



CEFNOGI CREADIGRWYDD
CYNGOR CELFYDDYDAU CYMRU
THE ARTS COUNCIL OF WALES
SUPPORTING CREATIVITY

LOTTERY DISTRIBUTION ACCOUNT

Report and Financial Statements
for the year ended 31 March 2007

Awarded funds from
 **The National Lottery**[®]
Dyfarwyd arian
Y Loteri Genedlaethol

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

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THE ARTS COUNCIL OF WALES

FINANCIAL STATEMENTS - LOTTERY DISTRIBUTION ACCOUNT

for the year ended 31 March 2007

LEGAL AND ADMINISTRATIVE INFORMATION

Trustees

Council Members who served since 1 April 2006 were:

Professor Dai Smith, Chairman	(b)
Rhiannon Wyn Hughes MBE, Vice-chairman (from 7 April 2006)	(a) (b) (e) (ii) (iii)
Simon Dancey	(a) (f)
Maggie Hampton (from 31 July 2006)	(c)
John Metcalf	(d)
Robin Morrison (from 31 July 2006)	(c) (i)
Christopher O'Neil	(g) (v)
Dr Ian J Rees (from 31 July 2006)	(e)
Huw Roberts (to 31 March 2007)	
Dr Francesca Rhydderch (to 31 March 2007)	(d)
Clive Sefia (from 31 July 2006)	(a)
Ruth Till MBE	(f)
David Vokes	(a) (b)
Debbie Wilcox (from 31 July 2006)	(f) (iv)

- (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

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:*
9 Museum Place
Cardiff
CF10 3NX

Auditor

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

Internal auditors

Bentley Jennison
33-35 Cathedral Road
Cardiff
CF11 9HB

Bankers

Bank of Ireland
South Wales Business Centre
17 Cathedral Road
Cardiff
CF11 9HA

Solicitors

Geldards LLP
Dumfries House
Dumfries Place
Cardiff
CF10 3ZF

THE ARTS COUNCIL OF WALES

TRUSTEES' ANNUAL REPORT

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. Under the terms of the Government of Wales Act 1998 responsibility for funding the Council transferred from the Secretary of State for Wales to the National Assembly for Wales on 1 July 1999. The Council amended its Royal Charter to reflect this change and to provide for its general activities account to be audited by the Auditor General for Wales. 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 Ministers under the terms of S26 of the National Lottery etc. Act 1993 (as amended)
- the power of the Parliamentary Commissioner for Administration to investigate the Council's affairs

- the power of the Public Services Ombudsman for Wales to investigate the Council's affairs
- a Code of Best Practice, applying to Members and staff, which sets out standards of behaviour required of those involved in financial decisions and in dealing with the public
- the Consumer Credit Act 1974 and guidance issued by the Office of Fair Trading

Copies of the Accounts Directions and of the Code of Best Practice can be obtained free of charge by writing to the Council's 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 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 Ministers with the consent of the Treasury. The National Lottery Accounts Direction requires that all costs properly attributable to National Lottery activities should be funded from Lottery income. The Council is required to account separately for its general activities.

As well as committing the full current year budget, the Council's policy up to 31 March 2005, actively encouraged by the Department for Culture, Media and Sport, was to commit as grants 50% of the second year's anticipated budget and 30% of the third year's anticipated budget. Given the uncertainty of the level of future lottery funding Council considered it prudent to modify this forward commitment policy so 130% of the current year's allocation for Scheme grants is available for commitment and 100% of the current year's allocation for film grants. The Capital programme for major awards has been suspended at present but 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 2006 were:

Robin Morrison, Chairman (from September 2006)
Alun Bond
Gareth Davies

Maggie Hampton (from September 2006)
Isabel Hitchman
Richard Morgan

The assessment of applications for film grants during the year was undertaken by the Film Agency for Wales with Council taking the final decisions based on recommendations received. 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

In 2006/07, the Council focused its work on the following areas:

- mainstreaming the arts;
- securing the quality of people's experiences of the arts;
- improving the performance and long-term sustainability of the arts sector;
- extending access to the arts as a means of tackling issues of disadvantage; and
- securing National Lottery funding of the arts well into the future.

