
Arts Council England
grant-in-aid and Lottery
annual report and
accounts 2011/12



Arts Council England grant-in-aid and Lottery annual report and accounts 2011/12

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

Ordered by the House of Commons to be printed
13 July 2012

HC 283 London: The Stationery Office £29.75

Cover: The Royal Shakespeare Company's production of Roald Dahl's *Matilda The Musical* at the Cambridge Theatre, London, winner of seven Olivier awards in 2012.
Photo: Manuel Harlan



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Charity registration no 1036733

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Designed by  COG

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This publication is available for download at www.official-documents.gov.uk.

ISBN: 9780102980110

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

ID: 2500571 07/12

Printed on paper containing 75% recycled fibre content minimum

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Review



Alice's Adventures by the Royal Ballet.
Photo: Johan Persson, courtesy of Royal Opera House

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Chair's report
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Freedom to innovate



We promised that, despite economic stringency, freedom to innovate and to think creatively would be preserved and we have sought to keep that promise across every area we support, says Dame Liz Forgan in her last Chair's report.

When the Arts Council set out its current spending plan, we promised that, despite economic stringency, freedom to innovate and to think creatively would be preserved. We have sought to keep that promise across every area we support but the centre piece has been the launch of *The Space*, a freely-available digital arts service developed alongside the BBC which I hope and believe will open radical new horizons for audiences and artists.

Launched in May 2012, *The Space* will showcase some of the most exciting events across the UK on computers, smartphones, tablets and connected TV. It will be an extraordinary record of an exceptional summer but also, we plan, a transformation of the way the arts – both contemporary and in their rich archive – are distributed and enjoyed in the digital world.

Two other major pieces of work play to the same theme of building new audiences and investing in new approaches that might inspire more people. Our Strategic touring fund aims to ensure that the great art we support reaches the whole country and the Creative people and places fund recognises that a special effort of energy and imagination is needed in areas where engagement in the arts has been particularly low. We hope that both will, over time, contribute to greater enjoyment by more people of the richness of our cultural life.

Regional museums have been warmly welcomed into the Arts

Council's fold and have settled smoothly into their new home. A national debate on the future of libraries has begun to see how Arts Council England might best contribute to a new vision for these important hubs of local cultural and civic life.

The Arts Council's remit has continued to expand over the past year to include new responsibilities for creating a nationwide network of music education hubs. These will play a key role in ensuring that every child has the opportunity of a good musical education, something that chimes with our goal of every child and young person having the opportunity to experience the richness of the arts. We are pleased that the government, in setting up Darren Henley's recent review of cultural education, recognises cultural education as a central aspect of the lives of young people.

The role of philanthropy has continued to be an important issue, with the Arts Council launching the Catalyst scheme

that will help support arts organisations to attract more from private giving. It's more important than ever that this leg of the three-legged stool that supports the arts – public funding, private funding and commercial income – is maintained if we are to continue to have the stable, culturally plural system which has served England well.

Work has been set in train to restructure the organisation and its governance following the Secretary of State's decision to reduce Arts Council England's administration costs by 50 per cent. This will inevitably affect the way the Arts Council can work but it has been done with a redoubled focus on the key priorities of our support for art, artists, museums and libraries.

This is my last Chair's report after four extremely enjoyable years leading the Arts Council. It has not been an easy time but the rewards of working with an exceptional staff under Alan Davey's leadership and an outstanding Council who commit time, expertise and real dedication to this organisation have been great. Best of all, though, has been the opportunity for total immersion in the extraordinary cultural life of England.

I have seen great artists and the effect of great art from the classrooms of the Charles Dickens Primary School to the stage of the English National Opera. I have been bamboozled by Punchdrunk, captivated by the Aurora orchestra, moved to tears by Derek Jacobi's *Lear*, inspired by Sadler's Wells' Company of Elders. I have been enlightened by Tate Modern, I have held my breath at the ICA, I have stomped at the West Yorkshire Playhouse,



Above: *Waiting For Godot* at West Yorkshire Playhouse 2012. Photo: Richard Hubert

marvelled at the Beating Wing Orchestra in Manchester, seen the Bristol Old Vic rise again literally and metaphorically. I have heard strange sounds from Heinrich Goebbels, sweet ones from Mitsuko Uchida. I have seen great work in garages, cellars and under arches as well as on our brilliant national stages. I have cheered as Gateshead flew a flag for artistic excellence and as struggling seaside towns were transformed with extraordinary new art galleries. I have failed hopelessly to keep up with the explosion of wonderful arts festivals from Cumbria to Norfolk. I have wondered about the meaning of life, let alone art, at *Einstein on the Beach*.

Most importantly I have had an opportunity to salute the people who make it all happen: individual artists – underpaid, insecure, not always the easiest to deal with but magnificent in the talent that drives them on. I am grateful to all of the above and I wish them the enduring and generous support they deserve in the future.

Dame Liz Forgan
Chair, Arts Council England

Heaven in a wild flower



If ever there was heaven in a wild flower – huge breadth in a small organisation – today's Arts Council is it, says our Chief Executive Alan Davey.

As I write this I've just been to see *Einstein on the Beach* at the Barbican. An interesting production in many ways – from the narrative free nature of the libretto and staging, the sense that it represents art from another era that still talks to us – but is so of its time – and the constant and mesmerising throb of Philip Glass' music where repetition masks the way it subtly moves to another place.

Quite a lot like this year; things change and happen, and we've responded and tried to make sense. But what has kept us together is the constant underpinning of our mission, and why what we do matters.

We've built on the momentum of last year's National portfolio process – finding new ways to use our increasing Lottery funding, assuming former responsibilities of the Museums, Libraries and Archives Council (MLA), looking at how we can encourage philanthropy, taking on music education, introducing new visas for talent, beginning to look at how we can help ensure it's possible for future generations to make a living in the arts, and developing our partnership with the BBC. This BBC partnership has resulted in *The Space* – a realisation of both a new Reithianism for the 21st century and of Keynes' original ambitions for the Arts Council.

And we've been working hard to ensure that arts and culture seize the opportunity to make the Olympic and Paralympic Games a fantastic cultural celebration, using London 2012 to showcase our artistic as well as our sporting achievement.

If ever there was heaven in a wild flower, huge breadth in

a small organisation – today's Arts Council is it.

This breadth and the pace of change has also meant we haven't always got things right first time, and it's important the Arts Council continues to keep checking that our processes don't inadvertently become too bureaucratic. People told us our new funding agreements for National portfolio organisations were straying into this territory, something we accepted and tried to rectify, ensuring the Arts Council continues to be an organisation that listens and learns.

Museums and libraries
The transfer of museums and libraries to the Arts Council, and the opportunity this presents, has also occupied our minds throughout 2011/12.

We've hit the ground running with our new remit, building on our arts framework to produce a similar approach to museums and libraries (*Culture knowledge and understanding:*

great museums and libraries for everyone), adapting the MLA's Renaissance programme to create a new museums funding scheme, and using the Libraries Development Initiative and the libraries consultation to begin to create a compelling and resilient vision for future public library services.

I'm also glad that through the Acceptance In Lieu scheme we were able to acquire Ruben's *The Triumph of Venus* and Turner's *Rome from Monte Mario* for the nation. The Export Licensing Unit has also continued its vital work, including placing export bars on Manet's *Portrait of Mademoiselle Claus* and Britten's rediscovered draft score of *The Young Person's Guide to the Orchestra*.

Sustainability
I'm proud of many things this year, but I'm most proud of one, something that was much commented on at the World Culture Summit in Melbourne in 2011: the fact that sustainability, both financial and environmental, has been at the heart of our work.

For a start, the Arts Council became the first arts funding body in the world to put environmental sustainability in the funding agreements of all its major funding programmes, supporting arts organisations and museums to become responsible and accountable citizens, helping them to save on energy costs and respond to ethical concerns by leading and influencing necessary environmental action.

This sustainability has also been central to many of the new funds we have distributed, from Catalyst, a programme to help organisations of all sizes and in

all locations increase the amount they raise from private giving, to our new capital programme which focuses on improving existing arts buildings to make organisations more ecologically and economically sustainable.

Change
Overall it's been a year defined by change, something that will continue into 2012 with the requirement that we cut our administration costs by 50 per cent on top of the 15 per cent we saved two years ago. It's hard, but we are trying to do it with a view to creating an Arts Council that everyone who works in, now or in the future, will be proud of, and which will do the vital job of serving artists, museum and library professionals and the public for a long time to come.

The whole organisation is sad to be losing Liz Forgan at the beginning of next year. As I write we do not know who her successor might be. I hope we can find someone with as great a knowledge and passion for the arts as Liz, combined with

her considerable wisdom and ability which have been a rock to me in the times we've been through. All of the staff in the Arts Council feel that way. Chairs have the enormous privilege of looking after the Arts Council and serving its sectors for a short time, but they move on knowing they have left an impact on a great mission. With Liz, this impact is huge and positive and I thank her with all my heart.

Everything we've done this year has been a deliberate response to the fast changing circumstances we find ourselves in. I believe that in hard times culture means more than ever and in hard times a cultural body needs to find new ways of helping great work thrive. Helping brilliant artists, arts organisations, museums and libraries to do what they do remains a real honour. The people of this country need them now more than ever. And we'll be there to help.

Below: *Einstein on the Beach* at the Barbican. Photo: © Lucie Jansch

Alan Davey
Chief Executive,
Arts Council England



How we funded arts and culture in 2011/12

We work to get great art to everyone by championing, developing and investing in arts and cultural experiences that enrich people's lives.

The Arts Council is the largest investor in the arts in England; during 2011/12, we invested £393 million in grant-in-aid from the government, and £211 million from the National Lottery.

Regular funding for organisations

Through our Regular funding for organisations programme, we invested £324.6 million of grant-in-aid in around 831 organisations including the Southbank Centre, Opera North, Royal Liverpool Philharmonic Society, Rambert Dance Company, Ikon Gallery, Apples and Snakes and Spike Island.

On 1 April 2012, a new open-access programme, providing funding for a National portfolio of 696 organisations, replaced our Regular funding for organisations programme. These organisations are due to receive a total investment of £1.4 billion of grant-in-aid over the period April 2012 to March 2015.

Development funds

Our development funds allow us to identify new opportunities for the arts to flourish by developing projects that reach and engage the public. They enable us to establish new partnerships that can generate further funding of the arts and achieve great art for everyone through major fixed-term projects. These funds are not normally open to application.

In 2011/12 we invested £44 million through development fund projects such as Artsmark, Arts Award, Own Art, and Take it away. We also invested in the Cultural Olympiad.

In 2011/12, we worked in partnership with Nesta and the Arts and Humanities Research Council (AHRC) to pilot a new fund aimed at supporting projects that harness digital technologies to connect with wider audiences and explore new ways of working. Eight projects were awarded a total of £0.6 million.

Grants for the arts and other Lottery programmes

Grants for the arts is our open-access funding programme for the arts funded by the National Lottery. This programme allows us to fund new initiatives, respond to new ideas and nurture new talent. In 2011/12 we made over 2,200 grants, totalling £68.6 million.

Our other Lottery programmes include Youth Music (which received £10 million), The Space (£3.5 million), and our capital programme that supports organisations to develop resilience by giving them the right buildings and equipment to deliver their work, and to become more sustainable and resilient businesses.

In November 2011 we launched our new £214 million capital investment programme. In 2011/12, £10.3 million was awarded.

Creativity, Culture and Education (CCE)

We granted £17.6 million in 2011/12 to Creativity, Culture and Education, a national organisation established by the Arts Council. It aims to transform the lives of children and families by enhancing their aspirations, achievements and skills through creative learning and cultural opportunities.

Funding for museums and libraries

In October 2011, we assumed responsibility for supporting and developing libraries from the Museums, Libraries and Archives Council (MLA). We also assumed responsibility for its Renaissance in the Regions programme for regional museums as well as the wider regional museums

improvement and development agenda. A sum of £1.9 million was invested in funding programmes to support museums and libraries in 2011/12. This was invested in: programmes that support museum standards, such as Accreditation, Designation and the provision of national security advice; national collections purchase programmes, such as the Preservation of Industrial

and Scientific Material (PRISM) fund, the V&A Purchase Grant Fund and Acceptance in Lieu; and initiatives including Kids in Museums, Museums at Night and the Libraries Development Fund.

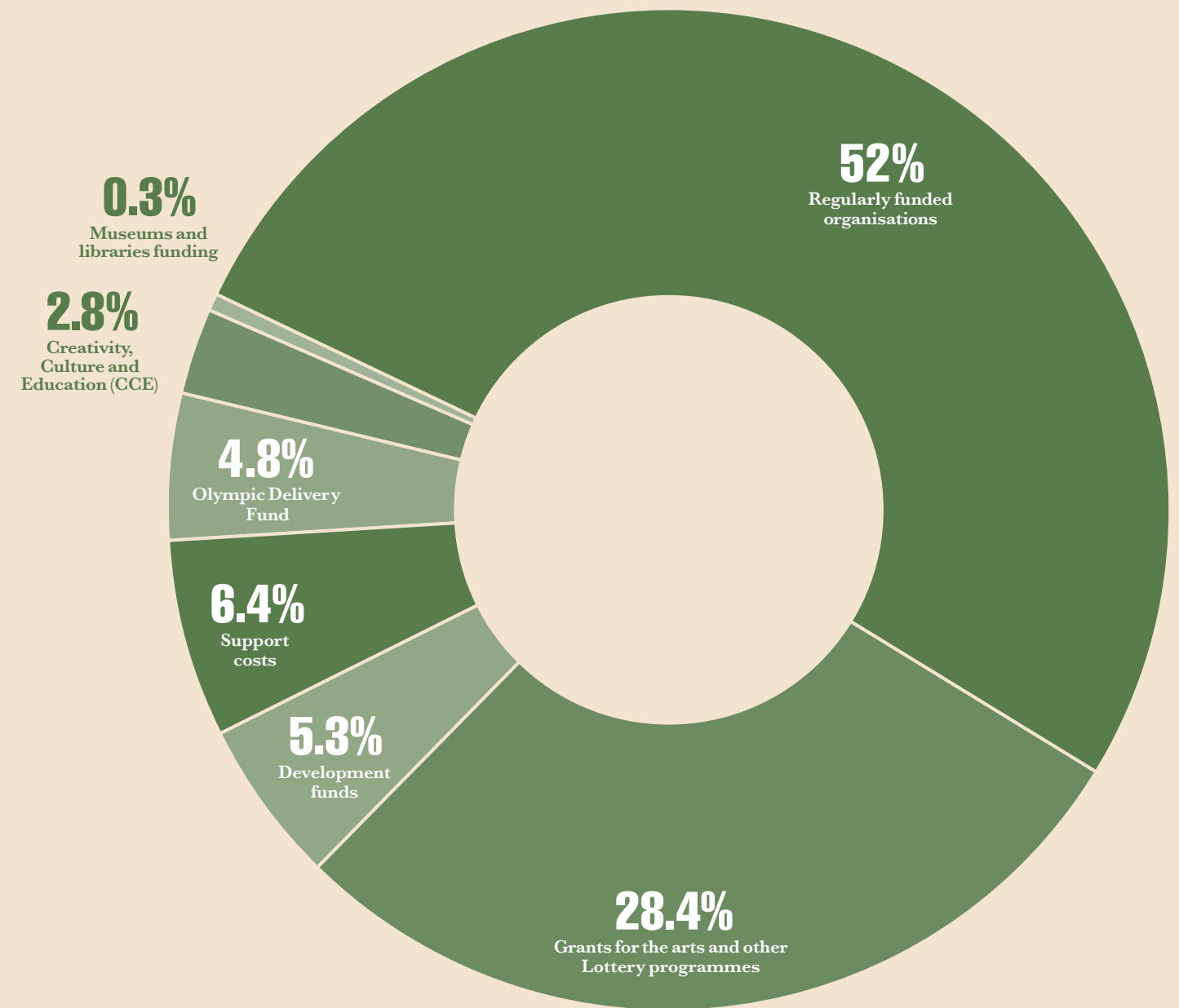
Olympic Delivery Fund

We, along with other Lottery distributors, is required to make a contribution from balances to help fund the London

2012 Olympic and Paralympic Games. In 2011/12 we made a contribution of £30.3 million.

Support costs

Our support costs, which cover salaries, premises, IT and other costs for our grant-in-aid and Lottery activities, were £40 million in 2011/12.



ACHIEVING GREAT ART FOR EVERYONE



Achieving great art for everyone, our strategic framework for the arts, sets out five goals for the arts over the next 10 years.

The goals are supported by 13 priorities for the period 2011–15. They are the areas of focus which we believe are the most urgent and critical to the arts.

The goals in our strategic framework have since been adapted to reflect the needs and priorities for museums and libraries in *Culture, knowledge and understanding: great museums and libraries for everyone*, published in September 2011.

For 2011/12 our regularly funded organisations, and from 2012/13 our 696 National portfolio organisations deliver against our goals and priorities, as do recipients of the revised Renaissance in the Regions major grants programme for regional museums.

Here is a summary of the other ways in which we achieved against those priorities during 2011/12.

Above: *Mogadishu* by Vivienne Franzmann – a Lyric Hammersmith and Royal Exchange Theatre, Manchester co-production. Photo: Jonathan Keenan

‘In 2011/12 Artichoke produced the UK’s largest light festival, Lumiere in Durham, where 19 artistic commissions, including work by Tracey Emin, Martin Creed, Jacques Rival and Cédric le Borgne, were seen by an audience of 150,000.’

