measures.</p>	<ul style="list-style-type: none"> <li>• Agree the final version of the Research Strategy and implement agreed priorities for 2009/10</li> <li>• Develop appropriate measures and evaluation tools for all of our projects and programmes</li> </ul>
<p><b>Growing the arts economy</b></p>	
<p><b>Diversifying our funding base</b> – we will meet our year one financial targets for the <i>Reach the Heights</i> project, complete year one of WAI’s Convergence-funded projects, and secure funding for a further two international projects.</p>	<ul style="list-style-type: none"> <li>• Ensure we award sufficient contracts and deliver the agreed outputs to draw down the allocated ESF funding</li> <li>• Fully establish our European Officer post and develop structures to support the successful implementation of large-scale projects</li> </ul>
<p><b>Stimulating enterprise and business growth</b> – we will have an agreed plan for developing business support services</p>	<ul style="list-style-type: none"> <li>• Undertake a scoping exercise with potential partners and agree an action plan</li> </ul>
<p><b>Cultural tourism</b> – we will advance our role in the agreed Cultural Tourism Action Plan</p>	<ul style="list-style-type: none"> <li>• Establish the Impact Project as a successful bid to the Atlantic Area EU funding scheme</li> </ul>
<p><b>Making the Arts Council an effective and efficient business</b></p>	
<p><b>Investment Review</b> – we will complete the review of our portfolio of revenue-funded organisations</p>	<ul style="list-style-type: none"> <li>• Consult and agree the terms of reference, quality framework and planning guidance</li> <li>• Assess applications, making reasoned and supported recommendations to Council</li> <li>• Manage the communication of decisions to applicants</li> </ul>
<p><b>Excellence and innovation</b> – we will review the effectiveness of our beacon and Arts outside Cardiff funding strategies</p>	<ul style="list-style-type: none"> <li>• Develop the evidence base for supporting the arts and support WAG in the production of a new Cultural Strategy</li> </ul>

<b>Corporate theme/strategic area</b>	<b>Priorities 2009/10</b>
<b>Business simplification</b> – we will simplify our administrative processes and systems	<ul style="list-style-type: none"> <li>• Complete our review of grants and client management to streamline our operations within available resources and ensure value for money and high level customer service</li> <li>• Publish our Customer Service Standards</li> </ul>
<b>Developing our workforce</b> – our staff will be engaged and motivated and benefit from a programme of staff training and development	<ul style="list-style-type: none"> <li>• Establish new arrangements for staff development, training and appraisal</li> <li>• Ensure retention of our Investors in People standard</li> </ul>
<b>Communications and campaigning</b> – we will deliver all actions in our 2009/10 Communications Strategy	<ul style="list-style-type: none"> <li>• Redevelop our online services</li> <li>• Devise and execute a major campaign to raise the profile of the arts in Wales</li> </ul>

## **Human resources**

### *Disabled employees*

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

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

### *Sickness absence*

During 2008/09 staff sickness absence totalled 910.5 days. This represented 3.82% of working days, including 1.45% 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. The scheme has therefore been accounted for as if it were a defined contribution scheme, in accordance with FRS17.

## **Payment of creditors**

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 2009, the Council paid 94% (2007/08: 94%) of all invoices within the terms of its payment policy. Since November 2008 the Council, in line with Welsh Assembly Government policy, aims to pay invoices with 10 days. For this period 86% of invoices have been paid with 10 days.

## **Financial risk and capital management**

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

*Liquidity risk* - The Council is satisfied that it has sufficient liquid resources, in the form of cash at bank and agreed funding for 2009/10, to meet all current contracted commitments. 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 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 3.42% (2007/08: 5.28%) in the year. The year-end cash balance held by the Council in the bank was £546,000 (2008: £752,000). 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 flow risk* - The Council is not exposed to any significant cash flow risks.

## **Responsibility towards the environment, social and community issues**

The Council is developing policies in this area. Current arrangements are being reviewed to inform our approach in our new national office but we already have arrangements in place to recycle approximately 75% of office waste via agreements with local authorities. Procurement guidelines will be reviewed and developed to incorporate environmental awareness.