The Council's strategic priorities for 2006/07 are set out in the table below according to our ten corporate themes, alongside key achievements made in relation to each priority during the year:

<i>Corporate theme</i>	<i>Priorities</i>	<i>Achievements and performance</i>
Encourage organisations and individuals to work together across Wales to maximise opportunities for people to experience the arts	<ul style="list-style-type: none"> • Implement the next stage of the Arts Outside Cardiff scheme • Publish and launch a dance strategy as part of a new strategy for the arts in Wales. 	<ul style="list-style-type: none"> • This was achieved. To date, Arts Outside Cardiff funding has generated attendances of more than 160,000, gross box office income above £900,000 and 935 performances of 340 productions, 135 of which were presented in 45 venues which are not funded as regional performing arts centres, thus spreading the benefit beyond the grant recipients. • A draft dance strategy has been produced and was discussed at the first National Dance Forum. 2006/07 also saw the establishment of three regional dance forums.
Develop artistic work in and through the Welsh and English languages	<ul style="list-style-type: none"> • Make significant progress on developing an English Language National Theatre for Wales. • Ensure Theatr Genedlaethol Cymru (TGC) stages 50 performances across the country. 	<ul style="list-style-type: none"> • The Welsh Assembly Government confirmed an additional £750,000 from April 2007 which will be used to create a non-building based national theatre. In 2007/08, ACW will establish the company, appoint a director and begin the process of commissioning for future productions. • By the end of March 2007, TGC had staged 47 performances. The target of 50 was not reached because of problems encountered booking venues for one of its productions. TGC is now working to ensure that future programming will guarantee this target is met in the coming years.

<i>Corporate theme</i>	<i>Priorities</i>	<i>Achievements and performance</i>
<p>Continue to develop a network of financially secure and well-managed arts organisations, with access to a range of well-equipped spaces, helping them to exploit their artistic potential and build bigger and broader audiences</p>	<ul style="list-style-type: none"> • Continue to invest in the arts infrastructure in Wales through the Capital Strategy. • Actively work with client organisations to produce a sustainable, high quality core. 	<ul style="list-style-type: none"> • Substantial capital investment by the ACW Lottery fund last year facilitated much needed refurbishments of existing venues with a track record of high quality arts provision. During 2006/07, Ruthin Craft Centre was awarded £3.1 million to construct a new building; Ty Newydd, the writers' centre, re-opened after a £2m refurbishment and development project part-funded by ACW; Valleys Kids' Soar Centre also re-opened after significant refurbishment. Theatr Powys' new drama centre was opened in November 2006 thanks to significant investment after a fire seriously damaged the original centre six years ago. • Inflationary increases were granted to clients. Significantly enhanced funding was provided to the network of regional performing arts centres. The review of the portfolio of revenue clients was driven forward with the development of a smaller, more focused number of clients, allowing for the future increased revenue funding of the enhanced regional gallery network and a programme of mergers to exploit synergies and focus expenditure on artistic output.
<p>Support and encourage greater participation in the arts for practitioners, artists and audiences, especially in areas of low take-up</p>	<ul style="list-style-type: none"> • Continue to use both Lottery and grant-in-aid funding strategically for the arts to deliver maximum impact on key priorities. 	<ul style="list-style-type: none"> • ACW remains committed to ensuring the arts are accessible and of benefit to all sections of the population. During 2006/07, 34 out of 47 applications for Lottery funding in the field of cultural diversity were successful, with awards totalling £307,097. Out of 25 applications made in 2006/07 originating from the arts and disability sector, 24 were in receipt of grants, totalling £251,033. Also during this year, ACW awarded £851,618 for arts activity in Communities First areas through project funding and capital grants. Regional teams are systematically addressing capacity issues in areas of low take-up leading to marked shifts in the balance of project funding.
<p>Promote opportunities for young people to experience the arts as participants, artists and audiences</p>	<ul style="list-style-type: none"> • Publish the Arts and Young People Strategy. 	<ul style="list-style-type: none"> • Preparatory work on the Strategy is underway.