Talent and artistic excellence are thriving and celebrated

Using our investment to ensure excellent art happens

The following are just some examples that illustrate how our investment and support ensures excellent art happens:

— *Mogadishu* was a co-production between Lyric Hammersmith and Royal Exchange Manchester theatres. We supported both through regular funding and additionally supported the Lyric Hammersmith in touring the production. It played to sell-out audiences and critical acclaim in 2011 and was nominated for an Olivier Award for Outstanding Achievement in an Affiliate Theatre, Best New Play at the Theatre Awards UK, Most Promising Playwright at the Evening Standard Awards 2011, and won the George Devine Award

— our annual investment enabled Artichoke to receive commissions to produce *Dining with Alice* at Elsing Hall, Norfolk, as part of Norfolk & Norwich Festival. This exceptional site-specific event was experienced by 2,000 people. Artichoke was

also commissioned to produce the UK’s largest light festival, Lumiere, in Durham. A range of 19 artistic commissions, including work by Tracey Emin, Martin Creed, Jacques Rival and Cédric le Borgne, was seen by an audience of 150,000

— Eska Mtungwazi received funding to support her in working up her first solo work *English Skies* for its premier at the Queen Elizabeth Hall to a sold out audience. Our funding helped her involve theatre directors from the Royal Shakespeare Company, movement specialists and an 80-piece choir

— Writers’ Centre Norwich put on the Norwich Showcase in collaboration with the British Council. The showcase brought together some of the best writers, literature organisations and experts from countries from across the world, offering thought-provoking poetry, readings of new and historical fiction, and delegate presentations and discussions. The showcase highlighted the importance of an international platform for the development of British writing and literature

Below: *Dining with Alice* directed by Hilary Westlake and produced by Artichoke for Norfolk & Norwich Festival 2011. Photo: © Sophie Laslett

Establishing approaches to the development to artistic talent

In February 2011, we launched the Artists’ international development fund in partnership with the British Council. This fund aims to increase the amount of international collaboration among artists between the UK and other countries across the arts and creative industries and will lead to a cadre of artists and creative practitioners in the



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UK who have experienced the benefits of international working and are advocates for it among their peers.

Many of the organisations we support run talent development programmes as part of their core business; examples include:

- Red Ladder Theatre Company, which runs the Red Grit training programme for emerging performers, offering free actor training to local people in the form of short eight-week courses run by the artistic director and visiting freelance artists

- The Hallé and Royal Liverpool Philharmonic Orchestra, who run professional experience schemes with the Royal Northern College of Music. This provides placements for talented students to play in the orchestra. Students receive instrumental and chamber music tuition, mentoring from Hallé section leaders and specialist classes in leadership, people management and communication and presentation skills

- the Yorkshire Artspace Starter Studio Programme for Ceramicists offers three early-career makers two years' access to a fully equipped ceramics workshop at the new eco-designed Manor Oaks Studios in Sheffield, a tailored business start-up course, mentoring support from established ceramicists, plus exhibition and paid work opportunities

Diversity in the arts – an artist-led approach

In September 2011, the decibel Performing Arts Showcase took place in Manchester with performances by 50 artists and arts organisations over the four-day event. The programme was started off by the Creative Case Symposium, attended on the day by over 500 delegates with many more online, to introduce our new positioning on diversity and equality which puts the link between creativity, diversity and equality and excellence at its heart. Well received by the arts sector, the *Creative Case for diversity* serves as a good



Above: *English Skies*, a staged song cycle. Artwork by Hannah Mason

Below left: Restaging project *Set and Reset/Reset* with Trisha Brown Dance Company and Candoco Dance Company 2011/12 (who will be performing as part of the Cultural Olympiad's Unlimited commissions). Photo: Hugo Glendinning



platform to build on in future discussions with arts and cultural organisations.

Responding to opportunities to showcase talent and build audiences for excellent art

We support the large-scale celebration of artistic talent and excellence. We are a principal funder of the Cultural Olympiad and its culmination, the London 2012 Festival, which is designed to give everyone in the UK a chance to be part of the London 2012 Olympic and Paralympic Games and inspire creativity across all forms of culture.

We have invested around £30 million into Cultural Olympiad activities, building up momentum since 2008 until the culmination of activities in September 2012. We have already supported a number of different projects to celebrate arts and culture and to showcase the country's creativity. This includes:

- Artists taking the lead commissions – 12 flagship projects set up to engage new audiences in each region and inspire local communities. One such commission is *Flow* – a beautiful,



hand-crafted, electro-acoustic musical machine, which draws water from the River Tyne and attracted around 11,000 visitors in the first month of it opening

- Unlimited commissions – a programme of high-quality, ambitious work by disabled and deaf artists experienced in a wide range of spaces

- Stories of the World, which aims to showcase innovation and excellence in museums, libraries and archives to a worldwide audience by asking young people to work in partnership with curators, uncovering objects that tell stories and resonate with their interests. So far, more than 1,500 young people have been recruited as curators to lead and develop the projects and successful exhibitions include *Global Threads* in the north west, and *Journeys of Discovery* in the north east

- investment in art in the Olympic Park, which aims to strengthen its legacy with a range of artwork for local residents, visitors from around the country and the rest of the world, to enjoy and be inspired by long after the Games are over

- investment in arts and culture activity at the Open Weekend Countdown events, as well as hundreds of Inspire projects that have been happening all over the country, helping to engage with and inspire new audiences

Evaluations of the Cultural Olympiad and of our contribution to it will be published in 2012 and 2013. Building on the successes and learning from the programme, we are establishing links with Brazil 2016.

Excellence is thriving and celebrated in museums and libraries

Our Designation scheme recognises collections of national and international importance. The Designation scheme currently identifies 140 pre-eminent collections held in England's non-national museums, libraries and archives, based on their quality and significance. These inspiring collections represent a vital part of our national cultural and artistic heritage.

During 2011/12, four organisations were designated:



Above left: *FLOW*, a series of site specific artworks in Northamptonshire (part of the Cultural Olympiad). Photo: Andrew Randall

Above: May Li holds a figurine from the Colchester Child's grave (approx. AD50-65) from Colchester Castle Museum (part of Stories of the World). Photo: Colchester and Ipswich Museums

the entire holdings of the Staffordshire and Stoke-on-Trent Archive Service; the BT Archives; the Black Country Living Museum; and the collections, library and archive of the Royal Academy of Art.



More people experience and are inspired by the arts

Developing arts opportunities for people and places with the least engagement

During 2011/12, we opened two funding programmes aimed at ensuring that more people experience and are inspired by the arts:

- our £7.5 million Audience focus fund was launched in November 2011. It aims to promote large-scale collaboration and sharing best practice, skills and expertise in understanding and attracting current and potential audiences. In addition, the fund includes a strand to deliver collaborative action to increase family and cross-generation attendance and participation in the arts

- we opened the Creative people and places fund in December 2011. This £37 million programme focuses our investment in parts of England where people's involvement in the arts is significantly below the national average, with the aim of increasing the likelihood of arts participation through the development of new partnerships

(including commercial partners), and by enabling people to have a greater say in determining arts provision in their communities

Investment in capital building has resulted in venues that are not located in big metropolitan areas, to increase their ambitions in providing access to excellent art. The Turner Contemporary, which sits on Margate's seafront – on the same site where Turner stayed – opened in April 2011 and is the largest exhibition space in the south east outside London. The Hepworth Wakefield, which opened in May 2011, is in the top three most-visited galleries outside London and can stake claim to being the UK's most successful purpose-built gallery. It has already cemented its place in the community, generating an estimated £10 million for the local economy. firstsite opened in Colchester in September 2011, attracting over 50,000 visitors during its first six weeks – a third of the projected figure for the first year. All of these buildings are also recognised for their architectural excellence with both the Turner Contemporary and Hepworth Wakefield being nominated for awards.

Above: Turner Contemporary, Margate. Photo: © Richard Bryant/Arcaidimages.com

Strengthening access to excellent art through touring and digital platforms

In November 2011, we launched the Strategic touring programme to ensure people across England enjoy better access to great art through touring. It is worth a total of £45 million over three years.

Our public value partnership with the BBC has led to two successful partnership initiatives this year, both aimed at building the digital skills of the arts and cultural sector, giving artists and arts organisations the opportunity to produce, create and broadcast new material, and making their work available to even more people.

The Building digital capacity for the arts programme aims to support the development of the publicly-funded arts sector's media production skills to enable the creation and distribution of high-quality arts content for digital platforms. The BBC Academy College of Production has been

working in partnership with us to deliver the programme and to help cement relationships and partnership working across the broadcasting and cultural sectors.

Almost 500 arts and cultural organisations have taken part in the programme to date, with far broader audiences accessing the programme's online resources.

The Space is a digital arts service developed by us in partnership with the BBC during 2011/12. The BBC contributed technology, mentoring and skills support to the sector and we opened a £3.5 million creative media commissioning scheme to capture and create new cultural experiences that would appear on The Space. Fifty-three projects were selected; these included 'behind the scenes' coverage of arts events, performance films, sonic experiments and interactive games. We also formed a partnership with the British Film Institute (BFI) to bring a film channel into The Space including

rare film archives, and the service will also open up the substantial BBC and Arts Council film collection archives to the public for the first time.

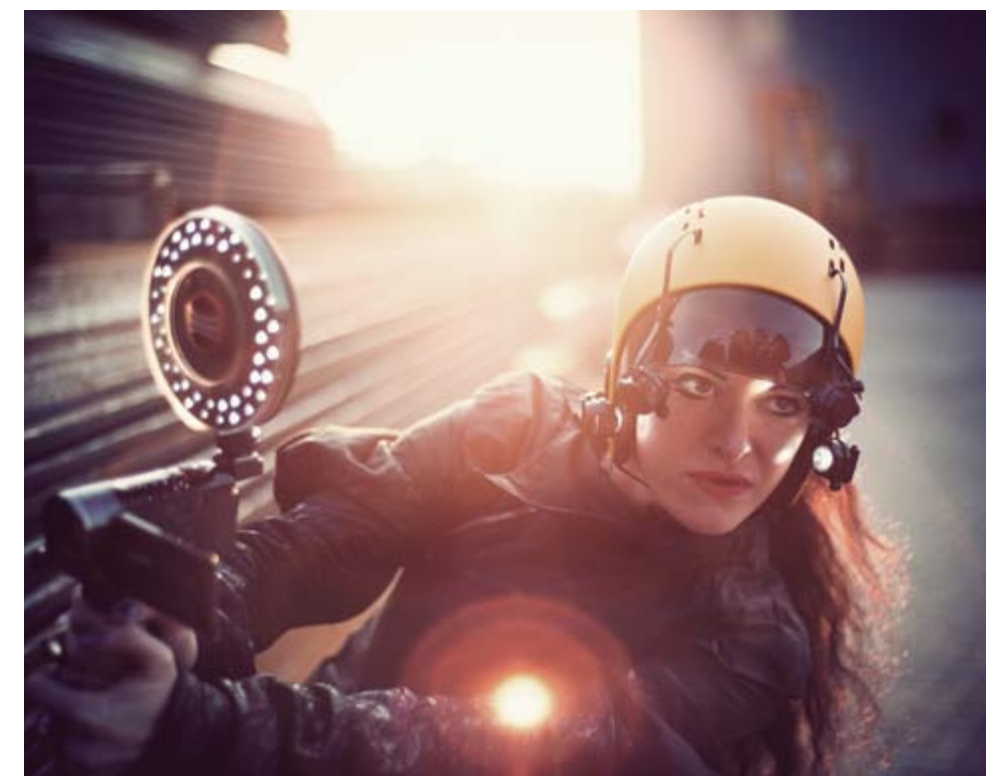
We continued our successful partnership with Channel 4 in co-commissioning Random Acts. This initiative aims to bring together a dynamic canvas of talent to the screen through new digital artworks that are being broadcast on Channel 4 at 11pm each week night over 2011 and 2012 and are available as a digital archive. The partnership has commissioned 260 new short films and digital artworks featuring work by artists and curated by differing arts organisations including Tate and FACT, with each film attracting on average 500,000 viewers.

More people experience and are inspired by museums and libraries

During 2011/12, Culture24 received funding to develop Museums at Night, an after-hours celebration that saw 352 museums, galleries, libraries, archives and heritage sites opening their doors for special evening events from sleep-overs to torch-lit tours.

This year we also funded The Reading Agency, a National portfolio organisation, to deliver the Summer Reading Challenge. This exciting initiative inspires children aged four to 12 to go to their local library and read six books during their summer break from school. In 2011, the Summer Reading Challenge ran in 97 per cent of UK libraries with 780,000 children taking part (an increase of 20,000 on levels of participation in 2010). It also saw 55,000 children sign up as new library members.

Below: I'd Hide You, interactive game by Blast Theory, featured on The Space. Photo: courtesy of Blast Theory



The arts are sustainable, resilient and innovative

Promoting greater collaboration between organisations to increase efficiency and innovation

We are the first arts funding body to embed environmental sustainability into funding agreements, and we now require all National portfolio organisations and Major partner museums to record their energy and water consumption, and to have environmental action plans in place by April 2013. A major new partnership with Julie's Bicycle will enable those organisations to measure their carbon output via an online tool and track its reduction.

Through the work of organisations such as Julie's Bicycle and Tipping Point we are supporting the arts and culture sectors to adapt and respond to climate change with new tools and practical support as well as developing innovative approaches to environmental sustainability in creative work and business models.

Under our new capital investment programme 2012–15, we are committed to furthering the objectives of sustainable development and expect projects, as far as possible, to take account of all long-term benefits and costs – environmental, social and economic. Organisations will need to respond to legislative changes around climate change and acknowledge the increasing public pressure for responsible sustainable development. We also expect organisations applying for capital investment to consider energy efficiency as a priority.

Strengthening business models in the arts and helping arts organisations to diversify their income streams

This year, we launched a new culture-sector-wide private giving investment programme aimed at helping cultural organisations diversify their income streams and access more funding from private sources. The Catalyst: endowments programme is a £55 million scheme funded jointly by us, the Heritage Lottery Fund and the Department for Culture Media and Sport. It offers match funding for the purpose of building a new endowment fund, or increasing an existing one.

As part of the same programme, we also launched the £30 million Catalyst arts: capacity building and match funding scheme that will support organisations in building their fundraising capacity and capability over a three-year period.

We have also welcomed applications to our Grants for the arts programme from organisations wishing to improve their longer-term sustainability by developing their organisational resilience. In addition to these one-off grants, we delivered and are evaluating programmes aimed at helping organisations undertake change projects to secure their financial and organisational future. This includes Thrive (a fund to enable organisations to improve aspects of their performance that would lead to greater sustainability for them or their sector), Sustain (our response to the impact of the recession on arts organisations whose sustainability is important in delivering our mission of great art for everyone) and a one-off action research programme providing tailored support to a small number of organisations facing challenges or opportunities in organisational development.



Above: Bob Rudd RI *Waterfall, Skye* Watercolour 21 x 29 inches available to purchase through the Own Art scheme



This year we also launched a £214 million capital investment programme, which will run over four years to support organisations to develop resilience by giving them the right buildings and equipment to deliver their work, and to become more sustainable and resilient businesses.

Own Art is a national initiative designed to increase engagement with the arts and to boost the visual arts economy by making it easier and more affordable for people to buy contemporary art and craft. The scheme provides interest-free loans of up to £2,000 for the purchase of work by living artists and is available through a network of 230 participating galleries across England. In 2011/12 over 2,800 customers purchased over £2.6 million of contemporary art and craft. This year also marked the second year of a pilot scheme offering member galleries access to e-commerce and marketing.

During 2011/12 we undertook preparatory work for a new microfinance loans programme launched in May 2012, aimed at offering business development support and access to finance to small organisations within the creative industries.



We have continued to work with key strategic partners, including the Local Government Association and Visit England to explore opportunities for the cultural sector to engage in strategic commissioning and the place of culture in the visitor economy. We also work with Local Economic Partnerships to broker opportunities for the cultural sector to contribute to local economic growth.

Museums and libraries are sustainable, resilient and innovative

This year, we launched the Libraries Development Initiative to test new approaches to library service delivery in order to build vibrant, sustainable 21st century library services. Thirteen projects were funded, each receiving a share of £230,000.

The year 2011/12 was a transitional year for Renaissance programmes, with major funding still administered through the Museums, Libraries and Archives Council on the Arts Council's behalf. Activity supported through this funding continued to demonstrate innovation, with new developments including M Shed in Bristol and the revamping of Exeter's Royal Albert Memorial Museum.

Above left: Linter shells in the Finders Keepers? gallery © 2012 Royal Albert Memorial Museum & Art Gallery, Exeter City Council (a recipient of Renaissance funding)

Above: Canada Water Library Interior. Photo: Michael Cameron Photograph

Other Renaissance-funded activities have focused on governance, sustainability and resilience. This included the establishment of Birmingham Museums Trust, combining the Birmingham City Council Museums and the Thinktank Trust into a new single trust. This new entity has, in visitor numbers, become one of the world's top 40 museums, collectively attracting more than one million visitors a year.

The updated museum Accreditation scheme, which is administered by us and sets nationally agreed standards for museums in the UK, was relaunched in October 2011. It now has a much stronger emphasis on the scheme as a tool for addressing organisational health. Accreditation has been developed to: keep pace with the times; help museums improve their resilience through effective forward planning; balance aspects of collection management; and encourage all museums to be responsive to user needs and expectations. There are currently just under 1,800 museums participating in the scheme, demonstrating their commitment to managing collections effectively for the enjoyment and benefit of users.

The arts leadership and workforce are diverse and highly skilled

Building a network of arts leaders who value sharing their knowledge and skills, for the benefit of the arts and civil society

We have invested in a number of schemes over the year including leadership development delivered through the Clore Fellowships and short courses, and Leadership Advance to support senior leaders. We awarded a grant to Battersea Arts Centre to develop 21st century leadership, and have supported Sync, an initiative looking at disability leadership. Through Women of the World, we have supported coaching, mentoring and networks for women leaders in culture. We have also invested in targeted support for board development in a number of organisations.

Equal opportunities to enter the arts workforce

In November 2011 we published *Internships in the arts: A guide for organisations*, which sets out best practice for internships.

This year, we also worked with the Department for Business, Innovation and Skills and the Department for Work and Pensions to align our national approach to creating fairer entry routes into employment. We also supported the Royal Opera House's Creative Jobs Programme, which will create quality paid internships for young people during the Cultural Olympiad.