## **Personal data related incidents**

The Council suffered two personal data security breaches during the year: a laptop computer was stolen from one of the Council's offices; and a Council website, which is hosted externally, was compromised by an automated virus attack. Personal data stored on the laptop was already in the public domain so no remedial action was needed in that regard, but laptops left overnight at any of the Council's offices are now stored in locked cabinets. The vulnerability of the website following the virus attack would, however, have allowed a skilled attacker to extract data stored in the backend database, which included personal details submitted by users. The website was, therefore, closed down as soon as the attack was identified and the Council's web developer worked with third party security experts to remove the threat of future attacks of the same kind. All individuals with details registered on the database were informed of the issue and the incident was reported to the Information Commissioner's Office. The Welsh Assembly Government's Head of Information Security was also notified. When this attack occurred a comprehensive assessment of the Council's information security was already underway but that work was subsequently extended. A major review of the Council's websites has been instigated to reflect our changed business needs and to further improve security.



## REMUNERATION REPORT

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

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 Assembly 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 Assembly Government which reflects a minimum time commitment to Council business. Annual increases of the Chairman's salary are also advised by the Welsh Assembly 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 increases 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 increase, as advised by the Welsh Assembly 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. 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; Peter Tyndall (former Chief Executive) 1 October 2001 (left 18 April 2008); Nicholas Capaldi (current Chief Executive) 15 September 2008; David Alston (Arts Director) 1 July 2005; Hywel Tudor (Finance and Central Services Director) 21 January 2002; Jane Clarke (Operations Director) 1 April 2004 (left 9 May 2008); Siân Phipps (Head of Communications) 26 January 2004 (left 26 November 2008).

From April 2008 to September 2008 the post of Chief Executive was covered by James Turner under an interim management arrangement. The post of Operations Director remains vacant at present.

The Chief Executive, Arts Director, Finance and Central Services Director, Operations Director and, until November 2008, Head of Communications are responsible for directing the Council's activities. Their actual emoluments were as follows, 40% (2007/08: 40%) 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	2009	2008	2009	2009		2009	2009
	Emoluments band		Real increase in pension at age 65	Total accrued pension as at 31/03/09	Cash <sup>1</sup> Equivalent Transfer Value at 31/03/08	Cash Equivalent Transfer Value at 31/03/09	Real <sup>2</sup> Increase/ (decrease) in Cash Equivalent Transfer Value
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Nick Capaldi <i>Chief Executive (from 15 September 2008)</i>	50-55	-	0-2.5	0-5	-	6	6
Peter Tyndall <i>Chief Executive (to 18 April 2008)</i>	5-10	70-75	0-2.5	20-25	285	261	(22)
David Alston <i>Arts Director</i>	60-65	60-65	0-2.5	0-5	19	30	11
Hywel Tudor <i>Finance and Central Services Director</i>	60-65	60-65	0-2.5	5-10	71	79	9
Jane Clarke <i>Operations Director (to 9 May 2008)</i>	5-10	60-65	0-2.5	10-15	171	160	(10)
Siân Phipps <i>Head of Communications (to 26 November 2008)</i>	25-30	40-45	0-2.5	10-15	128	120	(8)

<sup>1</sup> **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.

<sup>2</sup> **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.

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

	2009	2008
	£	£
<b>Chairman</b>		
Salary	<u>43,160</u>	<u>42,120</u>
<b>Former Chief Executive</b>		
Salary	3,751	65,621
Non-consolidated award	4,922	4,801
Pension contribution	773	13,387
	<u>9,446</u>	<u>83,809</u>
<b>Interim Chief Executive</b>		
Management fees	<u>69,600</u>	<u>-</u>

	<b>2009</b>	2008
	£	£
<b>Current Chief Executive</b>		
Salary	50,089	-
Pension contribution	9,317	-
Benefit in kind: contribution to living accommodation (including tax and national insurance)	4,745	-
	<u>64,151</u>	<u>-</u>
Reimbursed travel and subsistence expenses incurred and defrayed whilst on Council business:		
Chairman	4,823	2,259
Chief Executives	12,285	15,762

40% (2007/08: 40%) of the Chairman's and Chief Executive's emoluments are charged in these financial statements and the remainder to general activities.