Corporate theme	Priorities	Achievements and performance
<p>Tackle economic, social and physical barriers to accessing the arts, particularly in Communities First and other areas of multiple deprivation.</p>	<ul style="list-style-type: none"> Actively promote access to, and participation in, the arts for people in disadvantaged communities. 	<ul style="list-style-type: none"> As part of the community arts portfolio review in 2006/07, ACW adopted a rationale for supporting the sector which prioritises community arts programmes that are demonstrably transformational in terms of individuals, groups, sectors and communities and which deliver high quality artistic and creative experiences in areas of deprivation. <p>A specific example of ACW tackling disadvantage is the <i>Canolfan Rhys Arts and Education Programme</i>. As a result of a £24,901 ACW Lottery award, Penrhys Partnership Trust ran this twelve-month programme providing arts and cultural activities which are accessible, enjoyable and progressive in order to improve the life chances of children and young people from disadvantaged families in Penrhys and the wider county borough of Rhondda Cynon Taf.</p> <p>In addition, September 2006 saw ACW formally register the development of an arts venue for Merthyr within its long-term capital programme. The need for a cultural facility in Merthyr has been widely recognised, and this project will support increased access to professional arts and arts resources in the Heads of the Valleys while also stimulating an increase in community arts projects for the region.</p>
<p>Develop the arts workforce through education, training and continuing professional enhancement and maximise their contribution to Wales's creative industries</p>	<ul style="list-style-type: none"> Agree and begin a new three-year development programme for arts training in Wales. 	<ul style="list-style-type: none"> Council has decided not to proceed with this action because the second stage of the portfolio review (see below) focused on service providers which included Arts Training Wales, the service body for training and professional development in the arts. It was therefore necessary to establish the future of Arts Training Wales's funding relationship with ACW before embarking on a 3 year development programme. Once the recommendations of the review have been implemented (during 2007/08), ACW will reassess the need for a development programme to be undertaken.
<p>Develop more good quality and innovative work in all artforms by providing better support for artists</p>	<ul style="list-style-type: none"> Provide high quality support for individual artists through grant schemes such as Creative Wales, with support from Lottery funding, through artform seminars and via developmental work with Council officers. 	<ul style="list-style-type: none"> During 2006/07 the Creative Wales Awards were again run highly successfully and the grant recipients achievements were celebrated at an awards ceremony, in the Senedd building in Cardiff Bay. Nineteen awards were made to artists from across Wales displaying innovative creative and personal development proposals. Artform discussions and seminars in the year have included music, visual arts and dance (with further sessions for theatre and drama, and applied arts planned for Summer 2007). In a major example of arts development work, ACW has awarded £50,000 to the Valleys Literature Development initiative which will deliver a focused three-year programme of development and participatory sessions across the South Wales Valleys.
<p>Develop partnerships within all sectors to increase opportunities for taking forward the arts economy in Wales</p>	<ul style="list-style-type: none"> Work closely with the National Assembly on implementing any changes arising from the independent review of arts funding. 	<ul style="list-style-type: none"> The report of the Wales Arts (Stephens) Review was published on 29 November 2006 and debated in a plenary session of the National Assembly on 6 December 2006. ACW broadly welcomed the report and has been working with the Assembly Government on taking forward the recommendations via an implementation group consisting of representatives from the Assembly, ACW and the Welsh Local Government Association.

<i>Corporate theme</i>	<i>Priorities</i>	<i>Achievements and performance</i>
Ensure the Council provides economic, efficient and effective support for its internal and external clients by further improving internal systems and procedures.	<ul style="list-style-type: none"> • Continue to review our portfolio of revenue-funded organisations to allow further re-direction of funding. • Continue to seek opportunities for further efficiency savings. 	<ul style="list-style-type: none"> • During 2006/07, ACW extended its portfolio review to community arts and service delivery organisations. The Community Arts Review was undertaken to allocate additional community arts funding and to ensure future ACW support focuses on transformational community arts provision. Interim proposals were presented to Council in December 2006 and a detailed implementation Plan agreed. The review of service delivery organisations aims to establish the most effective means of funding these organisations and to identify possible cost savings. Final proposals are due to be presented to Council in autumn 2007. • During 2006/07, ACW continued to streamline its administration by reviewing procedures, investing in new systems and re-focusing staff time on front-line activities. In order to deliver these savings, ACW embarked upon an internal review in order to develop a new sustainable staffing structure. Recommendations were developed in December 2006, and implementation is currently taking place. The final structure and new processes will be operational by October 2007.

In addition to the above, detailed monitoring of performance against key performance indicators (KPIs) is carried out and reported on quarterly to the Senior Management Team and Council. There were 40 KPIs in 2006/07, 75% of which were achieved, 17.5% partially achieved and 7.5% not achieved.

Some key successes within the field of 40 KPIs included:

- continuing to exceed targets set in relation to Night Out (community touring) performances;
- delivering a quality presence at the National Eisteddfod and the Urdd Eisteddfod (at both events more than 90% of attendees rated our presence as good or excellent);
- continuing to turn round all grant applications within the specified times;
- continuing to respond to 100% of Freedom of Information requests within the statutory 20 days of receipt;
- maintaining absence levels well below the UK average of 4% (the Welsh average is even higher at 4.7%).

More detail about the Council's work and achievements in 2006/07 is given in the Council's Operational Plan and Annual Report, published separately.

Grant making policies

The Council invites applications for recurrent and one-off grants from organisations and individuals. 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, film and other projects under revenue schemes relating to the arts in Wales and monitors the proper and effective use of those grants.

Capital grants, to organisations only, support the purchase, improvement, restoration, building or creation of an asset that will be used continuously. The minimum grant is £2,000 and the maximum level of funding is 90% of the eligible costs of a project. Requests for more than £50,000 go through a registration process and are considered by Capital Committee before a full application is allowed. Applications for £100,000 or more in support of building projects are not normally considered until plans are at Royal Institute of British Architects (RIBA) Stage D. 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, and standards of design and building must be of high quality.