We have committed to supporting activity aimed at broadening access to cultural sector careers and increasing the diversity of the workforce. This commitment has been shown in our support of the extension of the National Skills Academy into cultural heritage.

The leadership and workforce in museums and libraries are diverse and highly skilled.

Considerable effort during 2011/12 went into the development and implementation of a major funding programme for museums and a complementary museum development funding strand. Through this strand the new Major partner museums are developing skills in leadership and excellence and are models in these areas for the sector. These institutions have now become members of the National Museum Directors' Conference, bringing a major regional voice to the national leaders' table.

The successful applicants to our Museum development fund will create a national network of professional advice across the sector, particularly supporting smaller museums, facilitating sustainable peer support and skills sharing through local networks. Their priority will be to improve the resilience and sustainability of the museums sector, helping to maximise benefits to audiences and communities. Their work will include business planning, workforce development, attracting new audiences and organisational improvement.



Below left: Museums at Night sleepover at the Hornimann Museum and Gardens. Photo: © Pal Hansen

Below: Charles Dickens Primary School, recipient of Artsmark Gold three times. Photo: Philippa Gedge Photography



Every child and young person has the opportunity to experience the richness of the arts

Improving the delivery of arts opportunities for children and young people

In 2011/12, we announced our new role as fund holder in establishing and monitoring a new national network of music education hubs in partnership with the Department for Education. Between 2012–15, more than £171 million will be invested in a network of music education hubs across England, which will ensure that every child aged five to 18 has the opportunity to sing and learn a musical instrument, and to perform as part of an ensemble or choir.

This year, we have also developed our relationship with our national network of Bridge organisations. Bridge organisations will use their experience and expertise to connect children and young people, schools and communities with art and culture. They will connect schools and communities with other National portfolio organisations and others in the cultural sector, including museums and libraries.



Above: Maidstone Museum & Bentlif art gallery. Photo: Benedict Johnson

‘Over the course of 2011/12, almost 20,000 Arts Awards were achieved by young people, representing a 20 per cent increase from last year.’

Raising the standard of art being produced for, with and by children and young people

In September 2011, we relaunched Artsmark as our national programme to enable schools, further education and youth justice settings to evaluate, celebrate and strengthen a quality arts and cultural offer through focusing on the quality and impact of arts provision. Over 1,700 schools engaged in the new Artsmark programme, which from September 2012 will be delivered by Trinity College London.

Trinity College London has also managed Arts Award in association with the Arts Council since 2005. Arts Award is a national qualification that aims to deepen young people's engagement with the arts through practical experience. Over the course of 2011/12, almost 20,000 Arts Awards were achieved by young people, representing a 20 per cent increase from last year. Arts Award has also developed two new levels, 'Explore' and 'Discover', broadening the scope of Arts Award to ages seven to 25.

Together with the arts and culture sector, we have also started to develop a set of principles to help us judge better the quality of work being produced by, with and for children and young people. We held the first of a series of conversations with the arts and cultural sector in December 2011. We have also funded research into quality frameworks and the consistent measuring of quality which will be published in summer 2012.

Every child and young person has the opportunity to experience the richness of museums and libraries

Kids in Museums, an independent charity dedicated to making museums open and welcoming to all families, was awarded funding by us in 2011/12. It pioneered the Kids in Museums manifesto (compiled from visitors' comments) and the Family Friendly Museum Award, both of which have been successful in leading museums and galleries across the country to make family visits engaging and enjoyable.

- 1 Review
- 2 **Highlighted information**
- 3 Grant-in-aid accounts
- 4 Lottery distribution accounts
- 5 National Lottery report

Reporting against our official commitments
Remuneration report (audited information)
Environmental sustainability

Highlighted information



Reporting against our official commitments

Funding agreement targets 2008–11

A number of indicators were used to measure progress against the Arts Council's outcomes from 2008–11, and formed the basis of our funding agreement with our sponsoring department, the Department for Culture, Media and Sport (DCMS) for this period. Final data on the following 2008–11 indicators was confirmed during 2011/12:

- excellence – high quality art and high quality arts experience
- reach – more people attending and participating in the arts
- engagement – more people feel that there are opportunities to be stimulated or inspired by, and get actively involved in, arts activities that are personally relevant to them
- diversity – arts activity that reflects the diversity of contemporary England
- innovation – artists have the freedom and are challenged to innovate

The following indicators are used to measure progress against the Arts Council's outcomes from 2008/09, and form the basis of our funding agreement with the DCMS.

Excellence

Artistic quality*
An increase in the percentage of regularly funded organisations that are assessed as 'met strong' or 'met outstanding' in artistic quality following their annual reviews

Baseline	2006/07	62.3% of regularly funded organisations in our portfolio were assessed as 'met strong' or 'met outstanding'
Actual	2010/11	72.0% of regularly funded organisations in our portfolio were assessed as 'met strong' or 'met outstanding'. This represents an increase of 9.7% against the baseline

Source: 2006/07 and 2010/11 annual assessments of regularly funded organisations

* please note that from the 2009/10 annual reviews onwards, the rating was changed to 'excellence and innovation', which is comparable with 'artistic quality'

High quality arts experiences
An increase in the percentage of people who rate their last arts experience as being of 'high quality'

Baseline	2007/08	57.1% of people rated their last arts experience as being of 'high quality'
Actual	2010/11	61.5% of people rated their last arts experience as being of 'high quality'. This represents an increase of 4.4% and a statistically significant change against the baseline

Source: Taking Part survey 2007/08 and 2010/11

Reach

The number of people in the general population attending or participating in arts events or activities.
An increase in the percentage of people (adults aged 16+) attending or participating three or more times in the arts.

Baseline	2008/09	59.8%
Actual	2010/11	61.2%

Source: Taking Part survey 2008/09 and 2010/11

An increase in the amount of time children spent attending or participating in arts activities in the last seven days

Recalculated 2008/09 baseline indicator 5–15-year-olds participation in arts activities in the last week

Arts participation in last week	Percentage	Range
Not meeting desired hours	56.2	+/- 3.5
Meeting desired hours	43.8	+/- 3.5

2010/11 indicator 5–15-year-olds participation in arts activities in the last week

Arts participation in last week	Percentage	Range
Not meeting desired hours	57.0	+/- 2.5
Meeting desired hours	43.0	+/- 2.5

This represents a small decrease against the baseline, but not a statistically significant change.

Data ceased being collected in the fourth quarter of the 2010/11 year so it has not proven possible to report against this exact same indicator for 2010/11. The baseline and report against baseline have been adjusted to only include data from quarters one to three in both years in order to avoid being misleading, due to seasonal effects in child participation.

Source: Taking Part child survey 2008/09 and 2010/11

An increase in attendance in a subset of regularly funded organisations

	2007/08	2010/11
Number of organisations	721	721
Overall attendance	30,827,633	39,319,566

Source: Annual submission of regularly funded organisations 2007/08, 2008/09, 2009/10 and 2010/11

Engagement

Ways to get people engaging with the arts
An increase in the percentage of children and young people achieving a bronze, silver or gold Arts Award

Baseline	2007/08	4,615 awards were made
Actual	2010/11	16,751 awards were made

Source: Trinity Guildhall

The public has opportunities to get involved in arts activities
An increase in the percentage of people who feel that there are opportunities for them to get involved in the arts

Baseline	2008/09	50.3% of the full attitudinal sub-sample of the Taking Part survey agreed with the statement 'There are lots of opportunities to get involved in the arts if I want'
Actual	2010/11	54.4% This represents an increase of 4.1% and a statistically significant change against the baseline

Source: Taking Part survey 2008/09 and 2010/11

The arts are relevant to the public
A decrease in the percentage of people who feel that the arts are not relevant to them

Baseline	2008/09	25.8% of the full attitudinal sub-sample of the Taking Part survey agreed or agreed strongly with the statement 'The arts are not for people like me'
Actual	2010/11	22.2% This represents a decrease of 3.6% and a statistically significant change against the baseline

Source: Taking Part survey 2008/09 and 2010/11

Diversity

Meeting legal equality duties
An increase in the percentage of regularly funded organisations whose diversity action plans or equality plans are rated as a 'strength'

Baseline	2006/07	53.9% of regularly funded organisations in our portfolio had diversity action plans or equality plans that were assessed as a strength
Actual	2010/11	59.0% of regularly funded organisations in our portfolio had diversity action plans or equality plans that were assessed as a strength. This represents an increase of 5.1% against the baseline

Source: 2006/07 and 2010/11 annual assessments of regularly funded organisations

Management agreement performance indicators 2012–15

The Arts Council has a management agreement with our sponsoring department, the Department for Culture, Media and Sport (DCMS) which runs from 2012–15. This section reports on our performance against our management agreement performance indicators.

Reporting against our official commitments

An increase in contributed income in National portfolio organisations and Major partner museums between 2012–15¹*

Baseline 2010/11 £117,389,000

*contributed income is the same as 'charitable giving' and includes sponsorship, donations, private giving, and trusts and foundations

Source: annual submission of regularly funded organisations 2010/11

Ratio of charitable giving to Arts Council grant

Baseline 2010/11 33.6% (N = 829 regularly funded organisations responding to annual submission)

Source: annual submission of regularly funded organisations 2010/11

An increase in the amount of activity made available to audiences digitally through National portfolio organisations and Major partner museums

Baseline 2012/13 Available 2013

Source: annual reviews of National portfolio organisations 2012/13

Sustained attendance/visitor numbers in National portfolio organisations and Major museum partners over the period 2012–15

Baseline	2010/11	95,992,352 known plus estimated attendances
(regularly funded organisations)		

Source: annual submission of regularly funded organisations 2010/11

¹ This indicator was included in our interim funding agreement with Department for Culture, Media and Sport for 2011/12, under the measure 'Total amount of charitable giving (donations and sponsorship)'

Remuneration report (audited information)

1 April 2011–31 March 2012

The Remuneration Committee

The Council has appointed a Remuneration Committee advising on the remuneration of regional chairs and for specific matters relating to the remuneration and performance of the Chief Executive and Executive Directors. The members of the committee during the year were Dame Liz Forgan, Rosemary Squire, Peter Phillips, Sheila Healy and Anil Ruia (Chair). The committee operates within written terms of reference, and usually meets once during the year.

Council members' remuneration

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

We paid the nine members of national Council who are also chairs of regional councils remuneration of £6,400 each during 2011/12 (2010/11: £6,400). The Chair's remuneration was agreed at £40,000 per annum (2010/11: £40,000).

Executive Board members' remuneration

Salary progression through the executive director salary band is dependent on individuals' performance. Non-consolidated, one off variable performance payments are also awarded to some executive directors each year for exceptional performance. Due to the Government's two-year public sector pay freeze, no executive director received a consolidated salary increase in 2011/12 and the variable performance payment 'pot' is currently frozen at 2008/09 levels. This is pro-rated to £10,000. Increases in salary and other performance related payments to executive directors are not under the control of management. Whilst the Chief Executive makes reward recommendations in respect of his direct reports on Executive Board, any salary increases and other payments must be approved by the Remuneration Committee.

In addition to his annual salary, the Chief Executive is entitled to a performance related payment of up to 20 per cent of his annual salary each year. Remuneration Committee can decide to consolidate a small percentage of this payment into the Chief Executive's annual salary or pay the full amount as a one-off, non-consolidated sum. The Chief Executive was awarded a non-consolidated performance payment by the Remuneration Committee of £10,000 in accordance with his contractual entitlement as a reflection of his outstanding performance in the year 2011/12.

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

The Arts Council's variable performance pay system is an integral part of our total remuneration package. The Remuneration Committee is keen to emphasise that invariable performance awards are only made to individuals, throughout the organisation as a whole, for levels of achievement which contribute to the overall success of the organisation and which go beyond even the usual high standards expected of individuals in their roles. It notes that the financial amount of these awards is relatively modest. The Remuneration Committee decided to make payments to a number of individual members of Executive Board; these are set out in the first table in this report. These payments were determined by the Remuneration Committee in May and are usually paid in July each year.

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Remuneration report (audited information) 1 April 2011–31 March 2012

The remuneration of our executive directors for the year ended 31 March 2012 was:

Member	Total remuneration 2010/11 £000s	Total remuneration 2011/12 £000s	Employers' Pension contributions £000s	Variable performance payment paid in 2012/13 £000s	Buy out of contractual benefit £000s	Car allowance £000s	Salary £000s
Alan Davey Chief Executive	178	223	60	10	0	0	153
Althea Efunshile Chief Operating Officer	160	160	30	2.5	0	0	127
Alison Cole Executive Director, Advocacy and Communications	111	115	21	2	0	0	92
Anupam Ganguli Executive Director, Resources	112	114	22	1	0	0	91
Andrew Nairne Executive Director, Arts (left 04 November 2011)	118	70	13	0	0	0	57
Barbara Matthews Interim Executive Director, Arts	n/a	46	9	0	0	0	37
Andrea Stark Area Executive Director, East and South East	118	157	25	1	30	1	100
Laura Dyer Area Executive Director, Midlands and South West	121	121	24	1.5	0	1	94
Moira Sinclair Area Executive Director, London	118	120	24	2	0	0	94
Jim Tough Area Executive Director, North (left 07 February 2012)	109	102	19	0	0	1	82
Sarah Maxfield Area Executive Director, North	n/a	9	2	0	0	0	7

Member	Total remuneration 2010/11 £	Total remuneration 2011/12 £
Hutton review disclosure		
Highest paid director's total remuneration	159,000	153,000
Median total remuneration	32,780	30,000
Ratio	4.85	5.10

Alan Davey's pension contributions were adjusted in 2011/12 to correct the application of a cap to the amount of contributions in error in previous years.

Barbara Matthews was in her interim role from 1 November 2011 to 31 March 2012.

Sarah Maxfield took on interim Area Executive Director, North responsibilities from 1 March 2012.

Alison Cole and Andrea Stark each received an extra responsibility allowance which gives the appearance of a salary increase compared to 2010/11.

The Hutton review disclosure includes the annualised salaries of all staff, both directly employed and agency. Salaries include basic pay, benefits in kind and performance related pay in the year in which it was paid.

Details of the pension entitlements for our executive directors for the year ended 31 March 2012 were:

Member	Accrued pension at 31 March 2012 £000s	Pension increase in the year (net of inflation) 2011/12 £000s	Cash equivalent transfer value at 31 March 2012 £000s	Increase in cash equivalent transfer value (net of inflation) 2011/12 £000s	Cash equivalent transfer value at 31 March 2011 £000s
Alan Davey Chief Executive	32	7	110	41	66
Althea Efunshile Chief Operating Officer	32	5	122	37	81
Alison Cole Executive Director, Advocacy and Communications	46	10	171	60	107

Remuneration report (audited information) 1 April 2011–31 March 2012

Details of the pension entitlements for our executive directors for the year ended 31 March 2012 were: (continued)

Member	Accrued pension at 31 March 2012 £000s	Pension increase in the year (net of inflation) 2011/12 £000s	Cash equivalent transfer value at 31 March 2012 £000s	Increase in cash equivalent transfer value (net of inflation) 2011/12 £000s	Cash equivalent transfer value at 31 March 2011 £000s
Anupam Ganguli Executive Director, Resources	16	4	47	21	25
Andrew Nairne Executive Director, Arts	49	2	176	43	129
Barbara Matthews Interim Executive Director, Arts	40	7	152	46	102
Andrea Stark Area Executive Director, East and South East	97	7	320	79	233
Laura Dyer Area Executive Director, Midlands and South West	111	1	335	73	254
Moira Sinclair Area Executive Director, London	31	4	95	28	64
Jim Tough Area Executive Director, North	29	(121)	619	107	494
Sarah Maxfield Area Executive Director, North	84	61	287	225	61

Jim Tough received a lump sum payment on 7 February 2012, hence the reduction in pension.

Sarah Maxfield transferred benefits from another pension arrangement into the plan during the year.

Alan Davey
Chief Executive
3 July 2012

Dame Liz Forgan
Chair
3 July 2012

Environmental sustainability

In December 2009, the Executive Board committed Arts Council England to work towards a resilient, low-carbon future. The Arts Council reports annually as part of the government's benchmarking programme, which reviews the government estate running costs and sustainable practice. This report is published to Parliament as *State of the estate*.

The Arts Council recognises the results of this report and works on an initiative known as High Performing Property (HPP). Both national and regional action plans are created to continue and build upon our current procedures, actively working on raising awareness and reducing carbon emissions. This initiative has been ongoing since 2008/09.

The main sustainable practices introduced throughout the Arts Council's estate since 2008/09 are as follows:

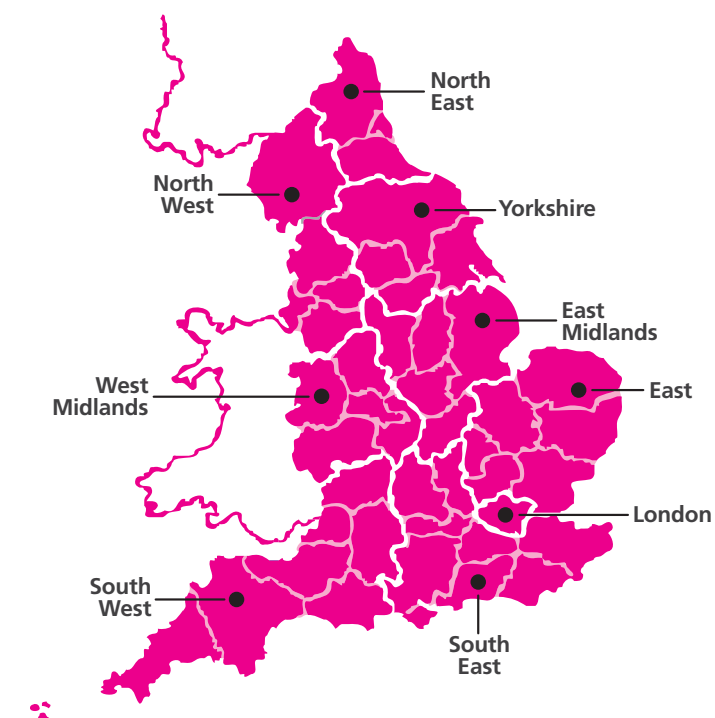
- video conferencing
- 'one-stop shop' travel provider
- improved procurement
- mobile working and hot desks
- low-energy lamps
- all IT equipment recycled
- filtered water and removal of bottled water in all offices
- sustainable and eco-friendly cleaning products
- biodegradable products
- recycled paper for all offices
- flow reducers fitted to taps and showers
- energy usage monitored and recorded throughout the financial year
- standard two-sided printing

The Arts Council has a dedicated office services manager in each office. One of the objectives of that role is to encourage sustainable practice, through motivating colleagues to continue such practice and to build on our achievements to date. As a result, the following outcomes have been achieved:

- there are recycling stations throughout all offices and individual rubbish bins have been removed from underneath desks
- staff engage in presentations on sustainability awareness
- electrical equipment is switched off, not left on standby
- a travel-to-work policy encourages staff to utilise bike loan/rail/car-share schemes

Summary

Arts Council England has offices throughout England, with office locations as shown in the following map. The Arts Council's estate equates to 10,129 square metres.