## 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 Welsh Assembly Government by agreement with HM Treasury and the Department for Culture, 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, recognised gains and losses 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 Welsh Assembly Government by agreement with HM Treasury and the Department for Culture, 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 Assembly 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 Assembly Government's Accounting Officers' Memorandum issued by HM Treasury.

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.

Nicholas Capaldi  
Accounting Officer

14 July 2009

Dai Smith  
Chairman

14 July 2009

## 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 Assembly 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 2009 and up to the date of approval of the trustees' annual report and accounts, and accords with Treasury guidance.

### 3. Capacity to handle risk

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

### 4. The risk and control framework

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

This includes an organisation-wide risk register containing details of all key risks and mitigating controls. Managers are responsible for drawing up and maintaining more detailed risk registers for any new activities. During the year ended 31 March 2009, for example, the relocation of the Council's national office in Cardiff 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, to standards defined in the Government Internal Audit Manual, to the Audit Committee which includes the auditors' independent opinion on the adequacy and effectiveness of the Council's system of internal control together with recommendations for improvement;
- the identification and discussion of emerging risks by the Management Board at its monthly meetings;
- regular reviews by the Risk Management Group to identify and keep up to date the record of risks facing the Council;
- maintenance of an organisation-wide risk register;

- 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.

The Council suffered two personal data security breaches during the year: a laptop computer was stolen from one of the Council's offices; and a Council website, which is hosted externally, was compromised by an automated virus attack. Personal data stored on the laptop was already in the public domain so no remedial action was needed in that regard, but laptops left overnight at any of the Council's offices are now stored in locked cabinets. The vulnerability of the website following the virus attack would, however, have allowed a skilled attacker to extract data stored in the backend database, which included personal details submitted by users. The website was, therefore, closed down as soon as the attack was identified and the Council's web developer worked with third party security experts to remove the threat of future attacks of the same kind. All individuals with details registered on the database were informed of the issue and the incident was reported to the Information Commissioner's Office. The Welsh Assembly Government's Head of Information Security was also notified. When this attack occurred a comprehensive assessment of the Council's information security was already underway but that work was subsequently extended. A major review of the Council's websites has been instigated to reflect our changed business needs and to further improve security.

## 5. Review of effectiveness

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

In their annual opinion, the internal auditors provided limited assurance in two of the eight areas on which they had reported: budget setting and strategic planning; and grant making. 2008/09 was a transitional year for the Council due to changes in executive leadership and the corporate planning process, but management has agreed action plans to address the recommendations made in both these areas which will be the subject of further comprehensive reviews in 2009/10.

Nicholas Capaldi  
Accounting Officer

14 July 2009

Dai Smith  
Chairman

14 July 2009

## **THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT AND 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 2009 under the National Lottery etc. Act 1993 (as amended). These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having being audited.

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

The Council and Chief Executive, as Accounting Officer, are responsible for preparing the Trustees' Annual Report, the Remuneration Report and the financial statements in accordance with the National Lottery etc. Act 1993 (as amended) and directions issued by the Welsh Assembly Government, by agreement with HM Treasury and the Department of Culture, Media and Sport, made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Council's and the Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and directions issued by the Welsh Assembly Government, by agreement with HM Treasury and the Department of Culture, Media and Sport, made thereunder. I report to you whether, in my opinion, the information which comprises the Reference and administrative details, Structure, governance and management, Lottery Distribution, Financial Review, Financial risk and capital management and Responsibility towards the environment, social and community issues, given in the Trustees' Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by the Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if in my opinion the Arts Council of Wales has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Arts Council of Wales' compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Arts Council of Wales' corporate governance procedures or its risk and control procedures.