Film grants are available for script development, short film productions and feature film productions. Projects must qualify as British under the terms of Schedule 1 of the Films Act 1985 (Amended 1999) and encourage and support the development of the indigenous Welsh film industry. Awards vary in size from small amounts for short films to a

current maximum of £250,000 for feature films. There are overall limits to the percentage of eligible costs which grants will cover: 75% for script development, 90% for short films, and 50% for feature films.

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 for time-limited artistic projects of high quality which best meet the Council's funding priorities. Small grants, from £250 to £5,000, support organisations or individuals for pilot projects or where there are significant levels of funding from other sources. There are ten application deadlines each year, one every month other than July and December. Mainline grants, from £5,001 to £50,000, support larger programmes of work for established individual artists and organisations. There are three application deadlines each year, in January, April and September. Successful applicants are allowed no more than one of each type of grant in any financial year. The Council considers applications from most organisations and individuals for up to 90% of the eligible costs of a project; local authorities and school clusters may apply for up to 75% of the eligible costs; and the Council will contribute no more than 50% if the main aim of an application is to promote non-arts issues.

The Council currently has two overarching funding priorities when assessing grant applications to revenue schemes: activities taking place in, or involving people based in Communities First areas; and activities delivered in Welsh or bilingually.

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. The Council is currently reviewing its portfolio of revenue-funded organisations.

Principal Lottery distribution activities

The Council received 1,196 (2006: 1,308) lottery applications in the year of which 128 were for capital schemes, 25 for film production, and 1,043 for revenue schemes. In total 585 (2006: 782) offers of grant were made amounting to £11,288,000 (2006: £16,235,000) of which £4,842,000 were capital grants, £951,000 were film grants, and £5,495,000 were revenue scheme grants. Commitments (i.e. grants accepted but not yet paid over) at the end of the year amounted to £16,419,000, of which £12,058,000 were for capital grants, £1,290,000 were for film grants, and £3,071,000 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 on Treasury Reserve Overnight or Call terms, so the prevailing interest rates are established each working day for current account, Overnight and Call deposits to establish the optimum placement of funds.

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

Financial results

The Lottery Distribution account shows the Council's 2006/07 share of the proceeds from the National Lottery of £10,051,000 (2005/06: £11,521,000), and a decrease in funds for the year of £1,792,000 (2005/06: a decrease of £513,000) which was transferred from reserves.

Grant offers made in the year totalled £11,288,000 (2005/06: £16,235,000). £11,006,000 (2005/06: £10,113,000) 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 2007, not recorded as expenditure in the Income and Expenditure Account, totalled £1,671,000 (2006: £4,151,000).

The balance held in the National Lottery Distribution Fund at 31 March 2007 was £16,630,000 (2006: £21,372,000). The accounts show a cumulative surplus of funds of £387,000 (2006: £2,179,000).

Plans for future periods

The Secretary of State for Culture, Media and Sport made an announcement in June 2006 about Lottery funding post-2009. The Council will continue to be a lottery distributor until 2019 which amounts to an investment of some £11 million every year for the arts in Wales, subject to the affects of Lottery funding for the London Olympics in 2012.

The Council will continue to implement its Corporate Plan for 2005-2008 but in order to focus activity for 2007/08 more sharply the number of corporate themes has been reduced from ten to six. This will help ensure that the number of top level objectives remain manageable and suitably strategic in nature. The six revised corporate themes and planned activities are as follows:

<i>Corporate theme</i>	<i>Priorities 2007/08</i>
Develop more good quality and innovative art forms by further investing in individual artists	<ul style="list-style-type: none"> • Through the Academi, focus resources on literature development work, support for new writers, the National Poet of Wales, and the 2007 Book of the Year, including a heightened profile for literature from Wales at the 2007 Hay Literature Festival.
Continue to invest in a regional network of financially secure, well-equipped and well-managed galleries and performing arts centres, helping them to exploit their artistic potential and build bigger and better audiences	<ul style="list-style-type: none"> • Further develop the work of the existing network of regional performing arts centres via the Arts outside Cardiff initiative. • Work with the National Museum of Wales, the National Library of Wales and the Welsh Assembly Government in overseeing the delivery of a feasibility study into a National Gallery of Arts and a Contemporary Art Space.
Focus resources on key clients who generate high quality artistic product and who deliver our strategic priorities	<ul style="list-style-type: none"> • Publish and consult on a raft of artform strategies covering applied arts and crafts, visual arts, music(s), dance, theatre and drama, and literature (in conjunction with Academi). • Take forward proposals for developing English language theatre in the light of the Assembly's allocation of additional resources for this work. • Carry out a strategic review of festivals, and address the issues relating to the 2006 Brecon International Jazz Festival to ensure the success of the 2007 event. • Support the work of Public Art Wales, the new public art company created through the merger of Cywaith Cymru, Artworks Wales and CBAT: the Arts and Regeneration Agency.
Encourage greater participation in the arts for participants, practitioners, artists and audiences, especially through transformational community arts programmes in identified areas of deprivation and by tackling the economic, social and physical barriers to accessing the arts	<ul style="list-style-type: none"> • Focus investment on community arts in areas of deprivation. • Work in partnership with the Welsh Assembly Government on plans for developing a Cultural Enterprise Centre in Merthyr Tydfil.
Promote opportunities for young people to experience the arts as participants, artists and audiences including developing an entitlement to the arts for young people	<ul style="list-style-type: none"> • Work closely with Welsh National Opera and the BBC National Orchestra of Wales to ensure future stability and the provision of opportunities to widen access to these international quality musical experiences especially for children and young people across Wales.