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Environmental sustainability

Office location	Exclusive or shared use	Square metres	Serviced/managed
South East, Brighton	Shared	461	Managed
South West, Exeter	Shared	770	Managed
London	Exclusive	2,909	N/a
East, Cambridge	Shared	859	Managed
West Midlands, Birmingham	Exclusive	791	N/a
East Midlands, Nottingham	Shared	804	Managed
Yorkshire, Dewsbury	Exclusive	1,034	N/a
North West, Manchester	Shared	1,669	Managed
North East, Newcastle	Shared	832	Managed

Those locations detailed as 'shared' in the above table are within a shared premises where running costs of utilities and usage are re-charged to the Arts Council on a percentage apportionment of space occupied within the building. The data for these offices therefore may not be accurate reflections of use, but an assumption based on the landlord service charge schedule and lease obligations. The Arts Council is working with its landlords and managing agents to improve our reporting for these offices for the future.

Policies and practice

The organisation review that came into effect in April 2010 provided an opportunity for us to look again at our collective approach to environmental sustainability. This splits into two distinct areas – the technical performance of our estate and the organisational behaviours that impact upon our carbon footprint and wider sustainable practice.

Changing our office environments provided the opportunity to change our use of energy and resources. In the head office refurbishment we introduced a number of measures, including:

- zoning of plant and air conditioning to be more responsive to specific locations
- reducing the number of printers, photocopiers and faxes and introducing multi-functional devices (MFDs)
- reducing the number of microwaves and other peripheral equipment
- standardising and reducing amounts of stationery used
- introducing light and movement sensors to control standard office lighting
- providing a standard pallet of ethically produced office furniture with residual sale value if the need to dispose or recycle arises
- reusing and recycling IT equipment through a WEEE-compliant organisation

- assessment of IT data centre locations and relocation to more fit-for-purpose locations, to reduce expenditure on travel and subsistence
- virtualisation of servers. We have 66 running virtual servers, and 17 physical servers. The virtual servers use, on average, 74.2 per cent less power than physical servers. All our servers have power-saving mode

In our new Manchester office, The Hive, we chose to move to a passively controlled office with very limited air conditioning and all the features of the national office design. We were awarded the Cabinet Office BREEAM excellent rating recognition for this new office. (BREEAM is the world's foremost environmental assessment method and rating system for buildings).

In October 2011 the Arts Council took on the responsibilities relating to museums and libraries formerly undertaken by the Museums, Libraries and Archives Council (MLA). This resulted in an additional 53 staff mainly located in our Birmingham and London offices.

This integration of the responsibilities for museums and libraries had a notable knock-on effect to our running costs (electricity, gas, water and waste) as well as increased travel. Part of the additional costs of electricity is due to the need for an upgrade to our IT systems to provide staff with appropriate access to files, including multimedia files.

As part of our action to reduce our carbon footprint, we continue to work through the legacy of oversupply of premises. Where appropriate, we have reduced our estate, lease obligations permitting. These changes have helped reduce working demise in several offices, in turn reducing ongoing running costs of unoccupied or furnished offices.

The estate changes that have taken place in the past year, which would have increased our usage overall, are:

London office

Under the terms of our full repairing lease obligations, the Arts Council overhauled and upgraded the internal air conditioning.

East office

We exercised our lease break opportunity in October 2011 to relocate staff to a central Government office, as part of a shared building scheme. For a period of time we ran two offices.

South West office

We completed some internal alteration works to allow for one large unit to become two self-contained units. Arts Council staff are now situated within one half of this space whilst the other remains unoccupied and on the market. Running costs for both units remain the responsibility of the Arts Council.

The Arts Council's estate data for financial years 2010/11 and 2011/12 is detailed below for comparison. The information provided below follows Treasury guidance and reports on the following:

- waste management
- greenhouse gas emissions
 - scope 1 – gas
 - scope 2 – electricity
 - scope 3 – travel (rail, air, car)
- finite resource consumption – water

The Arts Council seeks to improve our sustainable practices throughout our operational estate. Over the past 12 months we have continued work on an estate rationalisation programme in order to reduce our premises in line with the staff complement. With these ongoing changes there is a need for an increased awareness of effective waste management.

The Arts Council continues to advertise and actively motivate staff to take advantage of our internal policies to include:

- a travel to work policy, encouraging staff to utilise bike loan/rail/car-share schemes
- office 'green' teams
- an external stakeholder bi-annual sustainability reference group

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Environmental sustainability

Performance commentary

Waste management data

The following table includes all Arts Council offices recycling data and associated cost.

Waste		2010/11	2011/12
Non-financial (tonnes)	Total	114,000	319,321
	Landfill	59,000	197,917
	Reused/recycled	55,000	121,404
Financial indicators (£)	Total disposal cost	22,151	24,882
	Landfill	9,166	13,290
	Reused/recycled	12,985	11,592

The increase in the overall volume and cost of waste management is due to the impact of reducing our premises in Exeter, relocating our staff in Cambridge, the increase of staff numbers following the integration of new responsibilities relating to museums and libraries, and an ongoing internal archiving and document disposal programme to relocate our storage to an off-site.

We will continue to improve our reporting mechanisms, working closely with our facilities service providers to ensure robust reporting and management throughout all offices.

— **Target** – in 2012/13 the Arts Council office service managers will engage with landlords and their managing agents for serviced premises to implement a more accurate waste management programme to improve our reporting capabilities.

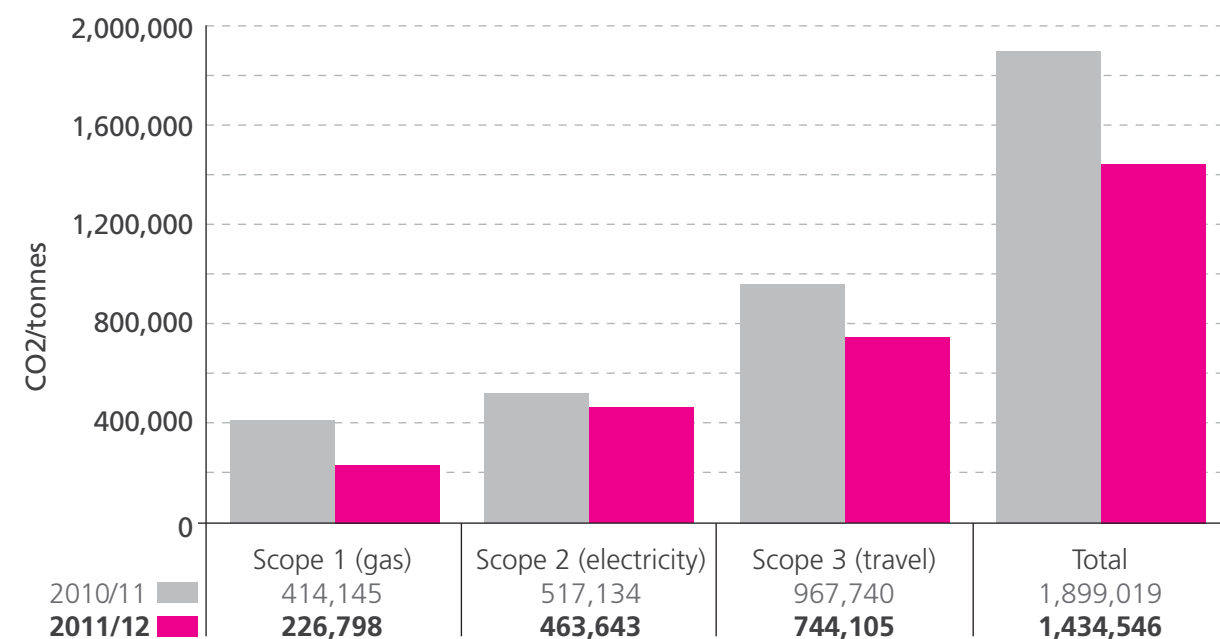
Greenhouse gas emissions		2010/11	2011/12
Co2	Total gross emissions (CO2)	931,279	690,441
	Total net emissions (CO2)	931,279	690,441
	Gross emissions, scope 1 (direct)	414,145	226,798
	Gross emissions, scope 2 KWH (indirect)	517,134	463,643
Energy consumption	Electricity (non-renewable)	954,827	856,062
	Electricity (renewable)	0	0
	Gas	2,240,437	1,226,930
Financial indicators (£)	Expenditure – energy	159,637	147,394

Finite resource consumption		2010/11	2011/12
Non-financial (M3)	Supplied	5,196	5,708
	Abstracted	0	0
	Per FTE	9.4	10.3
Financial indicators (£)	Water supply costs (office estate)	13,978	15,437
	Water supply costs (non-office estate)	0	0

Travel		2010/11	2011/12
CO2	Rail	145,570	202,622
	Air	729,500	420,220
	Car	92,670	121,263
	Total	967,740	744,105
Cost	Rail	696,436	734,514
	Air	31,068	14,553
	Petrol	107,201	142,420
	Total	834,705	891,487
Miles	Rail	1,603,738	2,061,433
	Air	204,494	152,987
	Car	268,002	350,695
	Total	2,076,234	2,565,115

Arts Council England – sustainability graphs

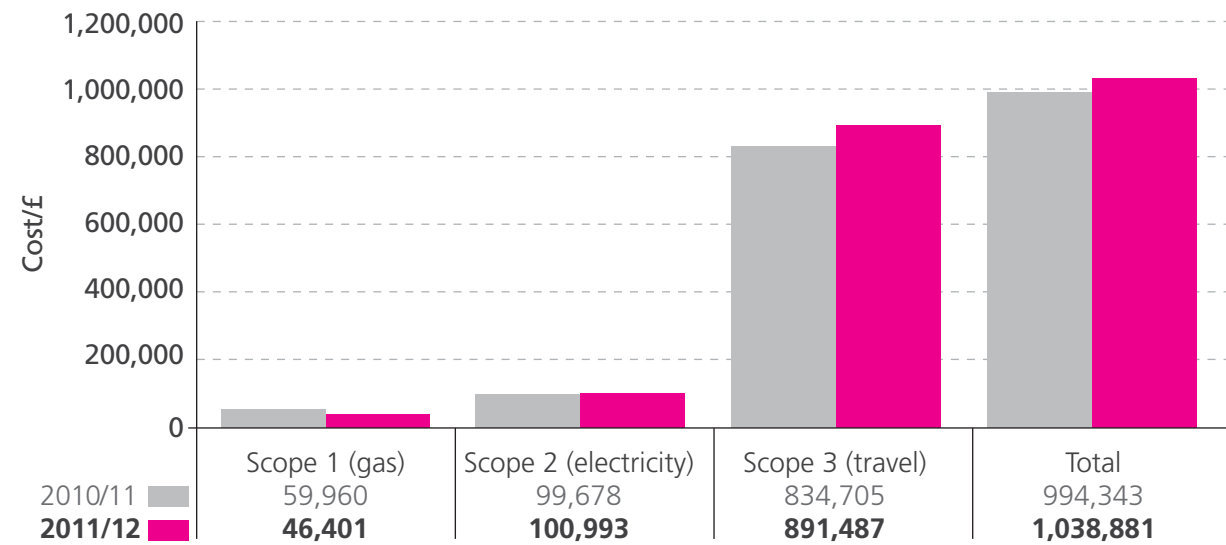
Graph 1: CO2, whole estate



The above table shows overall reduced CO2 emissions for the Arts Council in 2011/12 compared to 2010/11.

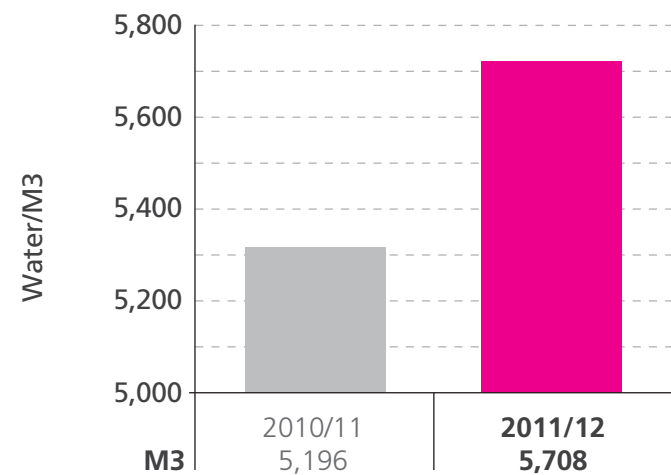
Environmental sustainability

Graph 2: Financial indicators, whole estate



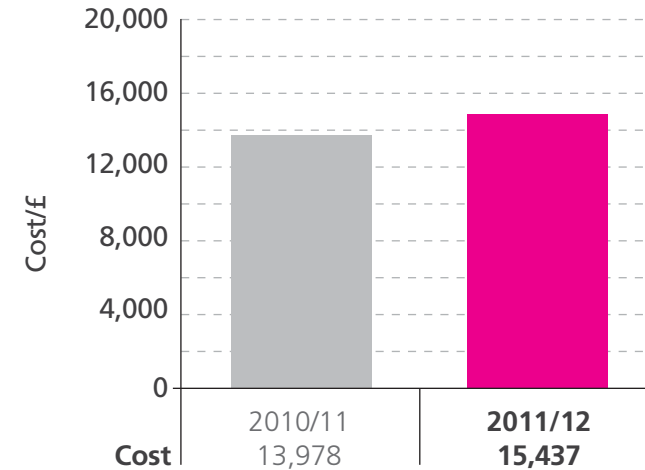
The above table shows an increase in travel costs which was due to a number of mobile staff being inducted into the Arts Council in 2010/11 as part of the integration of museums and libraries.

Graph 3: Water usage, whole estate



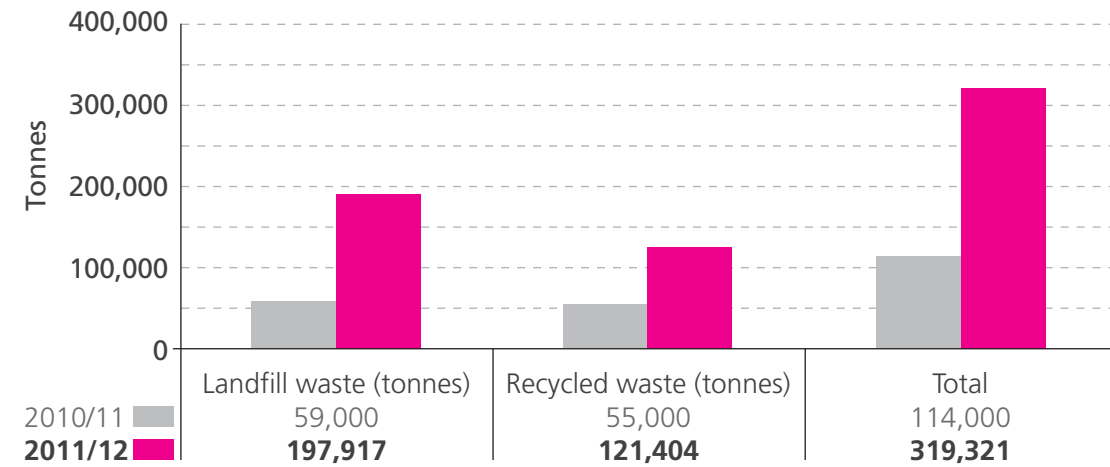
The above graph reflects increased water consumption, due to an increase in the number of staff into the organisation.

Graph 4: Water cost, whole estate



The Arts Council's expenditure for water (M3) has increased in 2011/12, prompted by an increase in staff.

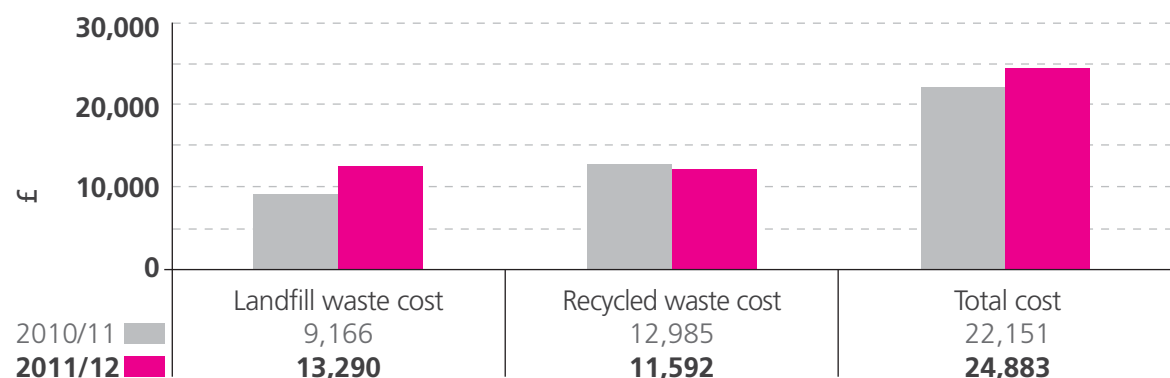
Graph 5: Waste, whole estate



The increase in the overall cost of waste management is due to the impact of reducing our premises in Exeter, relocating our staff in Cambridge, the increase of staff numbers following the integration of new responsibilities relating to Museums and Libraries and an on-going internal archiving and document disposal programme to relocate our storage off-site.