I read the other information contained in the Trustees' Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises Objectives, activities, achievements and performance, Plans for future periods, Human resources, Pension scheme, Payment to creditors, Personal data related incidents and the unaudited part of the remuneration report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Council and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Arts Council of Wales' circumstances, consistently applied and adequately disclosed.

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

## Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Lottery etc. Act 1993 (as amended) and directions issued by Welsh Ministers, of the state of the Arts Council of Wales' affairs as at 31 March 2009 and of its increase in funds for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and Welsh Ministers' directions made thereunder; and
- information which comprises the Reference and administrative details, Structure, governance and management, Lottery Distribution, Financial Review, Financial risk and capital management and Responsibility towards the environment, social and community issues, given within the Trustees' Annual Report, is consistent with the financial statements.

### Opinion on Regularity

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

### Report

I have no observations to make on these financial statements.

**Amyas C E Morse**  
**Comptroller and Auditor General**  
National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

Date: 16 July 2009



**ARTS COUNCIL OF WALES**  
**LOTTERY DISTRIBUTION ACCOUNT**

**INCOME AND EXPENDITURE ACCOUNT**

for the year ended 31 March 2009

	Notes	2009		2008	
		£'000	£'000	£'000	£'000
<b>Income</b>					
Share of proceeds from the National Lottery	6		10,410		10,019
Investment income on balances in the National Lottery Distribution Fund	6		508		782
Other Income			25		20
Interest receivable			19		44
Grants recoverable			18		17
<b>Total income</b>			<b>10,980</b>		<b>10,882</b>
<b>Expenditure</b>					
Expenditure on the arts:					
Grant commitments made (hard)			4,345		9,778
Less: Lapsed and revoked commitments (hard)			(104)		(781)
Net grant commitments made (hard)	9b		4,241		8,997
Delegated distributor: Film Agency for Wales	8a, 12		750		787
Direct costs of grant making	5		41		47
			<u>5,032</u>		<u>9,831</u>
Management and administration:					
Staff costs	2		978		1,107
Operating costs	4		573		604
Provision for doubtful debts			1		12
			<u>1,552</u>		<u>1,723</u>
Statutory transfer to Olympic Lottery Distribution Fund	6		542		-
<b>Total expenditure</b>			<b>7,126</b>		<b>11,554</b>
<b>Excess of income over expenditure/(expenditure over income) for the year</b>			<b>3,854</b>		<b>(672)</b>
Unrealised gain on the revaluation of investment in the National Lottery Distribution Fund	6		39		25
<b>Increase/(Decrease) in Lottery funds for the year</b>	11		<b>3,893</b>		<b>(647)</b>

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 26 to 34 form part of these financial statements.

**ARTS COUNCIL OF WALES  
LOTTERY DISTRIBUTION ACCOUNT**

**BALANCE SHEET**  
as at 31 March 2009

	Notes	2009		2008	
		£'000	£'000	£'000	£'000
<b>Current assets</b>					
Investments - balance held in the National Lottery Distribution Fund	6	11,341		11,514	
Debtors	7	154		162	
Cash		<u>546</u>		<u>752</u>	
			12,041		12,428
<b>Creditors: amounts falling due within one year</b>					
Other creditors	8	(307)		(115)	
Delegated distributor: Film Agency for Wales	8,12	(440)		(429)	
Provision for grant commitments (hard)	8,9b	<u>(4,458)</u>		<u>(8,826)</u>	
			<u>(5,205)</u>		<u>(9,370)</u>
Net current assets			6,836		3,058
<b>Creditors: amounts falling due after more than one year</b>					
Provision for grant commitments falling due after more than one year (hard)	9b		(3,203)		(3,318)
<b>Net assets/(liabilities)</b>			<u><b>3,633</b></u>		<u><b>(260)</b></u>
<b>Represented by:</b>					
Income and Expenditure account	11		<u><b>3,633</b></u>		<u><b>(260)</b></u>

The notes on pages 26 to 34 form part of these financial statements.