<i>Corporate theme</i>	<i>Priorities 2007/08</i>
Ensure ACW provides effective support for its internal and external clients by further improving its systems and procedures.	<ul style="list-style-type: none"> • Develop and implement a new sustainable staffing structure. • Explore opportunities for alternative funding sources.

Disabled employees

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

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

Employee communication

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

Payment of creditors

It is the Council's policy to pay suppliers within the terms of trade agreed and generally to observe the principles of the Late Payment of Commercial Debts (Interest) Act 1998. 96% of the invoices received from suppliers during 2006/07 (2005/06: 96%) were paid within the agreed contractual terms.

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. Other Council and Committee members are not paid for their services.

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 has 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 (Chief Executive) 1 October 2001; David Alston (Arts Director) 1 July 2005; Hywel Tudor (Finance and Central Services Director) 21 January 2002; Jane Clarke (Operations Director) 1 April 2004; Siân Phipps (Head of Communications) 26 January 2004.

The Chief Executive, Arts Director, Finance and Central Services Director, Operations Director and Head of Communications are responsible for directing the Council's activities. Their actual emoluments were as follows, 40% (2005/06: 44%) 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	2007 Emoluments band £'000	2007 Real increase in pension at age 65 £	2007 Total accrued pension as at 31/03/07 £	2007 Cash Equivalent Transfer Value at 31/03/06 £	2007 Cash Equivalent Transfer Value at 31/03/07 £	2007 Real increase in Cash Equivalent Transfer Value £
Peter Tyndall <i>Chief Executive</i>	65-70	1,206	19,638	215,164	223,628	2,439
David Alston <i>Arts Director</i>	50-55	463	463	n/a	6,116	6,116
Hywel Tudor <i>Finance and Central Services Director</i>	60-65	763	3,825	32,612	39,826	6,301
Jane Clarke <i>Operations Director</i>	55-60	975	4,227	38,813	49,855	9,955
Siân Phipps <i>Head of Communications</i>	35-40	588	4,936	39,865	45,581	4,600

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

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

	2007 £	2006 £
Former Chairman (to 31 March 2006) Salary (back pay due for 2005/06 paid in 2006/07)	<u>4,975</u>	<u>39,399</u>
Present Chairman (from 1 April 2006) Salary	<u>32,864</u>	<u>-</u>
Chief Executive Salary	64,021	62,459
Non-consolidated award	4,684	4,570
Pension contribution	<u>13,060</u>	<u>11,742</u>
	<u>81,765</u>	<u>78,771</u>

40% (2005/06: 44%) 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 a statement of accounts for the financial period for its Lottery distribution activities, in the form and on the basis determined by the Welsh Assembly Government with the consent of the Treasury.

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

In preparing the accounts the Council is required to:

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

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

Peter Tyndall
Accounting Officer

9 July 2007

Dai Smith
Chairman

9 July 2007

THE ARTS COUNCIL OF WALES

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

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

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Council policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2007 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 2007, for example, mounting Wales' presence at the Venice Biennale of Art 2007 and a review of the Council's communications strategy were identified as risk priorities and managed accordingly.

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

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

The Council has established the following processes:

- the Senior Management Team meets regularly to consider the plans and strategic direction of the Council;
- periodic reports from the chairman of the Audit Committee, to Council, concerning internal control;
- regular reports by the Council's appointed internal auditors, to standards defined in the Government Internal Audit Manual, to the Audit Committee which includes the auditors' independent opinion on the adequacy and effectiveness of the Council's system of internal control together with recommendations for improvement;
- regular reviews to identify and keep up to date the record of risks facing the Council;
- maintenance of an organisation-wide risk register;
- introduced key performance indicators.