Environmental sustainability

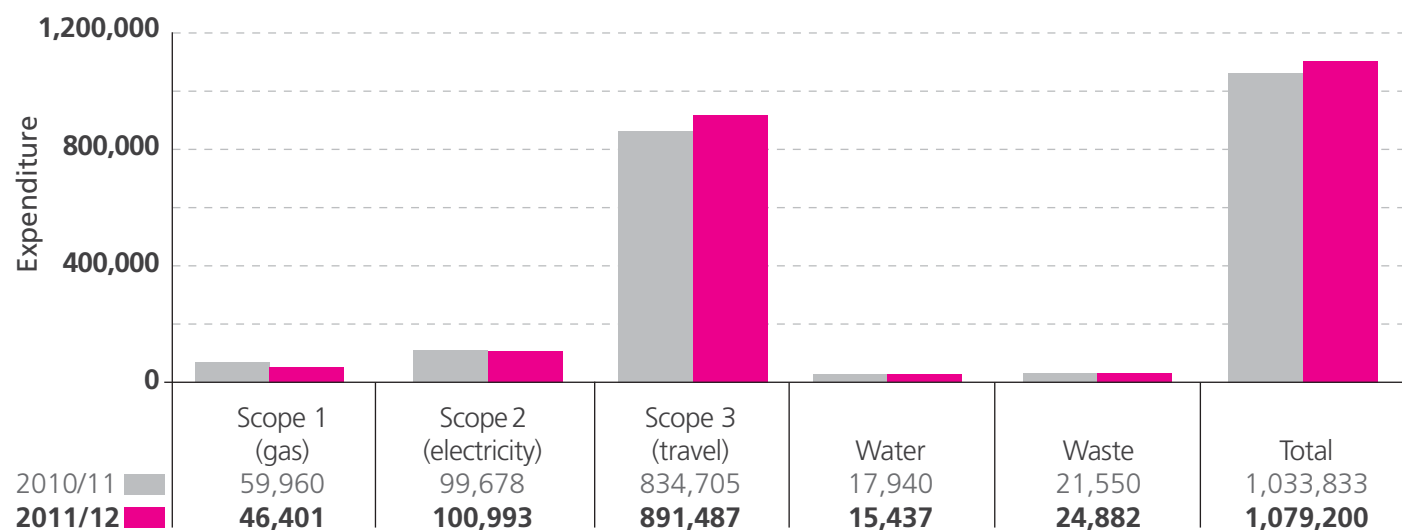
Graph 6: Whole estate, cost to recycle



The above graph details our waste management costs. The Arts Council estate varies by office, recycling costs at some offices are charged through service charge contributions and others through our Facilities Management company. This explains the reduced cost against 2010/11. Service charge contributions can fluctuate depending on their tenants recycling activity.

Graph 7: Financial indicators (£) yearly comparison

2010/11 vs 2011/12



The above graph shows comparative cost information for the two previous financial years. Increased expenditure reflects an increased staff count for the Arts Council.

The future

We plan to set achievable targets for the future financial year.

As the Arts Council embarks on an internal review to reduce administrative costs we will continue to work on embedding sustainable policies within our operations.

Throughout the financial year, 2012/13 the Arts Council will work to embed the following:

- improved waste management reporting for managed/serviced offices
- rationalisation of our oversupply of premises, working towards a sustainable and efficient operational estate
- increased staff awareness
- we will continue to build 'green' into our capital projects, implementing sustainable operations where appropriate

Detailed information on how the Arts Council are working towards building resilience in the arts and cultural sector through environmental sustainability can be found on pages 29–37.

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Grant-in-aid accounts



War Horse at the National Theatre, winner of six Tony awards in 2011.
Photo: Simon Annand

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Governance statement

Reference and administrative details of the charity

The Arts Council of England, trading as Arts Council England, is a registered charity, charity registration number 1036733. The address of our head office is 14 Great Peter Street, London SW1P 3NQ.

Governance arrangements

Arts Council England was established by Royal Charter on 13 March 1994, taking over those responsibilities in England previously discharged by the Arts Council of Great Britain. Since then, Arts Council England's Royal Charters has been amended three times in 2002, 2008 and 2011. However the objects of Arts Council England have remained unchanged throughout this period except for the fact that the remit of Arts Council England was broadened in 2011 to include some of the responsibilities of the Museums, Libraries and Archives Council. The current objects of the Arts Council as stated in the Royal Charter are to:

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

To achieve these objects, Arts Council England invests in, develops and champions artistic and cultural experiences that enrich people's lives.

Arts Council England works at arm's length from government and has the status of a non-departmental public body. As such, it is regulated in accordance with a Management Statement, Financial Memorandum and Funding Agreement issued by the Secretary of State which is being replaced from April 2012 with a

Management Agreement. In addition, as a registered charity and a chartered body, Arts Council England is subject to a range of obligations and accountabilities set out in regulations and law. We prepare our accounts for grant-in-aid and Lottery separately to comply with accounts directions issued by the Secretary of State and Charity Commission regulations.

Governance structure, roles and responsibilities

National Council is the non-executive board of Arts Council England. Council members, as charity trustees, retain overall responsibility for the work and conduct of the organisation. This includes responsibility for ensuring the achievement of Arts Council England's objectives, as set out in the Royal Charter.

National Council has established nine regional councils to assist it in developing, championing and investing in the arts and culture in each English region.

In 2010, national Council delegated responsibilities for a number of its functions to three standing committees – Arts Policy Committee, Arts Investment Committee and Performance and Audit Committee. A summary of the terms of reference of these committees are set out below. Each committee is chaired by a member of national Council and reports its activities to the next meeting of national Council. Records of all meetings of national Council and its committees are maintained by the Arts Council's governance team or regional offices.

National Council has also established:

- a Remuneration Committee to oversee the pay, performance and conditions of senior staff. A report from the Remuneration Committee is set out on pages 25 to 28
- a Museums Accreditation Committee
- a Museums, Libraries and Archives Designation Panel
- an Acceptance in Lieu Panel to undertake roles related to its new cultural property, museums and libraries responsibilities

National Council has delegated responsibilities for implementation and operational matters to the Chief Executive and Executive Board.

The Chief Executive has been authorised by the national Council to undertake the day-to-day administration and management of the business and staff of the organisation. The Chief Executive is responsible to the

national Council for those matters. The national Council has agreed and issued guidelines to the Chief Executive. The Chief Executive, as the Accounting Officer, is responsible for the Arts Council's overall efficiency and effectiveness and has responsibility for reviewing the effectiveness of the system of internal control. This review is informed by the internal auditors, executive directors within the Arts Council and comments from the external auditors in their management letter and other reports. The Accounting Officer may, on occasions, be required to give evidence to the Public Accounts Committee of the House of Commons.

Written terms of reference and procedures for the Executive Board have been agreed by the Council. The Council has approved the further delegation of powers to a Management Committee. Management Committee is responsible for overseeing the workload and programme of head office operational issues delegated by Executive Board, monitoring organisation-wide financial performance and management issues, taking an overview of HR issues and risk management, and monitoring the strategic funds budget and contingency.

National Council

National Council is responsible for the Arts Council's governance and for setting its mission, overall strategy and three year budgets. The Council considers and approves major matters of policy development, including the overall framework for the strategic delivery of those policies. Its role and responsibilities are clearly outlined in Arts Council England's governance handbook which includes terms of reference for national Council and each of its committees. The handbook is routinely reviewed with changes recommended for national Council's approval as appropriate.

All national Council members are required to act in accordance with the Code of Practice for National and Regional Council Members which is contained in the governance handbook. The code reflects the Nolan principles, which are also contained in the handbook, and both documents are brought to the clear attention of all members during their induction.

National Council has approved a scheme of financial delegations and authorities, which provides a comprehensive scheme for determining an appropriate level of approval or authorisation for financial commitments, which is dependent upon the level of expenditure proposed.

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Council composition

National Council members have a broad range of artform and culture experience and expertise.

National Council consists of 17 members, nine of whom also chair a regional council. Members of our national Council are appointed by the Secretary of State for Culture, Olympics, Media and Sport, except for the national member for London who is appointed by the Mayor of London. National Council members are usually appointed for four years, and may be reappointed for a further term of four years.

The members during 2011/12 are listed in the table opposite.

National Council 2011/12



	Name	Member	First appointed	Second appointment	End of current term
1	Dame Liz Forgan	Chair of the Arts Council	1 Feb 2009		31 Jan 2013
2	Janet Barnes	Member Yorkshire, Chair	1 Feb 2005	1 Feb 2009	31 Jan 2013
3	Jon Cook	Member East, Chair	2 Sept 2008		7 Sept 2012
4	Keith Khan	Member	1 May 2006	1 May 2010	30 April 2014
5	François Matarasso	Member East Midlands, Chair	1 Oct 2005	1 Oct 2009	30 Sept 2013
6	Alice Rawsthorn	Member	27 Feb 2007	1 Feb 2011	31 Jan 2015
7	Anil Ruia	Member North West, Chair	24 Nov 2008		23 Nov 2012
8	Rosemary Squire OBE	Member	26 Jan 2009		25 Jan 2013
9	Alistair Spalding	Member	26 Jan 2009		25 Jan 2013
10	Ekow Eshun	Member	26 Jan 2009		25 Jan 2013
11	Sir Nicholas Kenyon	Member	3 Nov 2009		2 Nov 2013
12	Sheila Healy	Member South West, Chair	4 Jan 2010		3 Jan 2014
13	Peter Phillips	Member West Midlands, Chair	4 Jan 2010		3 Jan 2014
14	Caroline Collier	Member South East, Chair	4 Jan 2010		3 Jan 2014
15	Veronica Wadley	Member London, Chair	1 July 2010		30 June 2014
16	Peter Standfield	Acting Member North East, Chair	1 April 2010		24 May 2011
17	Joe Docherty	Member North East, Chair	25 May 2011		24 May 2015

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Joe Docherty was appointed Chair of the North East Regional Council in May 2011.

Regional councils

National Council values its connection with local artists, local government and arts and cultural organisations. It has established regional councils to provide advice, advocate for the arts and culture and to make some funding decisions in the nine English regions – London, South East, South West, West Midlands, East Midlands, East, Yorkshire, North West and North East.

Regional councils are responsible for supporting and promoting the Art Council's mission and objectives in the region. Each regional council has 15 members except the South East which has 20 members to reflect the larger population of the area. The regional councils meet at least three times a year.

Standing committees

Arts Policy Committee

Decides or advises national Council, on policy for the arts, museums and libraries and makes recommendations to national Council on long-term strategy for Arts Council England. The Committee is chaired by Dame Liz Forgan. Caroline Collier, Joe Docherty, Nicholas Kenyon, and Alice Rawsthorn are members. The Committee meets four times a year or as needed.

Arts Investment Committee

The Arts Investment Committee oversees the implementation of investment and resource strategies and makes investment and operational decisions on behalf of national Council. The committee is chaired by Dame Liz Forgan. Janet Barnes, François Matarasso, Veronica Wadley, Jon Cook, Alistair Spalding and Keith Khan are members. The committee meets six times a year or as needed.

Performance and Audit Committee

This committee undertakes a scrutiny function for the Arts Council. It reviews the performance of the Arts Council across the full range of its business and operations, making recommendations for continuous improvement. In addition it performs the functions required of a traditional audit committee, advising national Council and the Accounting Officer on matters of internal and external audit. The members of the committee during 2011/12 were Anil Ruia (Chair), Sheila Healy, Peter Phillips, Rosemary Squire and Ekow Eshun. There are also three independent members – David Carter and, from 1 January 2012, Christopher Yates and Nicholas Humby. The committee meets four times a year.

Executive Board

The Executive Board is Arts Council England's strategic and executive decision-making body. National Council has approved the delegation of powers for delivery of the agreed policies and strategies to the Executive Board. The Executive Board held 12 formal business meetings in the year as well as a number of away days. Executive Board may establish sub groups to oversee particular projects.

Executive Board

The membership during 2011/12 were:



	Name	Job title
1	Alan Davey	Chief Executive
2	Alison Cole	Executive Director, Advocacy and Communications (on secondment to The Space from 30 November 2011)
3	Laura Dyer	Area Executive Director, Midlands and South West
4	Althea Efunshile	Chief Operating Officer
5	Anupam Ganguli	Executive Director, Resources
6	Paul Leather	Interim Executive Director, Advocacy and Communications (from 1 December 2011)
7	Barbara Matthews	Interim Executive Director, Arts (from 1 November 2011–31 March 2012)
8	Sarah Maxfield	Interim Executive Director, North (from 1 March 2012)
9	Simon Mellor	Executive Director, Arts (from 25 March 2012)
10	Andrew Nairne	Executive Director Arts (to 4 November 2011)
11	Moira Sinclair	Area Executive Director, London
12	Andrea Stark	Area Executive Director, East and South East
13	Jim Tough	Area Executive Director, North (to 7 February 2012)

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Alison Cole was seconded to The Space from 30 November 2011 with Paul Leather appointed to lead the advocacy and communications team in the interim. Whilst Paul Leather attended Executive Board meetings representing the advocacy and communications team from November 2011 onwards, Alison Cole remained a member of Executive Board. Andrew Nairne left the Arts Council in November 2011 and was replaced in the interim by Barbara Matthews until March 2012 when Simon Mellor joined the Arts Council as Executive Director Arts. Jim Tough left the Arts Council in February 2012 and was replaced by Sarah Maxfield.

Management Committee

The Executive Board has established the Management Committee to which it delegates powers and responsibilities related to finance, management, compliance and operations. The Management Committee held 12 formal business meetings during the year. The Chief Operating Officer is the Chair of Management Committee. The Executive Director Resources, Director Investment, Director Art Strategy and Director Human Resources are permanent members. Fixed term members are nominated for one or two years and comprise of an area executive director, three regional directors and an advocacy and communications director or senior manager.

Highlights of National Council Committee Reports

During 2011/12, National Council considered key strategic issues such as:

- integration of museums and libraries functions into the Arts Council
- progress on establishing the new National portfolio of funded organisations
- transfer of responsibility of funding Tyne and Wear Archive and Museums to the Arts Council
- the resilience of the arts sector
- the on-going Arts Council organisation review
- the Arts Council's relationship with local government, one of its major partners

The four standing committees of the Arts Council met regularly throughout the year. The committees submit a report to national Council after each of its meetings. Summaries of the issues covered in the reports made to national Council in 2011/12 are set out as follows:

- reports from the Arts Investment Committee highlighted the specific investment or grant decisions it had made; this included a small number of re-assessments of

applications to join the National portfolio following an internal or independent complaints review. It also highlighted the progress being made on the development of a suite of new strategic funding programmes to support the delivery of the Arts Council's goals

- reports from the Arts Policy Committee highlighted the progress being made on the museums and libraries integration; the work that it oversaw on the implementation of the Arts Council strategy, *Achieving great art for everyone*, which led to the publication of the Arts Council Plan in November 2011; and developments in cultural and musical education for children and young people following the publication of the Henley review and the National Plan for Music Education
- reports from the Performance and Audit Committee covered the full spectrum of its work including: the finalising of the Arts Council annual accounts 2010/11; outcomes of internal audit investigations and health and safety audits; and developments on the new performance management framework

The Remuneration Committee did not submit a report to national Council in 2011/12 but a report on its work was included in the annual accounts 2010/11.

The effectiveness of national Council

The Arts Council has a fully functioning and effective national Council. It is led by a high profile and well respected Chair. Members of its national Council are all acknowledged leaders in their fields. National Council has an appropriate mix of skills and seeks to be representative of the sector and public that it serves.

It has an impressive list of achievements in recent years. They include leading a national debate on the arts which culminated in the publication in 2010 of a new 10-year strategy for the Arts Council and the arts in England. In 2010/11, it was widely-acknowledged for having overseen the introduction of a new open and transparent investment process for the arts. In 2011 it oversaw the transfer of key functions of the Museums, Libraries and Archives Council to the Arts Council, and the launch of a new flagship Renaissance funding programme for regional museums.

Formal arrangements are in place to enable national Council and its committees to discharge their responsibilities effectively with the governance team responsible for servicing all national committee meetings and the regional offices responsible for regional council meetings. Agendas

are agreed in consultation with the Chair to ensure that all relevant items are brought to the attention of national Council. Formal minutes of each meeting and an attendance record of individual Council members are maintained by the Arts Council's governance team.

There is a clear policy on declarations of interests, gifts and hospitality for national and regional council members in the handbook. All interests declared are recorded by the governance team and members are routinely asked to check their register and update as necessary. Declarations of interests are included as an agenda item at all meetings, with members asked to declare any specific interests in the items due to be discussed. We maintain a register of interests of our national Council members, which is available on the Arts Council website and for public inspection by appointment at our Great Peter Street address.

The national Council recognises the importance of ensuring that members, as trustees, are fully briefed and introduced to their role in the organisation. All new trustees are offered an induction. This includes: meetings with the Chief Executive and Chair to discuss the role of the members and functions of Arts Council England; a range of meetings with staff about the policies, strategies and activities of the Arts Council; briefing and discussion on their responsibilities as charity trustees; and the Arts Council's policy on handling conflicts of interests. Members who are also appointed to chair a regional council receive a further induction to that role, led by the relevant regional director.

The Chair of national Council holds appraisal meetings with all council members once every two years. One-to-one meetings between the Chair and all members of national Council were held during the winter/spring 2012.