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

Nicholas Capaldi  
Accounting Officer  
14 July 2009

Dai Smith  
Chairman  
14 July 2009

**ARTS COUNCIL OF WALES  
LOTTERY DISTRIBUTION ACCOUNT**

**CASH FLOW STATEMENT**

for the year ended 31 March 2009

	Notes	2009 £'000	2008 £'000
<b>Operating activities</b>			
Funds received from the National Lottery Distribution Fund	6	10,588	15,942
Other cash receipts		57	30
Grants paid	9b	(8,724)	(12,279)
Cash paid to and on behalf of employees		(853)	(793)
Other cash payments		(554)	(853)
Film Agency payments	8a	(739)	(1,351)
<b>Net cash inflow/(outflow) from operating activities</b>	10a	<b>(225)</b>	<b>696</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		19	44
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>19</b>	<b>44</b>
<b>Increase/(Decrease) in cash</b>	10b	<b>(206)</b>	<b>740</b>

The notes on pages 26 to 34 form part of these 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 Welsh Assembly Government by agreement with HM Treasury and the Department for Culture, Media and Sport.

A copy of The Accounts Direction can be found on the Councils' website, [www.artswales.org.uk](http://www.artswales.org.uk).

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.

### **b Going concern**

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

### **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 balance sheet as current liabilities. Those payable more than one year after the balance sheet date are shown as such.

### **e National Lottery Distribution Fund**

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

### **f Pensions**

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

### **g Taxation**

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

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

The Council incurs costs which support both its general activities and lottery distribution functions. In accordance with 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 Debtors do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Cash comprises cash in hand and cash at bank on instant access terms.

Financial liabilities: Trade creditors are not interest bearing and are stated at their nominal value.

<b>2 Staff costs</b>	<b>2009</b> £'000	2008 £'000
Wages and salaries charged to lottery distribution activity	706	819
Social security costs	60	66
Other pension costs	142	155
Redundancy costs	18	36
Agency costs	52	31
	<u><b>978</b></u>	<u><b>1,107</b></u>

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

	No	No
Services, direct promotions and direct costs of grant making	26	21
Management and administration	70	73
Agency staff	<u>1</u>	<u>2</u>
	97	96
	===	===

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

Management and administration	28	32
	===	===

The balance of 69 (2007/08: 64) staff were employed on general activities.

**3 Pension costs**

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

An independent actuarial valuation of the Arts Council Retirement Plan 1994 normally takes place every three years. The last valuation was carried out as at 31 March 2007 using the 2007 Ongoing Basis. The overall market value of the Plan's assets as at 31 March 2007 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:

	For staff in post on or before 31/08/2006		For staff in post on or after 01/09/2006	
	<b>2009</b> %	2008 %	<b>2009</b> %	2008 %
Council	20.6	20.6	18.6	18.6
Employees	1.5	1.5	3.5	3.5

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

At the date of signing these financial statements the contribution rates for 2009/10 are unchanged from 2008/09.

<b>4 Operating costs</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000
Accommodation	47	42
Office running costs	156	147
Operating leases		
- hire of plant and machinery	4	1
- other operating lease rentals	69	66
Recruitment, training and other staff costs	33	72
Travel and subsistence		
- Officers	33	42
- Members	11	11
Communications	4	5
Lottery promotion and information	3	2
Grant monitors, advisers and legal fees	50	62
Audit	16	16
Other professional fees	41	33
Irrecoverable VAT	68	78
Charge for use of fixed assets	38	27
	<u><b>573</b></u>	<u><b>604</b></u>

Operating costs are apportioned between the Council's general activities and lottery distribution accounts with reference to the time spent on, or the consumption of, the relevant resources by the respective functions. The rates applied differ according to the expenditure heading and geographical region but the average charge to Lottery activities was 40% (2007/08: 40%).