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

5. Review of effectiveness

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

Peter Tyndall
Accounting Officer

9 July 2007

Dai Smith
Chairman

9 July 2007

THE ARTS COUNCIL OF WALES

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 2007 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 as having been audited.

Respective responsibilities of the Council, Accounting Officer and auditor

The Council and 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 Welsh Ministers' directions 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 Welsh Ministers' directions made thereunder. I report to you whether, in my opinion, certain information given in the Trustees' Annual Report, which comprises the Trustees' Annual Report, Management commentary and the unaudited part of the Remuneration 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 Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Council 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 Council's 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 Council's 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. 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 the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements 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

Audit Opinion

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 made thereunder by Welsh Ministers, of the state of the Arts Council of Wales Lottery Distribution Account's affairs as at 31 March 2007 and of its decrease 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 given within the Trustees' Annual Report, which comprises the Trustees' Annual Report, Management commentary and the unaudited part of the Remuneration Report, is consistent with the financial statements.

Audit 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.

John Bourn
Comptroller and Auditor General

Date: 17 July 2007

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

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

**INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 March 2007**

	Notes	2007 £'000	2006 £'000
Income			
Share of proceeds from the National Lottery	6	10,051	11,521
Investment income on balances in the National Lottery Distribution Fund	6	797	1,001
Other Income		150	-
Interest receivable		33	34
Grants recoverable		116	83
Total income		11,147	12,639
Expenditure			
Expenditure on the arts:			
Net grant commitments made (hard)	9b	11,006	10,113
Direct costs of grant making	5	158	237
		<u>11,164</u>	<u>10,350</u>
Management and administration:			
Staff costs	2	1,111	1,224
Operating costs	4	612	754
Provision for doubtful debts		-	154
		<u>1,723</u>	<u>2,132</u>
Exceptional Item – Pension Fund	3	-	600
		<u>1,723</u>	<u>2,732</u>
Total expenditure		12,887	13,082
Excess of expenditure over income for the year		(1,740)	(443)
Unrealised loss on investment in the National Lottery Distribution Fund	6	(52)	(70)
Decrease in Lottery funds for the year	10	(1,792)	(513)

There are no discontinued activities.

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

The notes on pages 21 to 26 form part of these financial statements.

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

**BALANCE SHEET
at 31 March 2007**

	Notes	£'000	2007 £'000	£'000	2006 £'000
Current assets					
Investments - balance held in the National Lottery Distribution Fund	6	16,630		21,372	
Debtors	7	196		109	
Cash		<u>12</u>		<u>12</u>	
			16,838		21,493
Creditors: amounts falling due within one year					
Other creditors	8	(32)		(1,013)	
Provision for grant commitments (hard)	9b	<u>(11,933)</u>		<u>(13,301)</u>	
			(11,965)		(14,314)
Total assets less current liabilities			<u>4,873</u>		<u>7,179</u>
Financed by:					
Provision for grant commitments falling due after more than one year (hard)	9b		4,486		5,000
Income and Expenditure account	10		<u>387</u>		<u>2,179</u>
			<u>4,873</u>		<u>7,179</u>

The notes on pages 21 to 26 form part of these financial statements.

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

Peter Tyndall
Accounting Officer
9 July 2007

Dai Smith
Chairman
9 July 2007

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

**CASH FLOW STATEMENT
for the year ended 31 March 2007**

Reconciliation of decrease in Lottery funds	2007 £'000	2006 £'000
Decrease in Lottery funds	(1,792)	(513)
(Increase)/Decrease in debtors and prepayments	(87)	304
Decrease in provision for grant commitments	(1,882)	(348)
(Decrease)/Increase in other creditors	(981)	947
Net cash inflow/(outflow) from operating activities	(4,742)	390

CASH FLOW STATEMENT

Net cash (outflow)/inflow from operating activities	(4,742)	390
Payments to acquire tangible fixed assets	-	-
(Decrease)/Increase in cash and the balance held in the National Lottery Distribution Fund	(4,742)	390

Reconciliation of net cash flow to movement in net funds	Cashflow change in year 2007 £'000	Cashflow change in year 2006 £'000
Decrease in cash	-	(974)
(Decrease)/increase in the balance held in the National Lottery Distribution Fund	(4,742)	1,364
	(4,742)	390
Net funds at 1 April	21,384	20,994
Net funds at 31 March	16,642	21,384

Net funds at 31 March 2007 comprise cash held by the Council of £12,000 and the balance held in the National Lottery Distribution Fund of £16,630,000.

The notes on pages 21 to 26 form part of these financial statements.