In 2010 Arts Council England introduced a new non-executive governance structure with three standing committees to enable its members to get closer to the business of the organisation so that they may provide more appropriate scrutiny and support to the executive. A review of the new committee structure was undertaken by the Director, Governance and the outcome was discussed by National Council at its meeting in December 2011. National Council agreed to retain the existing structure pending the outcome of the wide-ranging organisational review which was already underway. During 2011/12 the Council did not undertake specific self-evaluation of its effectiveness, but will consider the need to do so in the future.

Three main areas for improvement about its oversight of the Arts Council were identified.

The first related to the delegation of responsibilities to the three committees. While this had provided opportunities for small groups of national Council members to develop an in-depth understanding of the Arts Council's work and provide robust support and challenge to the Executive, for example during the 2010/11 investment process, it was also noted that the fragmentation of responsibilities across three committees, can make it more difficult for national Council members to maintain an overview of the Arts Council's work. To address this, national Council agreed to increase the frequency of its meetings from three to four meetings a year and is looking at ways to improve its communication with national Council members on action taken in between meetings, pending a more significant review of its governance being undertaken as part of an organisation-wide review.

The second concerned national Council's role in monitoring performance. Arts Council England has established a new performance framework to monitor achievement of the milestones and goals set out in its 10-year strategy, *Achieving great art for everyone*. The role of national Council members in scrutinising performance and holding the Executive to account within that framework is still being defined. It is expected that the Performance and Audit Committee and regional councils will begin to receive regular performance reports in 2012/13.

The third related to the time available in formal council meetings to discuss art and emerging trends in various artforms. It was felt that such matters tended to be discussed informally as they were often crowded out of formal agendas by business decisions about resources and policy developments. It was agreed that additional time should be set aside for discussion of art and culture.

The Executive seeks the views of members of national Council and its committees on the balance, appropriateness and quality of the information and data it receives for decision-making and for assessing the performance of the organisation, and reflects this in improvements made in the presentation of information and data to committees. The Arts Council also undertakes periodic after action reviews of its major investment and decision-making processes, and these reviews incorporate consideration of the effectiveness of decision-making and the information used within those processes.

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Attendance at national Council meetings

The Arts Council's national Council met on four occasions in 2011/12: three ordinary meetings and one away-day. The details of individual members' attendance at those meetings is set out below:

Name	5 July 2011	6 July 2011	13 December 2011	22 March 2012	Total
Dame Liz Forgan	✓	✓	✓	✓	4
Janet Barnes			✓	✓	2
Caroline Collier	✓	✓	✓	✓	4
Jon Cook	✓	✓	✓	✓	4
Joe Docherty	✓	✓	✓	✓	4
Ekow Eshun	✓			✓	2
Sheila Healy	✓	✓	✓	✓	4
Sir Nicholas Kenyon	✓	✓	✓	✓	4
Keith Khan	✓	✓		✓	3
François Matarasso	✓	✓	✓	✓	4
Peter Phillips	✓	✓	✓	✓	4
Alice Rawsthorn	✓	✓	✓		3
Anil Ruia	✓	✓	✓	✓	4
Alistair Spalding	✓	✓	✓	✓	4
Rosemary Squire	✓	✓	✓	✓	4
Veronica Wadley	✓	✓	✓	✓	4

Statement of compliance with corporate governance code and departures

The Arts Council is a non-departmental public body and a charity but it is fully compliant with relevant principles set out in *Corporate governance in central government departments: Code of good practice 2011*. It has an effective national Council which provides leadership for the Arts Council's work. The national Council is appointed by the Secretary of State for Culture, Olympics, Media and Sport who seeks to ensure that the national Council has an appropriate range of skills and experience. The responsibilities of board members are set out in a code of practice. The national Council has arrangements in place to discharge its duties effectively and there are effective arrangements for governance, risk management and internal control.

Grants to locally governed organisations

All grants awarded by the Arts Council are subject to funding agreements and standard conditions. We satisfy ourselves that the relevant conditions are met before payments are made.

Internal control including risk

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 Arts Council England's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Arts Council England for the year ended 31 March 2012 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

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

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

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

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

Risk

During 2011/12, Arts Council England continued to manage risk at the strategic, operational, and individual project, programme and activity levels; and revise and update its risk management policies and procedures.

The Arts Council defines risk as an event or activity which affects the achievement of the Arts Council's objectives. Risks arise from threats to business activity and from the failure to realise opportunities.

Strategic risk

Strategic risks are defined as those that adversely affect the Arts Council's ability to achieve its strategy, *Achieving great art for everyone*. They also often have an adverse effect on the reputation of the organisation externally.

An annual strategic risk workshop is held to identify and assess strategic risks and risks identified are then agreed by Executive Board and assigned to an Executive Board lead and risk owner or 'manager' who will manage mitigating actions and controls thereafter.

Progress on implementing relevant controls and mitigating actions is reported on a quarterly basis to the Management Committee and Performance and Audit Committee. Risk is also a standing item at each of the monthly Management Committee meetings. A quarterly headline report on risk management is provided to Executive Board, and an annual update is formally reported to the national Council in the annual performance and audit committee report.

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2011/12 strategic risks

The following clusters of strategic risks were identified for 2011/12:

Cluster 1: the risk that the 50 per cent cut in the Arts Council's administration budget fundamentally undermines the ambition, quality and sustainability of the arts sector and the Arts Council.

The risk is being mitigated by:

- reviewing and testing our core purpose to help model our future structure, working with the arts and cultural sector, and with staff, to do this
- engaging and empowering our staff in the design of the new organisational structure
- entering into a dialogue with Department for Culture, Media and Sport (DCMS) to ensure they understand the nature of this risk

Cluster 2: the risk that the changes within DCMS lead to unrealistic or an unclear set of expectations about the role and internal capacity of the Arts Council.

The risk is being mitigated by:

- maintaining close relationships with DCMS
- building relationships with other government departments, looking for appropriate opportunities to gain influence within the context of our strategic framework *Achieving great art for everyone*
- clarifying the nature of our relationship with DCMS, agreeing with them how we will judge the success of our relationship, and keeping strategic priorities under regular review

Cluster 3: the risk that the reduction in grant-in-aid as a proportion of Arts Council funding and our greater reliance on Lottery income, constrains our ability to deliver our strategic objectives.

The risk is being mitigated by:

- contributing to a shared agenda with other Lottery distributors for use of Lottery funds
- articulating how we are aligning the two funding streams
- ensuring there is a clear distinction between the valid use of grant-in-aid and of Lottery funding
- capturing metrics on achievements and continuing to maintain strong financial controls
- ensuring a fit for purpose, sustainable and coherent design for funding programmes

Cluster 4: the risk that the integration of museums and libraries into the Arts Council is not successful, impacting on the reputation of the Arts Council and on our ability to deliver across a wider cultural footprint.

The risk is being mitigated by:

- agreeing the terms of our role with DCMS and clarifying assumptions around the implications of our taking on museums and libraries functions with DMCS
- using our strategic framework and its companion document *Culture, knowledge and understanding: great museums and libraries for everyone* as the basis for affirming our role, and as the framework for consulting with the wider cultural sector
- clear and frequent communication channels with stakeholders
- sustained communication with our own staff about the integration and our role
- appropriate induction of new museums and libraries staff
- ensuring that integration of new museums and libraries responsibilities is owned by the whole organisation

Cluster 5: the risk that arts and culture is not seen as relevant in a challenging economic and social context, impacting on our ability to argue for appropriate resources in the next spending review.

The risk is being mitigated by:

- making the case for arts and culture relevant to the social and economic context
- maintaining an impactful advocacy programme
- focusing on grant-in-aid and the benefits to the arts and culture of continued investment, supported by metrics and evidence
- finding a way to evaluate and express the intrinsic value of arts and culture
- focusing on the relevance of arts and culture to local authorities

Cluster 6: the risk that we are unable to maintain the goodwill in the sector that we have built up, impacting on our ability to deliver the aims set out in *Achieving great art for everyone* in partnership with the sector.

The risk is being mitigated by:

- ensuring we maintain an active and developing stakeholder engagement programme and regular communication with partners

- successfully integrating museums and libraries
- maintaining effective working relationships with government whilst protecting autonomy

Cluster 7: the risk that National portfolio organisations are unable to deliver a wider leadership role.

The risk is being mitigated by:

- sharing and developing our thinking on the relationship with the National portfolio organisations so that they 'own' leadership
- being realistic about what National portfolio organisations can do with the resources they have; a negotiated process with clear overview
- being clear internally and externally about how we will measure or judge success and put measures in place to share good practice
- reviewing the risks of the portfolio and individual grants to ensure our funded organisations are robust and capable of delivering
- sharing good practice

Operational risk

Operational risks may not necessarily affect the Arts Council's ability to achieve its strategy. They are lower level risks that are particular to a region, area, head office department, activity, process, programme or project.

Regions, areas and head office departments identify operational risks as part of their annual planning process, including risks identified through investment decisions. Programme and project risks are identified as part of the planning process and the control actions identified will be part of the project, programme or activity implementation plan. They are monitored and reported locally at regular management team meetings.

Where an operational risk becomes a significant or major risk that could affect the whole organisation or becomes so severe that it could impact upon delivery of our strategy, the risk is 'escalated' for consideration as a strategic risk by Management Committee.

Audit

The annual programme of internal audit work is carried out by an external firm of accountants to standards defined in the Government Internal Audit Standards. The work of internal audit is informed by the risk register, an assessment of the assurance requirements, particularly on the most significant risks facing Arts Council England, and the key day-to-day processes and systems in place.

The annual internal audit plan is based on this analysis. It is endorsed by the Executive and approved by the Performance and Audit Committee. The internal auditors receive all Performance and Audit Committee papers and attend the audit part of all Performance and Audit Committee meetings. They provide periodic progress reports including the findings of follow-up reviews, building up to an annual report on internal audit activity. This annual report includes the internal auditors' opinion on the overall adequacy and effectiveness of the systems that internal audit have reviewed. The Performance and Audit Committee reviews and discusses the progress report and the annual assurance report. The internal and external auditors meet with the Performance and Audit Committee before every meeting with no officers present.

Internal audit services have been provided by Deloitte since April 2009.

Review of effectiveness of internal control

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

Assessment of the effectiveness of internal control during 2011/12

Progress in achieving objectives set in the strategic corporate plan is monitored by the Executive Board and the national Council.

Throughout 2011/12 we monitored our strategic, operational and project risks in accordance with our risk management policy. We also continued to revise and refine our risk management policies and procedures.

For 2011/12 internal auditors reported that they were satisfied that sufficient internal audit work has been undertaken to allow them to provide a conclusion of 'adequate and effective assurance' on the design,

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adequacy and effectiveness of the system of internal control. They arrived at this conclusion having reviewed the following processes:

- National portfolio organisation review phase 1
- information technology follow-up
- PAYE and NI compliance review
- business continuity planning
- planning and performance management
- new Lottery grant programmes
- Renaissance
- financial management
- follow-up on previous years' recommendations
- regional visit – London
- regional visit – East Midlands
- regional visit – East
- risk management

Where weaknesses have been identified during the course of internal audit's work, these are reported to the Performance and Audit Committee and an action plan agreed with management to implement the recommendations agreed as part of this process.

Significant internal control issues

No significant issues have come to light during the year. In 2010/11 a significant control issue was identified in relation to the de-commitment of grants. Steps taken to improve the robustness of the governance of the associated decision making process included a review and subsequent publication of the levels of financial delegation, which has provided a general reminder of requirements.

Matters of interest

Changes to our organisational structure during 2011/12

In October 2011 responsibility for the museums and libraries activities previously managed by the Museums, Libraries and Archives Council (MLA) was transferred to Arts Council England. The year 2011/12 is a transition year during which Arts Council England took on responsibility for the Cultural Properties Unit and for some of the MLA's grant giving activities.

This meant that an additional 53 posts were added to the Arts Council's structure and 37 staff transferred from MLA to the Arts Council on 1 October 2011, with other additional posts filled through external recruitment. Pension liabilities that have already accrued pertaining to transferred staff will remain within the Principal Civil Service Pension Scheme, however Arts Council England will be required to provide for any future liabilities under the Arts Council Retirement Plan.

Our approach to human resources

In 2011, the organisation launched a new four year people and culture strategy to support the strategic aims of the Arts Council identified in *Achieving great art for everyone* and to continue the journey to an improved organisational culture which began at the time of the last major organisation review in 2009/10. This strategy identifies four interconnected pillars: collaboration; leadership; talent and resilience; and adaptability, which mirror internally the aspirations the Arts Council has for arts and cultural organisations and artists. We also believe it is important to develop the talent and leadership capability of our own people and to promote effective collaboration, resilience and adaptability to enhance our own organisation's capability to deliver.

An example of a strategic organisational development intervention during the year is the Leadership Challenge programme aimed at current leaders and senior managers. It has used a particularly innovative blend of 360-degree feedback reports, development centres, taught modules and action learning sets to promote enhanced leadership capability. This has led to those attending the programme to play a major role in the early stages of the organisation review which is currently underway. We plan to offer a similar programme to middle and aspiring managers during 2012/13. As a result of programmes like this and other positive people and cultural developments, the organisation is now

planning to aim for a higher, silver level Investors in People recognition by mid 2012.

Following the major restructure of the organisation in 2009/10, we were pleased to be shortlisted for two management of change awards by national human resources bodies, and being highly commended for the Most Successful Change Management Programme in the HR Excellence Awards.

Internally, there continues to be arrangements to promote effective communication, involvement and consultation with staff. Executive Board, Management Committee and national Council decisions are disseminated through local team briefings, our intranet and regularly emailed updates from the Chief Executive, Chief Operating Officer and others, supplemented from time to time by organisation-wide, region-wide and departmental meetings. Employee 'pulse' surveys, sampling staff opinion on the organisation review process and other significant issues for the Arts Council take place at least every six months, with the findings and action to address any concerns discussed at senior management level. Voluntary staff turnover and sickness absence rates, indicators of organisational 'health', remain low, at 8 per cent and 1 per cent respectively in 2011/12 (2010/11: 8 per cent and 1.7 per cent respectively). Another positive indicator is the low level of formal employee relations cases during the year, running at 1.5 per cent of the total headcount in 2011/12 (2010/11: 1.6 per cent).

More formally, Arts Council England recognises the trade unions Unite and Prospect (for former MLA staff) for consultation and collective bargaining, with well-established consultative arrangements. The National Joint Consultative and Negotiating Committee (NJCNC) handles negotiations about employee reward and benefits, employment terms and policies together with consultation on restructuring proposals for the whole organisation. The NJCNC is supported by Local Joint Consultative and Negotiating Committees currently in each of the nine workplaces.

In terms of representation levels of some diverse groups within the workforce, these have dropped slightly during the year, as our headcount expanded. The proportion of our current staff who classify themselves as lesbian, gay, bisexual or transgender remains at 9 per cent (2010/11: 9 per cent) and the proportion of disabled staff dropped to 3.7 per cent (2010/11: 4.0 per cent). The proportion

of our staff who classify themselves as Black, Asian or other minority ethnic has dropped to 11.7 per cent (2010/11: 12.5 per cent). These figures will be kept under review and efforts made to ensure we maintain a diverse workforce through recruitment over the coming year. We were pleased to note that this year we were placed 75th in the Stonewall Equality Index of Top 100 Employers committed to promoting equality for lesbian, gay, bisexual and transgender employees.

Objectives and activities for the public benefit

The Royal Charter is at the core of our mission. This mission, *Achieving great art for everyone*, represents what Arts Council England is for, and reflects why John Maynard Keynes set up the Arts Council in 1946, 'to give courage, confidence and opportunity to artists and their audiences'.

Information about our strategic framework, *Achieving great art for everyone* including our goals and priorities and our activities to achieve these, and our funding programmes can be found on pages 10 to 19.

Equality and diversity

In 2011/12 our work on diversity and equality was focused around a different approach which we have called the Creative Case for Diversity and equality in the arts. Our diversity and equality work in previous years has focused on race, disability and gender, largely driven by the general and specific duty requirements under the appropriate legislation. It should be noted however, that for race equality we did not have a legal requirement to produce a race equality scheme, but did so because our standard went beyond legal compliance, and aspired towards best practice. We continue to hold this approach as our benchmark for the production of our new equality scheme for 2012–15. Both the equality scheme and the creative case have a singular objective, which is to play a significant part in our 10-year strategy, *Achieving great art for everyone*.

In September 2011 the fifth and final decibel Performing Arts Showcase was held in Manchester. The showcase successfully achieved its curatorial objectives to show the best work by modern contemporary artists with diverse practice. The new equality scheme will aim to attract organisations, perhaps consortia, to continue this valuable work.

Also in Manchester, as part of the decibel week, the Arts Council held the Creative Case Symposium to engage and seek the involvement of the arts community in our

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new initiative. With over 500 people attending and 1,000 tweets during the day, delegates and observers online endorsed our new approach whilst at the same time emphasising the need to see appropriate actions to match the intentions. More information on both the decibel showcase and the symposium can be found on the Arts Council's website.

Organisation review

The government's 2010 spending review required a reduction in our grant-in-aid administration costs equivalent to 50 per cent by 2014/15. The decrease in funding is phased over the current settlement period with the most significant cuts in 2013/14 and 2014/15. We cannot look at grant-in-aid administration separate to Lottery administration because our staff work across the two funding streams. Therefore we are taking the opportunity to review our whole operation.

The objectives of the review are to:

- reduce our administration costs to the level agreed with DCMS
- explore and implement all opportunities to improve our organisational performance
- meet the expectations and needs of all our stakeholders
- preserve our vision and values – to achieve our 10-year strategy and vision for the arts and culture as defined in *Achieving great art for everyone* and *Culture, knowledge and understanding: great museums and libraries for everyone*
- put in place an Arts Council that is 'future fit'

It is planned that the new structure will be implemented from 1 July 2013.