<b>5 Direct costs of grant making</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000
Assessors' fees	34	32
Legal and professional fees	-	3
Creative Wales Awards	7	12
	<u><b>41</b></u>	<u><b>47</b></u>

<b>6 National Lottery Distribution Fund</b>	<b>2009</b>	<b>2008</b>
	£'000	£'000
Balance held in the National Lottery Distribution Fund (NLDF) at 1 April	11,514	16,630
Allocation of Lottery proceeds	10,410	10,019
Investment income receivable	508	782
Payments to the Olympic Lottery Distribution Fund	(542)	-
Adjustment to previous year's unrealised gain on investment in NLDF	25	-
Unrealised gain on investment in NLDF during the year	14	25
Drawn down in the year	<u>(10,588)</u>	<u>(15,942)</u>
Balance held in the National Lottery Distribution Fund at 31 March	<u><b>11,341</b></u>	<u><b>11,514</b></u>

The balance held at 31 March 2009 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 2009/10 accounts. A corresponding adjustment for an unrealised gain on investment of £25,000 in 2007/08 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 £1,085m 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 £410m as originally envisaged when the Government decided to support London's Olympic bid in 2003, and a proposed further £675m arising from the subsequent budget review.

The Arts Council of Wales was committed to contribute up to £3.552m in the original bid and this order allows for the transfer of up to a further £4.509m.

The first transfer of funds took place on 1 February 2009 when the Arts Council of Wales contributed £0.542m.

7 Debtors	2009 £'000	2008 £'000
<b>a Amounts falling due within one year</b>		
<b>Analysis by type</b>		
Grants recoverable	24	31
Less: Specific provision for doubtful debts	(20)	(19)
	<u>4</u>	<u>12</u>
<b>Intra-government balances</b>		
Balances with bodies external to government	<u>4</u>	<u>12</u>
<b>b Amounts falling due after more than one year</b>		
<b>Analysis by type</b>		
Other debtors	<u>150</u>	<u>150</u>
<b>Intra-government balances</b>		
Balances with bodies external to government	<u>150</u>	<u>150</u>
<b>c Total debtors</b>		
<b>Analysis by type</b>		
Grants recoverable	24	31
Other debtors	150	150
Less: Specific provision for doubtful debts	(20)	(19)
	<u>154</u>	<u>162</u>
<b>Intra-government balances</b>		
Balances with bodies external to government	<u>154</u>	<u>162</u>
<b>8 Creditors: amounts falling due within one year</b>		
<b>a Analysis by type</b>		
Trade creditors	8	7
Due to the Arts Council of Wales General Activities account <sup>(1)</sup>	282	88
Accruals and deferred income	17	20
<i>Sub-total: Other creditors</i>	<u>307</u>	<u>115</u>
Film Agency for Wales <sup>(2)</sup>	440	429
Provision for grant commitments (hard)	4,458	8,826
	<u>5,205</u>	<u>9,370</u>
<sup>(1)</sup> The amount due to the Arts Council of Wales General Activities account is made up of:		
Recharges of apportioned costs		
- Staff	41	48
- Overheads	203	13
- Charge for use of assets	38	27
	<u>282</u>	<u>88</u>
<sup>(2)</sup> On 24 May 2007 the Film Agency for Wales became the Council's delegated distributor of funding for film:		
Balance as at 1 <sup>st</sup> April	429	-
Allocation of funds during the year	750	787
Hard commitments delegated in accordance with novation agreement	-	993
	<u>1,179</u>	<u>1,780</u>
Drawn down in the year	(739)	(1,351)
Undrawn funds at 31 March	<u>440</u>	<u>429</u>

	2009 £'000	2008 £'000
<b>b Intra-government balances</b>		
Balances with central government bodies	282	88
Balances with local authorities	872	3,189
Balances with NHS bodies	111	-
<i>Sub-total: Intra-government balances</i>	<u>1,265</u>	<u>3,277</u>
Balances with bodies external to government	3,940	6,093
Total creditors	<u><b>5,205</b></u>	<u><b>9,370</b></u>

**9 Grant commitments**

**a Soft commitments**

	£'000	£'000	2009 £'000	2008 £'000
	Capital	Revenue schemes	Total	Total
Soft commitments at 1 April	127	509	636	1,671
Soft commitments made in the year <sup>1</sup>	322	3,597	<b>3,919</b>	8,749
Total grant offers made	449	4,106	4,555	10,420
Offers not accepted	-	(4)	(4)	(6)
Soft commitments transferred to hard commitments	(449)	(3,896)	(4,345)	(9,778)
Soft commitments at 31 March	<u>-</u>	<u>206</u>	<u><b>206</b></u>	<u>636</u>

<sup>1</sup> The large decrease in soft commitments made has arisen due to the timing of a capital development grant application. Funding of approximately £3,900,000 ring-fenced in 2008/09 was not approved by Council until April 2009 so will appear in the financial statements for 2009/10.