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

**NOTES FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 31 March 2007**

1 Accounting policies

a Basis of preparation

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

Under separate Accounts Directions the accounting treatment of general and lottery grants differs significantly so, with due regard to paragraph 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 as explained on page 4 of these financial statements.

c General activities

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

d Grant commitments

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

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

e National Lottery Distribution Fund

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

f Pensions

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

g Taxation

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

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

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

2 Staff costs	2007 £'000	2006 £'000
Wages and salaries charged to lottery distribution activity	893	992
Social security costs	69	78
Other pension costs	165	171
Agency costs	22	20
	<u>1,149</u>	<u>1,261</u>

Staff costs are incorporated in the accounts as follows:

Management and administration:

- Staff costs

Direct costs of grant making (note 5)

1,111	1,224
<u>38</u>	<u>37</u>
<u>1,149</u>	<u>1,261</u>

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

Services, direct promotions and direct costs of grant making

Management and administration

No	No
20	12
<u>76</u>	<u>81</u>
96	93
===	===

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

Direct costs of grant making

Management and administration

No	No
1	1
<u>33</u>	<u>39</u>
34	40
===	===

The balance of 62 (2005/06: 53) 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 1 April 2005 using the Projected Unit Method. The overall market value of the Plan's assets as at 31 March 2005 was £34.7m. The actuary concluded that whilst the Plan had a Minimum Funding Ratio of 110%, taking into account past service liabilities, at the valuation date a funding deficit of £17.1m existed, corresponding to a funding ratio of 67%. In order to eliminate the deficit, the actuary recommended increased employer contributions over the next 12 years. The reduction to 12 years compared to the 15 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 2.9% per annum, pay increases would be 4.4% per annum, pension increases would be 2.8% per annum on pensions in excess of Guaranteed Minimum Pensions (GMPs), pension increases of deferred pensions would be 2.9% per annum on pensions subject to statutory revaluations, the post retirement discount rate would be 6% per annum and the pre-retirement discount rate would be 6% per annum.

Contributions by the Council and its employees were:

	For staff in post on or before 31/03/2006		For staff in post on or after 01/04/2006	
	2007 %	2006 %	2007 %	2006 %
Council	20.4	18.8	18.4	n/a
Employees	0.0	0.0	2.0	n/a

In addition to the above, all employees contribute 1.5% to secure pension benefits for dependents.

Exceptional item (2005/06)

In addition, and in order to help reduce the level of deficit, with the agreement of the Trustees the Council made a one-off payment of £1,350,000 into the Plan in 2005/06, £600,000 of which was made from the lottery distribution account. The charge of approximately 44% to lottery distribution is in line with the apportionment of other staff costs with the balancing payment charged to general activities. As well as helping safeguard benefits to Council staff who are members of the Plan, the revised contribution rate of 20.4% payable from April 2006 is 5% lower than would otherwise have been the case. This revised contribution rate also included for the first time an element in respect of general administration costs associated with the Plan. Previously each employer had borne these directly.

4 Operating costs	2007 £'000	2006 £'000
Accommodation	52	51
Office running costs	136	169
Operating leases		
- buildings	63	68
- office equipment	1	3
Recruitment, training and other staff costs	38	75
Travel and subsistence		
- Officers	50	47
- Members	9	16
Communications	7	14
Lottery promotion and information	6	10
Grant monitors, advisers and legal fees	60	75
Audit	16	15
Other professional fees	31	25
Irrecoverable VAT	78	99
Charge for use of fixed assets	65	87
	<u>612</u>	<u>754</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% (2005/06: 44%).

5 Direct costs of grant making	2007 £'000	2006 £'000
Assessors' fees	32	60
Monitoring fees	23	89
Legal and professional fees	53	51
Staff costs	38	37
Creative Wales Awards	12	-
	<u>158</u>	<u>237</u>

6 National Lottery Distribution Fund

Balance held in the National Lottery Distribution Fund at 1 April	21,372	20,008
Allocation of Lottery proceeds	10,051	11,521
Interest receivable	797	1,001
Unrealised (loss)/surplus on investment in National Lottery Distribution Fund	(52)	(70)
Reversal of prior year unrealised loss	(70)	373
Drawn down in the year	(15,468)	(11,461)
Balance held in the National Lottery Distribution Fund at 31 March	<u>16,630</u>	<u>21,372</u>

The balance held at 31 March 2007 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 2007/08 accounts. The corresponding adjustment for 2005/06 made in these accounts was an increase in investment income of £277,000.