Subsidiary undertakings

Artco Trading Limited, registered address Central Square, Forth Street, Newcastle upon Tyne NE1 3PJ, is a wholly owned subsidiary of Arts Council England with share capital of two ordinary shares at £1 each. It runs the Arts Council's two interest-free credit schemes, Own Art and Take it away, for the purchase of works of art and musical instruments respectively.

Grant-in-aid funding of £725,000 (2010/11: £1,000,000) for these two schemes goes directly to Artco Trading Limited from DCMS. As at 31 March 2012, there are three Arts Council employees on the Artco Trading Limited board. In addition the board is currently chaired by the Executive Director Resources. So far as the Chief Executive

is aware there is no relevant audit information of which the National Audit Office is unaware.

Ministerial directions

There were no ministerial directions issued during 2011/12 which affected Arts Council England.

Better Payment Practice Code

We attempt to abide by the Better Payment Practice Code, and in particular pay bills in accordance with contract. Invoices are normally settled within our suppliers' standard terms, usually 30 days. In 2011/12, 94 per cent of undisputed grant-in-aid invoices were paid within 30 days (2010/11: 89 per cent).

Public sector information

On 1 April 2009 Arts Council England became a provider of official statistics under the extended scope of the Statistics and Registration Act 2008.

This means that when the Arts Council produces, manages and disseminates official statistics we strive to abide by the Code of Practice for Official Statistics published by the UK Statistics Authority in January 2009.

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

Data security and personal data

There have been no incidents of lapse of data security or loss of personal data during the year.

Principal advisers

Banker

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

Auditor

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

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

Hyman Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Solicitors

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

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Financial review

Arts Council England receives grant-in-aid from the Department for Culture, Media and Sport (DCMS) and is one of the bodies designated to distribute funds from the National Lottery by the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998).

DCMS provided grant-in-aid of £394 million for the year (2010/11: £439 million). This included £2 million of £7 million returned from reserves given back to DCMS in 2010/11, £12 million capital funds to allocate as grants and £4 million relating to the costs of the integration and operation of museums and libraries' responsibilities incurred in 2011/12. In addition we received £6 million (2010/11: £7 million) of grants and donations for specific strategic projects from a number of organisations detailed in note 3 of these accounts.

During the year we awarded grants to our regularly funded arts organisations of £325 million (2010/11: £351 million). In addition we spent £59 million (2010/11: £89 million) through grants and direct expenditure on strategic initiatives.

The statement of financial activities funded from grant-in-aid shows net incoming resources for the year of £788k (2010/11: net outgoing resources of £15,776k) on unrestricted funds after exceptional items. This surplus is mainly due to the difficulty of ascertaining the administration recharge to Lottery until the end of the year. This recharge is a percentage depending on the actual number and volume of Lottery transactions which were higher than forecast. There was also an underspend on minor building works which progressed more slowly than planned.

Consequently at 31 March 2012, Arts Council England had unrestricted reserves of £3.2 million (2010/11: £1.7 million) together with £1.7 million (2010/11: £1.5m) restricted reserves. Our policy on reserves has been to ensure that we hold sufficient funds to maintain liquidity, to cover unforeseen short-term cash requirements and to cover planned future expenditure. We review this policy and our reserves position annually. However, our use of reserves is restricted by the government's budgetary controls, which has meant that we would require DCMS approval to use our reserves if it is necessary to do so.

In October 2010, following the spending review, DCMS announced that our funding for the financial years 2011/12, 2012/13, 2013/14 and 2014/15 would be

£387.7 million, £359.2 million, £351.6 million and £349.4 million respectively. Over this period the resource element of the budget allocation is split for the first time into programme and administration sub totals. The administration element in the years 2011/12, 2012/13, 2013/14 and 2014/15 will be £22.6 million, £21.6 million, £16.6 million and £12.2 million respectively. We recognise that it will be challenging to achieve the significant savings in our administration budget.

Our funding for 2012/13, 2013/14 and 2014/15 has been increased to include the museums and libraries funding by £46.4 million, £45.8 million and £45.8 million respectively for the Renaissance programme and core costs. Of these amounts £2.5 million in each year has been designated as administration.

Full details in relation to financial instruments are given in note 25 to the grant-in-aid accounts.

Fees paid to the National Audit Office for grant-in-aid audit services during 2011/12 were £65,500 (2010/11: £73,443).

Alan Davey
Chief Executive
3 July 2012

Dame Liz Forgan
Chair
3 July 2012

Consolidated activities

We prepare separate accounts for our grant-in-aid and Lottery activities as required by the Secretary of State. We do not prepare a full set of consolidated accounts due to the differing accounting policies we are required to follow under the two separate accounts directions. However, to give a better understanding of our activities, we have prepared the following summary results for the two accounts combined for the 2011/12 and 2010/11 financial years.

	2011/12 £000s	2010/11 £000s
Income		
Grant-in-aid income	393,602	438,523
Share of the National Lottery Distribution Fund	210,500	179,728
Investment returns on the Distribution Fund	1,515	2,092
Other income	7,742	7,253
Total income	613,359	627,596
Expenditure		
Net grant-in-aid grant commitments	368,872	425,709
Other grant-in-aid arts expenditure	6,398	9,431
Net lottery grant commitments	178,943	83,886
Contribution to Olympic Lottery Distribution Fund	30,276	30,276
Support costs	39,990	38,631
Total expenditure	624,479	587,933
Net (outgoing)/incoming resources	(11,120)	39,663
Profit on revaluation of fixed assets and loss on disposal of heritage assets	6,572	4,394
Gain/(loss) on revaluation of NLDF balance	2,362	(246)
	8,934	4,148
Net movement in funds	(2,186)	43,811
Consolidated reserves brought forward	143,909	100,098
Consolidated reserves carried forward	141,723	143,909

The above figures for net Lottery grant commitments include an accounting policy adjustment to reflect grant-in-aid accounting policies (note 1). This has the effect of increasing net grant commitments compared with the figures in the Lottery distribution accounts by £19.5 million in 2011/12 (2010/11: decrease of £0.6 million).

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Statement of trustees' and Chief Executive's responsibilities

Under the Royal Charter, the Arts Council is required to prepare a statement of accounts for the financial period in the form and on the basis directed by the Secretary of State for Culture, Olympics, Media and Sport, with the consent of HM Treasury. The accounts are to be prepared on an accruals basis and to show a true and fair view of the Arts Council's state of affairs at the year end and of our incoming resources and resources expended and cash flows for the financial year. They are also prepared so as to comply with the Charities Statement of Recommended Practice (revised 2005). In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction* issued by the Secretary of State which sets out accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual 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 Arts Council England will continue in operation.

The accounting officer for DCMS has designated the chief executive as accounting officer for the Arts Council. The responsibilities of the accounting officer, which include the responsibility for the propriety and regularity of the finances for which the chief executive is answerable, for keeping of proper records, and for safeguarding the Arts Council England's assets, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by HM Treasury.

Alan Davey
Chief Executive
3 July 2012

Dame Liz Forgan
Chair
3 July 2012

*a copy of the Accounts Direction is available from the Accounting Officer, Arts Council England, 14 Great Peter Street, London SW1P 3NQ.

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Independent Auditor's Report to the trustees of Arts Council England

I have audited the financial statements of the Arts Council England for the year ended 31 March 2012. These comprise the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Trustees, Chief Executive and auditor

As explained more fully in the Statement of Trustees' and Chief Executive's Responsibilities, the Trustees and Chief Executive as Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

My responsibility is to audit and express an opinion on the financial statements in accordance with relevant legal and regulatory requirements. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Arts Council England's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustees and Chief Executive; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Review and highlighted information to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the incoming and outgoing resources have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Arts Council England's affairs as at 31 March 2012 and of the incoming resources and application of resources for the year then ended; and
- the financial statements have been properly prepared in accordance with the direction made by the Secretary of State under the Royal Charter.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Amyas C E Morse

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

9 July 2012

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Statement of financial activities For the year ended 31 March 2012

	Note	Unrestricted funds £000s	Restricted funds £000s	Total 2011/12 £000s	Total 2010/11 £000s
Incoming resources					
Incoming resources from generated funds					
Voluntary income	2	381,679	11,923	393,602	438,523
Investment income	2	54	0	54	85
Incoming resources from charitable activities	3	517	5,812	6,329	6,757
Total incoming resources		382,250	17,735	399,985	445,365
Resources expended					
Charitable activities					
Charitable activities	4	380,914	17,521	398,435	460,455
Governance costs	4	762	0	762	686
Total resources expended		381,676	17,521	399,197	461,141
Net incoming/(outgoing) resources for the year	8	574	214	788	(15,776)
Loss on disposal of heritage fixed assets	9	(40)	0	(40)	0
Gain on revaluation of tangible fixed assets	9	6,612	0	6,612	4,394
Net movement in funds		7,146	214	7,360	(11,382)
Balance brought forward at 1 April		110,008	5,034	115,042	126,424
Transfers		(51)	51	0	0
Balance carried forward at 31 March 2012		117,103	5,299	122,402	115,042

The notes on pages 65 to 91 form part of these accounts.

Balance sheet As at 31 March 2012

	Note	Unrestricted funds £000s	Restricted funds £000s	Total 31 March 2012 £000s	Total 31 March 2011 £000s
Heritage assets					
Works of art	9	105,089	3,595	108,684	101,778
Fixed assets					
Tangible assets	9	8,599	0	8,599	9,780
Current assets					
Debtors	11	1,256	2,625	3,881	3,023
Due from Arts Council Lottery accounts		418	0	418	2,027
Grants paid in advance	12	0	0	0	436
Cash at bank and in hand	23	18,085	259	18,344	16,153
		19,759	2,884	22,643	21,639
Creditors: amounts falling due within one year					
Grants outstanding		9,926	869	10,795	12,350
Creditors	13	3,210	311	3,521	3,574
Provisions for liabilities and charges	14	3,208	0	3,208	2,231
		16,344	1,180	17,524	18,155
Net current assets		3,415	1,704	5,119	3,484
Total assets less current liabilities		117,103	5,299	122,402	115,042
Represented by income funds					
Unrestricted fund	20	3,139	0	3,139	1,671
Restricted fund		0	1,704	1,704	1,539
Represented by capital funds					
Designated fund	20	105,365	0	105,365	98,557
Donated asset reserve		0	3,595	3,595	3,495
Capital reserve		8,599	0	8,599	9,780
		117,103	5,299	122,402	115,042

The notes on pages 65 to 91 form part of these accounts.

Alan Davey
Chief Executive
3 July 2012

Dame Liz Forgan
Chair
3 July 2012

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Cash flow statement For the year ended 31 March 2012

	Note	2011/12 £000s	2010/11 £000s
Operating activities			
Funds received from the Department for Culture, Media and Sport		393,627	438,523
Other cash receipts/(payments)		5,446	7,949
Grants paid to arts organisations and other bodies		(369,991)	(429,280)
Cash paid to and on behalf of employees		(23,428)	(23,481)
Other cash payments		(2,278)	(11,705)
Net cash inflow/(outflow) from operating activities		3,376	(17,994)
Interest received on short-term cash deposits		54	85
Net cash inflow from returns on investments		54	85
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,239)	(1,769)
Sale of tangible fixed assets		0	0
Net cash (outflow) from capital expenditure		(1,239)	(1,769)
Increase/decrease in cash	21/22/23	2,191	(19,678)

The notes on pages 65 to 91 form part of these accounts.

Notes to the grant-in-aid accounts

1 Accounting policies

a) Basis of accounts

We have prepared these accounts in accordance with the Accounts Direction issued by the Secretary of State for Culture, Olympics, Media and Sport in May 2002. They meet the requirements of the Companies Acts, and of the Statements of Standard Accounting Practice/ Financial Reporting Standards issued and adopted by the Accounting Standards Board, so far as those requirements are appropriate. The accounts are presented in accordance with the Statement of Recommended Practice (SORP) issued by the Charity Commission in 2005.

The accounts are prepared on a historic cost basis. The Accounts Direction requires the inclusion of fixed assets at their value to the business by reference to current costs. However, for 2011/12, the values of fixed assets expressed in current cost terms, with the exception of the works of art collection and freehold land and buildings, are not materially different to historic costs. Therefore, these fixed assets are shown at historic cost on the balance sheet. Freehold land and buildings are revalued every five years to current market value and are included at this valuation on the balance sheet.

Separate accounts have been prepared for the Arts Council's Lottery activities, in accordance with the directions issued by the Secretary of State, which follow different accounting policies. Grant commitments are recognised in the Lottery accounts once grant offers are accepted. Grant commitments in the grant-in-aid accounts are recognised when the offer is issued. Consequently, in the opinion of the trustees, it is not possible to prepare full consolidated accounts covering both grant-in-aid and Lottery activities as it would not provide a fair view of the application of the Arts Council's resources. In this respect, we have not been able to comply with paragraph 381 of the SORP issued by the Charity Commission in 2005. However, we have included a summary of the consolidated figures for our combined activities and an estimate of the impact of the change in accounting policy on the Lottery accounts in the management commentary on page 57.

We have a fully owned subsidiary company, Artco Trading Limited, as detailed in note 26 to the accounts. We do not consider that this company is material enough to require us to produce separate consolidated accounts. Therefore, the grant-in-aid accounts include this subsidiary company's assets and liabilities.

b) Incoming resources

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

c) Expenditure

Grant expenditure is charged to the statement of financial activities in the year in which funded activities take place. Any amounts unpaid from grants at the year end are shown in the balance sheet as creditors. Grant commitments made in the year relating to future years' activity as disclosed in note 15 of the accounts are not charged to the statement of financial activities, as we cannot recognise grant-in-aid income to match against these commitments before we have received it. The trustees do not believe this would provide a true and fair view of the Arts Council's resources. In this respect, we have not been able to comply with paragraph 159 of the SORP issued by the Charity Commission in 2005. Any advance payments to funded organisations in anticipation of grants to be charged in the following financial year are shown as assets in the balance sheet.

Expenditure classified as activities undertaken directly relates to expenditure supporting the arts other than grants. This includes the cost of delivering major arts policies and projects. Support costs comprise operational expenditure, including staff costs, directly attributable to charitable activities.

Governance costs comprise an apportionment of general administration expenditure based on an estimate of staff time and direct costs such as the cost of administering national Council and external and internal audit.

d) Depreciation and fixed assets

Tangible fixed assets excluding heritage assets

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

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

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A full year's depreciation is provided in the year of an asset's acquisition, and none in the year of its disposal. Software costs are written off in full in the year of acquisition. All individual assets valued greater than £2,000 are capitalised, except our freehold interests in the Southbank Centre and National Theatre as described in notes 18 and 19 of these accounts.

Heritage assets

The Arts Council has three collections of heritage assets which are held in furtherance of our mission to champion, develop and invest in artistic experiences that enrich people's lives. The collections are accounted for as follows:

Works of art

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

Poetry collection and film collection

The trustees do not consider that reliable cost or valuation information can be obtained for the poetry collection and film collection. This is because of the diverse nature of assets held and the lack of comparable market values. The Arts Council therefore does not recognise these assets in the balance sheet.

e) Leases

Costs in respect of operating leases are charged to the statement of financial activities on a straight line basis over the life of the lease.

f) Taxation

Arts Council England, as a registered charity (1036733), is considered to pass the tests set out in paragraph 1 schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable trust for UK income tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by part 10 Income

Tax Act 2007 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. No tax charge has arisen in the year.

g) Pensions

We provide a defined benefit pension scheme for our employees (the Arts Council Retirement Plan 1994) and are a participating employer in the West Yorkshire Pension Fund. However, as these are multi-employer schemes, we cannot identify our share of the underlying assets and liabilities. We have therefore accounted for the schemes as if they were defined contribution schemes, in accordance with FRS17 *Retirement Benefits*, with the costs of the schemes charged to the statement of financial activities.

h) Apportioned costs

Arts Council England incurs indirect costs which are shared between activities funded from grant-in-aid and activities funded from the National Lottery. We are required to apportion indirect costs properly between the two areas on a full cost basis in accordance with good accounting practice.

The notes to the statement of financial activities are shown before costs apportioned to the Arts Council Lottery distribution accounts.

In accordance with the SORP 2005 we have apportioned support costs between our different activities. We have used an estimate of staff time spent on each activity to do this.

i) Change in accounting policy

There has been no change in accounting policy in the period.

j) Financial instruments

We have adopted FRS 25, 26 and 29 on financial instruments.

2 Voluntary and investment income

	Unrestricted funds £000s	Restricted funds £000s	Total 2011/12 £000s	Total 2010/11 £000s
Voluntary income				
Cash grant-in-aid voted by Parliament and paid in full				
Core funding – revenue	381,679	0	381,679	435,563
Ringfenced funds	0	11,923	11,923	2,960
Grant-in-aid as shown in the statement of financial activities	381,679	11,923	393,602	438,523

Investment income relates to interest received on an interest bearing deposit account.