**b Hard commitments**

	£'000	£'000	2009 £'000	2008 £'000
	Capital	Revenue schemes	Total	Total
Hard commitments at 1 April	9,879	2,265	12,144	16,419
Hard commitments in the year	449	3,896	4,345	9,778
Amounts not taken up	(31)	(73)	(104)	(781)
Charged to Income and Expenditure Account <sup>2</sup>	418	3,823	<b>4,241</b>	8,997
Grants paid in the year	(4,624)	(4,100)	(8,724)	(12,279)
Hard commitments delegated <sup>3</sup>	-	-	-	(993)
Hard commitments at 31 March	<u>5,673</u>	<u>1,988</u>	<u><b>7,661</b></u>	<u>12,144</u>
Falling due within one year to:				
Local authorities	495	377	872	3,151
NHS bodies	78	33	111	127
Bodies external to government	1,897	1,578	3,475	5,548
	<u>2,470</u>	<u>1,988</u>	<u>4,458</u>	<u>8,826</u>
Falling due after more than one year to <sup>4</sup> :				
Local authorities	2,029	-	2,029	1,185
Bodies external to government	1,174	-	1,174	2,133
	<u>3,203</u>	<u>-</u>	<u>3,203</u>	<u>3,318</u>
Total	<u>5,673</u>	<u>1,988</u>	<u><b>7,661</b></u>	<u>12,144</u>

<sup>2</sup> Hard grant commitments charged to the Income and Expenditure Account comprise:

Grants to public bodies	675	3,289
Grants to private bodies	3,566	5,708
	<u><b>4,241</b></u>	<u>8,997</u>



<sup>3</sup> On 24 May 2007 the Film Agency for Wales became the Council's delegated distributor of funding for film. All outstanding hard commitments for film were transferred to the Agency via a novation agreement.

	£'000	£'000	<b>2009</b> £'000	2008 £'000
	Capital	Revenue schemes	Total	Total
<sup>4</sup> Ageing of hard commitments due after more than one year				
2009/10	n/a	n/a	n/a	115
2010/11	3,203	-	3,203	3,203
	<u>3,203</u>	<u>-</u>	<u>3,203</u>	<u>3,318</u>

<b>10 Cash flow reconciliation</b>	<b>2009</b> £'000	2008 £'000
<b>a Reconciliation of operating surplus/(deficit) to net cash flow from operating activities</b>		
Operating surplus/(deficit)	3,893	(647)
Bank interest	(19)	(44)
Decrease in the balance held in the National Lottery Distribution Fund	173	5,116
Decrease in debtors and prepayments	8	34
Decrease in provision for grant commitments	(4,483)	(4,275)
Increase in other creditors	203	512
Net cash inflow/(outflow) from operating activities	<u>(225)</u>	<u>696</u>
<b>b Reconciliation of net cash flow to movements in net funds</b>		
Increase/(decrease) in cash	(206)	740
Decrease in the balance held in the National Lottery Distribution Fund	(173)	(5,116)
	<u>(379)</u>	<u>(4,376)</u>
Net funds at 1 April	12,266	16,642
<b>Net Funds at 31 March</b>	<u><b>11,887</b></u>	<u>12,266</u>
<b>11 Movement in Lottery funds</b>	<b>2009</b> £'000	2008 £'000
Income and Expenditure Account at 1 April	(260)	387
Increase/(Decrease) in Lottery funds for the year	3,893	(647)
Income and Expenditure Account at 31 March	<u><b>3,633</b></u>	<u>(260)</u>

The large increase in Lottery funds for the year has arisen due to the timing of a capital development grant application. Funding of approximately £3,900,000 ring-fenced in 2008/09 was not approved by Council until April 2009 so will appear in the financial statements for 2009/10.