7 Debtors: amounts falling due within one year	2007	2006
	£'000	£'000
a Analysis by type		
Due from the Arts Council of Wales General Activities account ⁽¹⁾	34	-
Grants recoverable (net of specific provision for doubtful debts)	12	90
Other debtors	150	19
	<u>196</u>	<u>109</u>

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

b Intra-government balances

Balances with other central government bodies	34	-
Balances with bodies external to government	162	109
Total debtors	<u>196</u>	<u>109</u>

8 Creditors: amounts falling due within one year

a Analysis by type

Trade creditors	16	1
Due to the Arts Council of Wales General Activities account ⁽¹⁾	-	378
Pension Fund	-	600
Accruals and deferred income	16	34
<i>Sub-total: Other creditors</i>	32	1,013
Provision for grant commitments (hard)	11,933	13,301
	<u>11,965</u>	<u>14,314</u>

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

Recharges of apportioned costs		
- Staff	-	151
- Overheads	-	134
- Revenue costs	-	6
Charge for use of assets	-	87
	<u>-</u>	<u>378</u>

b Intra-government balances

Balances with other central government bodies	-	378
Balances with local authorities	3,022	5,790
<i>Sub-total: Intra-government balances</i>	3,022	6,168
Balances with bodies external to government	8,943	8,146
Total creditors	<u>11,965</u>	<u>14,314</u>

9 Grant commitments**a Soft commitments**

	£'000	£'000	2007 £'000	2006 £'000
	Capital & Film	Revenue schemes	Total	Total
Soft commitments as at 1 April	2,528	1,623	4,151	700
Soft commitments made in the year	5,793	5,495	11,288	16,235
Total grant offers made	<u>8,321</u>	<u>7,118</u>	<u>15,439</u>	<u>16,935</u>
Offers not accepted	(11)	(10)	(21)	(12)
Soft commitments transferred to hard commitments	<u>(7,918)</u>	<u>(5,829)</u>	<u>(13,747)</u>	<u>(12,772)</u>
Soft commitments as at 31 March	<u><u>392</u></u>	<u><u>1,279</u></u>	<u><u>1,671</u></u>	<u><u>4,151</u></u>

b Hard commitments

	£'000	£'000	2007 £'000	2006 £'000
	Capital & Film	Revenue schemes	Total	Total
Hard commitments as at 1 April	14,594	3,707	18,301	18,649
Hard commitments in the year	7,918	5,829	13,747	12,772
Amounts not taken up	(2,545)	(196)	(2,741)	(2,659)
Charged to Income and Expenditure account ⁽¹⁾	5,373	5,633	11,006	10,113
Grants paid in the year	<u>(6,619)</u>	<u>(6,269)</u>	<u>(12,888)</u>	<u>(10,461)</u>
Hard commitments at 31 March	<u><u>13,348</u></u>	<u><u>3,071</u></u>	<u><u>16,419</u></u>	<u><u>18,301</u></u>
Hard commitments payable within one year	9,701	2,232	11,933	13,301
payable after one year	3,647	839	4,486	5,000
	<u><u>13,348</u></u>	<u><u>3,071</u></u>	<u><u>16,419</u></u>	<u><u>18,301</u></u>

10 Movement in Lottery funds

	2007 £'000	2006 £'000
Income and Expenditure account at 1 April	2,179	2,692
Decrease in Lottery funds for the year	<u>(1,792)</u>	<u>(513)</u>
Income and Expenditure account at 31 March	<u><u>387</u></u>	<u><u>2,179</u></u>

11 Post balance sheet events**Grant making for film**

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.

Authorisation of these financial statements for issue

The Accounting Officer authorised these financial statements for issue on 20 July 2007.

12 Related party transactions

Public bodies

The Council is an Assembly Government sponsored body.

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

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

Individuals

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

Council members

A number of Council members and/or their close family were members of the Boards of Management (or equivalent) or were senior employees of organisations offered Lottery grants by the Council in 2006/07. In all such cases, in accordance with the Council's Code of Best Practice, the member concerned withdrew from any meeting during discussion of the application.

Member	Organisation	Transaction (number)	Total Grants £
Simon Dancey Director	Community Music Wales	Grant (2)	75,352
Rhiannon Wyn Hughes MBE Councillor	Denbighshire County Council (including Ruthin Craft Centre and Royal International Pavilion)	Grant (9)	149,029
John Metcalf Employee	Vale of Glamorgan Festival	Grant (1)	3,500
Robin Morrison Employee	Blaenau Gwent County Borough Council	Grant(3)	76,362
Christopher O'Neil Trustee	CBAT: Arts & Regeneration Agency	Grant (1)	104,000
Dr Ian J Rees Committee member	Cricieth Arts Association	Grant (2)	10,000
Dr Francesca Rhydderch Board member	The Taliesin Trust Ltd (Ty Newydd)	Grant (3)	28,461
Ruth Till MBE Committee member	Community Dance Wales	Grant (3)	30,409

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.