**12 Delegated distributor: Film Agency for Wales**

From 24 May 2007 a delegation agreement with the Film Agency for Wales was in place and fully operational for the purpose of the distribution of Lottery funds. Transactions in these financial statements relating to this delegation reconcile to transactions in the financial statements of the Film Agency for Wales as follows:

<b>Arts Council of Wales</b>	£'000	<b>Film Agency for Wales</b>	£'000
Expenditure on the arts:		Income:	
Balance as at 1 April	429	Balance as at 1 April (restated)	429
Allocation of funds during the year	750	Share of National Lottery proceeds	750
Drawn down in the year	(739)	Paid by ACW	(739)
Creditor (due within one year):	440	Debtor:	440
Film Agency for Wales		Arts Council of Wales	

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 2009:

	£'000
Reserves at 1 April 2008	660
Incoming funds: Arts Council of Wales	750
Incoming funds: Other	28
Outgoing funds	(1,136)
Reserves at 31 March 2009	<u>302</u>
Details of grant commitments at 31 March 2009:	
Hard commitments	1,082
Soft commitments	193
	<u>1,275</u>

A full list of the grants awarded by the Agency in 2008/09 is given in the Council's Annual Report, published separately. 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 July 2009 and are expected to be approved by the Board in September 2009.

**13 Post balance sheet events**

**Authorisation of these financial statements for issue**

The Accounting Officer authorised these financial statements for issue on 16 July 2009.

## 14 Financial instruments

Financial Reporting Standard 13: Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks the Council's function faces in undertaking its role.

*Liquidity risks* – In 2008/09 £10,410,000 or 94.8% of the Council's Lottery distribution income was derived from the National Lottery (2007/08: £10,019,000 or 92.1%). Of the remaining income £508,000 or 4.6% was derived from investment returns from the balance held with the National Lottery Distribution Fund (2007/08: £782,000 or 7.2%) and £62,000 or 0.6% from bank interest and sundry income (2007/08: £81,000 or 0.7%). 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 balances 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 3.42% in the year (2007/08: 5.28%). The cash balance at the year end was £546,000 (2008: £752,000). 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 a Lottery capital grant has been placed on the market. The Council has taken security against the property and the vendor organisation has recognised its repayment obligations under the original conditions of grant. The Council's interests are fully protected so repayment of grant will be due from the proceeds of any forthcoming sale.

## 16 Related party transactions

### Public bodies

The Council is an Assembly Government sponsored body.

The National Assembly for Wales/Welsh Assembly Government is regarded as a related party and details of transactions with the National Assembly for Wales/Welsh Assembly 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 Income and Expenditure Account.

### Individuals

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

### Council members

A number of Council members and/or their close family were members of the Boards of Management (or equivalent) or were senior employees of organisations offered Lottery grants by the Council in 2008/09. 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 (number)</b>	<b>Total value £</b>	<b>Total balance outstanding at 31 March 2009 £</b>
<b>Simon Dancey</b> Director	Community Music Wales	Grant (2)	40,000	4,000
<b>Emma Evans</b> Trustee/Director	Creu Cymru	Grant (2)	22,500	Nil
<b>Maggie Hampton</b> Board member (family member)	India Dance Wales	Grant (1)	5,000	5,000
<b>Rhiannon Wyn Hughes MBE</b> Councillor Chair	Denbighshire County Council European Centre for Traditional & Regional Culture	Grant (1)	30,000	30,000
Vice President	Llangollen International Musical Eisteddfod	Grant (1)	10,000	1,000
Chair	Prestatyn Youth Arts Festival	Grant (1)	4,000	Nil
<b>Ruth Till MBE</b> Committee member	Community Dance Wales	Grant (1)	15,068	15,068
<b>Debbie Wilcox</b> Councillor	Newport City Council (including The Riverfront and Newport Museum and Art Gallery)	Grant (2)	20,000	11,000

**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.