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3 Incoming resources from charitable activities	Unrestricted funds £000s	Restricted funds £000s	Total 2011/12 £000s	Total 2010/11 £000s
Grants, sponsorship and donations received				
Local authorities	0	17	17	685
Non-government bodies	0	3,998	3,998	3,485
Other central Government bodies	298	1,662	1,960	2,207
Other grants, sponsorship and donations	10	111	121	112
Sundry	209	24	233	268
Net incoming/(outgoing) resources for the year	517	5,812	6,329	6,757
<i>Grants, sponsorship and donations are analysed as follows:</i>				
Local authorities				
Greater London Authority	0	38	38	685
London Borough of Lewisham	0	2	2	0
London Borough of Southwark	0	4	4	0
London Development Agency	0	(27)	(27)	48
Non-government bodies				
Legacy Trust UK	0	3,938	3,938	3,291
Screen South	0	60	60	194
Other central Government bodies				
Arts Council of Northern Ireland	0	0	0	22
Arts Council of Wales	0	0	0	69
Advantage West Midlands	0	236	236	632
Department for Culture, Media and Sport	298	402	700	383
Department for Education	0	0	0	600
Department of Communities and Local Government	0	255	255	0
East Midlands Development Agency	0	11	11	122
English Heritage	0	0	0	80
London Organising Committee of the Olympic Games	0	670	670	50
Museums, Libraries and Archives Council	0	53	53	54
North West Development Agency	0	31	31	0
Scottish Arts Council/Creative Scotland	0	0	0	43
South East England Development Agency	0	0	0	30
South West Regional Development Agency	0	4	4	34
UK Film Council	0	0	0	40
Other grants, sponsorship and donations	10	111	121	112
	308	5,788	6,096	6,489

4a) Charitable activities	Activities undertaken directly £000s	Grant funding of activities £000s	Net support costs £000s	Total 2011/12 £000s	Total 2010/11 £000s
Regularly funded organisations	0	324,592	9,291	333,883	361,778
Strategic development, communications and advocacy	4,779	41,689	12,307	58,775	88,911
Other	1,619	4,365	1,567	7,551	11,381
Lapsed and revoked commitments	0	(1,774)	0	(1,774)	(1,615)
	6,398	368,872	23,165	398,435	460,455

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

Other restricted funds are those specific projects delivered through funds provided by partners as detailed in note 3.

4b) Analysis of grant funding by office	Regularly funded organisations £000s	Other £000s	Total 2011/12 £000s	Total 2010/11 £000s
East	10,381	1,380	11,761	11,605
East Midlands	10,374	1,093	11,467	13,256
London	167,921	7,084	175,005	190,236
North East	13,406	1,115	14,521	15,623
North West	22,785	1,996	24,781	26,512
South East	13,477	303	13,780	15,392
South West	15,465	695	16,160	18,299
West Midlands	44,986	1,132	46,118	48,764
Yorkshire	25,677	2,331	28,008	28,898
National	120	28,625	28,745	58,739
East & South East Area	0	50	50	0
North Area	0	250	250	0
	324,592	46,054	370,646	427,324

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4c) Analysis of grants by recipient	Grants to institutions £000s	Grants to individuals £000s	Total 2011/12 £000s	Total 2010/11 £000s
Regularly funded organisations	324,592	0	324,592	350,710
Strategic funding and activity	45,257	797	46,054	68,689
Other restricted funds	0	0	0	7,925
	369,849	797	370,646	427,324

4d) Analysis of support costs	Unrestricted £000s	Less recharge to Lottery £000s	Total 2011/12 £000s	Total 2010/11 £000s
Staff costs	21,267	(7,858)	13,409	13,857
Agency staff costs	632	(267)	365	619
Depreciation	1,932	(712)	1,220	1,255
Travelling, subsistence and entertainment	1,517	(559)	958	807
Rent and rates	3,912	(1,442)	2,470	2,908
Professional fees	1,171	(442)	729	732
Office and sundry	5,505	(2,088)	3,417	3,444
Irrecoverable Value Added Tax	945	(348)	597	1,693
	36,881	(13,716)	23,165	25,315
Corporate governance costs			762	686
			23,927	26,001

4e) Analysis of support costs by area of expenditure	Unrestricted £000s	Less recharge to Lottery £000s	Total 2011/12 £000s	Total 2010/11 £000s
Direct support costs to front line delivery				
Advocacy and communications	1,936	(706)	1,230	862
Arts strategy and research	1,556	(567)	989	1,236
Investment and information management	1,656	(604)	1,052	1,220
Museums and libraries	1,395	(508)	887	0
Regional delivery	12,961	(4,723)	8,238	9,050
	19,504	(7,108)	12,396	12,368

Management and administration	Unrestricted £000s	Less recharge to Lottery £000s	Total 2011/12 £000s	Total 2010/11 £000s
Finance	1,840	(670)	1,170	967
Human Resources	2,247	(819)	1,428	1,814
IT	3,952	(1,440)	2,512	3,011
Property, procurement and legal services	4,837	(1,762)	3,075	3,391
Other costs including management costs	4,501	(1,917)	2,584	3,765
	17,377	(6,608)	10,769	12,948
Total support costs	36,881	(13,716)	23,165	25,316

Costs are allocated between programmes based on an activity analysis completed by each office detailing the estimated time spent by all staff on each of the programmes funded from grant-in-aid. This includes analysis of time spent on corporate governance activities where relevant. The proportion of support costs chargeable to the Lottery accounts is based on the proportion of payments made for lottery funded programmes. Corporate governance costs are defined as those costs which relate to the general running of the Arts Council rather than direct management functions, providing the governance infrastructure allowing the Arts Council through National Council to operate.

5a) Staff costs	2011/12 £000s Total	2010/11 £000s Total
Salaries and wages	18,428	17,763
Employer's National Insurance	1,463	1,428
Employer's pension contributions	3,528	3,265
Agency staff	869	1,025
	24,288	23,481

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Included within salaries and wages are amounts recharged to the Lottery accounts of £7,858,000 and redundancy costs which fell due during the year of £199,000 (2010/11 £961,000). These costs arose following the closure of programmes and other contractual payments falling due for those leaving the organisation. Salaries and wages include an amount of £107,000 as compensation paid to a small number of staff to relinquish their contracted right to a lease car. Staff costs also include £1,548,000 (2010/11 £2,414,000) for staff involved in direct delivery of programmes. They are included in activities undertaken directly in note 4.

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

	Permanent Staff	Agency Staff	2011/12	2010/11
Direct delivery of programmes	33	5	38	43
Support and corporate governance	455	17	472	463
	488	22	510	506

The staff costs and average number of employees include the additional responsibilities for museums and libraries for the six months from 1 October 2011.

5b) Emoluments by bands

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

Emoluments for the year	2011/12	2010/11
£60,000–£69,999	9	10
£70,000–£79,999	5	10
£80,000–£89,999	2	1
£90,000–£99,999	0	1
£140,000–£149,999	0	2
£160,000–£169,999	0	1
	16	25

Of these employees in 2011/12, none received redundancy payments and 15 employees were in a final salary pension scheme for which the employer's contributions during the year amounted to £246,930.

5c) Compensation schemes – exit packages

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band during 2011/12
<£9,999	7	0	7
£10,000–£24,999	3	0	3
£25,000–£49,999	2	0	2
£50,000–£99,999	0	0	0
£100,000–£149,999	0	0	0
Total number of exit packages by type	12	0	12

Total resource cost £000 **166** **0** **166**

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band during 2010/11
<£9,999	16	0	16
£10,000–£24,999	16	0	16
£25,000–£49,999	11	0	11
£50,000–£99,999	6	0	6
£100,000–£149,999	3	0	3
Total number of exit packages by type	52	0	52

Total resource cost £000 1,571 0 1,571

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

6 Council members' expenses

It is part of Council members' duties to assess artistic work. The cost of their tickets for attendance at performance and events is met by the Arts Council. In 2011/12, the total cost of tickets purchased for this purpose was £3,185 (2010/11: £2,329). All our Council members are able to claim back their travel and subsistence costs. The total amount reimbursed in the year is shown in note 8.

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7 Pensions

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

Arts Council Retirement Plan (1994)

The scheme is a defined benefit scheme. Other employers contributing to the Scheme are the Arts Council of Wales, Creative Scotland, the Crafts Council and Creativity, Culture and Education. Because it is a multi-employer scheme, we are unable to identify our share of the underlying assets and liabilities. Consequently, we have accounted for the scheme as if it were a defined contribution scheme, in accordance with FRS17 Retirement Benefits.

The scheme is financed by payments by Arts Council England and employees into a trustee-administered fund independent of Arts Council England's finances. These contributions are invested by a leading fund management company. The net market value of the scheme's assets at 31 March 2011 was £79.4 million.

An actuarial valuation of the pension fund takes place at least every three years. At the last valuation on 31 March 2010 the actuarial value of the assets using the projected unit method was sufficient to cover 74% of the value accrued to members, a deficit of £25,800,000. As a result, and on the advice of the actuary, we are now paying employer's contributions of 25.6% of pensionable salary for employees who joined prior to 1 July 2006 and 23.6% of pensionable salary for employees who joined after this date.

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

Consumer price inflation rate	3.3%
Long term rate of pay increases	4.8%
Short term rate of pay increases	3.3%
Rate of pension increases	3.3%

Amounts due to the fund at 31 March 2012 were £nil (31 March 2011 £nil).

West Yorkshire Pension Fund

We are an admitted member of the West Yorkshire Pension Fund. Providing pensions to over 200,000 members in 181 mainly Local Government organisations, 27 Arts Council staff participated in this scheme at 31 March 2012. The scheme is a defined benefit scheme. However, because it is a multi-employer scheme, we

are unable to identify our share of the underlying assets and liabilities. Consequently, we have accounted for the scheme as if it were a defined contribution scheme, in accordance with FRS17 Retirement Benefits.

The net market value of total scheme assets at 31 March 2011 was £8.7 billion.

An actuarial valuation of the pension fund takes place every three years. At the last valuation on 31 March 2010, the actuarial value of the assets using the projected unit method was sufficient to cover 93% of the value accrued to members. During 2010/11 employer contributions were set at 22.7% of pay which changed to 22.4% of pay plus monetary contributions equal to £5,400 in 2011/12.

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

Rate of inflation Retail Prices Index	3.8%
Rate of inflation Consumer Prices Index	3.3%
Rate of pay increases	5.3%
Rate of pension increases	3.3%

Amounts due to the fund at 31 March 2012 were £nil (31 March 2011: £nil).

Legacy Regional Arts Board pension schemes

All active Regional Arts Board pension members, except those from London Arts, transferred to the West Yorkshire Pension fund on 1 April 2002. However, their past service remained with the legacy pension provider as detailed below:

East England Arts	Cambridgeshire Council
East Midlands Arts	Nottingham Council
Northern Arts	Tyne & Wear Pension Fund
North West Arts	Greater Manchester Pension Fund
Southern Arts	Hampshire Pensions Trust
South East Arts	Surrey Council
South West Arts	Devon Council
West Midlands Arts	Staffordshire County Council
Yorkshire Arts	Remained in West Yorkshire Pension Fund

Arts Council England is responsible for meeting any further liabilities relating to Regional Arts Board employees which arise in respect of these funds. Liabilities in relation to four schemes have been cleared by making lump sum payments. The remaining schemes have not indicated that any liability exists. No provision has been made in these accounts for potential sums payable, because of the uncertain nature of these liabilities.

8 Net incoming resources for the year

	2011/12 £000s	2010/11 £000s
Net incoming resources of £788,000 (2010/11 net outgoing resources £15,776,000) are stated after charging:		
a. auditors' remuneration	66	88
b. operating leases	3,250	3,165
c. Council members' travel, subsistence and hospitality for the 17 serving members during the year	31	17
d. insurance: trustees' and senior officers' indemnity	14	14
e. depreciation	1,955	1,776

9 Heritage assets and tangible fixed assets

	Buildings and leasehold improvements £000s	Equipment, fixtures and fittings £000s	Heritage assets: works of art £000s	Total £000s
Costs at 1 April 2011	15,191	5,350	101,778	122,319
Additions	701	204	335	1,240
Revaluations	0	0	6,611	6,611
Less: disposals	(466)	(437)	(40)	(943)
Cost at 31 March 2012	15,426	5,117	108,684	129,227
Depreciation at 1 April 2011	6,796	3,966	0	10,762
Less: depreciation on disposals	(345)	(428)	0	(773)
Revaluations	0	0	0	0
Provided for 2011/12	1,344	611	0	1,955
Depreciation at 31 March 2012	7,795	4,149	0	11,944
Net book value at 31 March 2012	7,631	968	108,684	117,283
Net book value at 31 March 2011	8,396	1,384	101,778	111,558
			31 March 2012 £000s	31 March 2011 £000s
Freehold			782	746
Short leasehold improvements			6,849	7,651
			7,631	8,397

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9a) Heritage assets

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

Works of art collection

The works of art collection has been built up since 1946 and consisted of 7,535 items at 31 March 2012. The purpose of the collection is to broaden the appreciation and public awareness of contemporary British art and to encourage good practice relating to painting, sculpture, photography, drawing, printmaking, mixed and new media, film and video. The collection is based in London and at Longside in Yorkshire (located at the Yorkshire Sculpture Park). The collection is managed on our behalf by the Southbank Centre through the Hayward Gallery.

Valuation

The Collection has been valued by the curator of the collection at £108,684,000 at 31 March 2012 (31 March 2011: £101,778,000). Valuation of the whole collection is undertaken on a rolling programme using current knowledge of prices, the market and, where necessary, the curator seeks the advice of other experts. The policy is that works of exceptionally high value are valued each year as are items that are on long term loan. All items are valued when loans are agreed as this provides the value for which the lender has to insure the item. A register of works is maintained by the Senior Curator of the Collection which is amended to reflect acquisitions and items removed from the register, such as pieces damaged beyond repair, throughout the year and records the year end valuation figure. The register supports the entries in the Arts Council's annual accounts and is provided to the auditors for review.

Acquisition and disposal policy

The Collection purchases innovative work by artists living in Britain with a focus on the work of younger and emerging artists. Acquisitions are made through the Acquisitions Committee comprising six individuals who are the Head of the Arts Council Collection, Director of the Hayward Gallery, Senior Curator of the Arts Council Collection and Senior Strategy Officer, Visual Arts, Arts Council England plus external advisers who are usually an artist, a writer and a curator. The external advisers to the Committee are appointed for a fixed two year tenure. Artists make an application to have their work considered for acquisition.

To be eligible artists must live in Britain, cannot be students and have to be able to demonstrate their commitment over several years by providing information about the exhibitions of their work that have taken place and are planned. The acquisitions are funded from an allocation within the Arts Council England budget.

Any offers of gifts to the collection are brought to the attention of the Acquisitions Committee which decides on their suitability. Larger donations are considered by the Chief Executives of both Arts Council England and Hayward Gallery/Southbank Centre.

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

Preservation

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

Collection management

The Head of the Arts Council Collection reports to the Director of the Hayward Gallery and is responsible to the Director, Visual Arts at Arts Council England. Arts

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

Access

Public access to the works of art is achieved through items being part of the extensive Hayward Gallery Touring exhibitions and being loaned to other institutions and galleries both at home and abroad. Priority is given to national needs. An exciting project is underway to widen access by providing digital access to the collection. The project has been split into two parts and the first part consists of two phases. The first phase covers paintings and drawings and will be completed by the end of 2011. The second phase covering three dimensional sculpture and installations is starting in 2012. The second part is a digital editorial pilot starting in the summer 2011 to develop a prototype on how the collection can be promoted online. A dedicated website www.artscouncilcollection.org.uk provides a range of information including where items from the collection are on exhibition and photographs of recent acquisitions with brief information about the artist and item.

The Arts Council works of art collection heritage assets are reported at valuation in the table below:

	2011/12 £000s	2010/11 £000s	2009/10 £000s
Cost at 1 April	101,778	96,966	91,081
Additions	335	418	327
Donations	68	0	0
Revaluations	6,543	4,394	5,558
Less: impairment	(1)	0	0
Less: disposal	(39)	0	0
Cost at 31 March	108,684	101,778	96,966

Poetry collection

The Poetry Collection was started in 1953 and now consists of 100,000 items of 20th and 21st century poetry from 1912. The collection is held in a variety of formats: books, pamphlets, audio cassette, CD, video and DVD for reference and loan, magazines, press cuttings,

photographs, posters and postcards for reference. The Poetry Library promotes the reading of poetry for people of all ages, cultures and backgrounds.

The aim is that the collection holds all poetry published since 1912 in the UK. The collection is housed at The Saison Poetry Library located at the Southbank Centre.

Valuation

A valuation of the Poetry collection is not included on the balance sheet due to the difficulty in obtaining an accurate valuation. Advice has been sought from the current librarians of the collection and they have concurred with previous advice that there is no ready market in the materials held that would enable a meaningful valuation to be made. Furthermore the collection is made up of a large number of disparate items and would require, even if there was a reliable basis for a valuation, a significant input of resource which is not considered to be feasible. The amount spent on acquisitions during 2011/12 was £35,000 (2010/11 £35,290).

Acquisition and disposal policy

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

The collection receives donations mainly of books.

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

Preservation

Items in the collection are cared for by a conservator who is working through the books in the collection and carrying out repairs as necessary. These include restoring covers and ripped pages. A rare book room has been set up at the library in which humidity and temperature is controlled to British Standards (BS). The digitisation of the magazines means that the originals are able to be stored to protect their condition.

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Collection management

The Collection is managed by the Southbank Centre on behalf of Arts Council England. Day to day management is the responsibility of the Collection librarians. The librarians report to the General Manager, Learning and Participation of the Southbank Centre. Arts Council Collection staff salaries are paid by the Southbank Centre from the grant from Arts Council England to the Southbank Centre.

Access

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

The Library has a dedicated website www.poetrylibrary.org.uk, which explains the purpose of the Poetry Library, how items can be accessed and a full catalogue. This website includes a link to a further website that takes readers to the online archive of poetry magazines.

Film collection

The film collection has been built up over the period between 1953 and 1998. It consists of 450 documentary films made by either Arts Council England commissioning or participating in their production. The films record all aspects of mainly contemporary British art. The subject matter, lengths and formats of the films are as varied as they are eclectic. Moreover, because of the Council's liberal attitude to sponsorship and the creative freedom their commissions offered, they also attracted the best film-makers in the UK. The collection is a unique partnership between the Arts Council, artists and film-makers. The films' subject matter provides a key resource for any historical study of both British and international art, and also many aspects of British documentary film-making.

Restored digital copies of all the films in the collection are stored at the National Film and TV Archive of the British Film Institute.

Valuation

A valuation of the Film collection is not included on the balance sheet due to the difficulty in obtaining an accurate valuation. A market for films of the type in the collection does not exist to provide a guide to the value. The collection earned £17,000 from royalty payments during 2011/12 (2010/11 £13,000), an immaterial sum. The value of the collection is in its use as a source of historical information.

Acquisition and disposal policy

An acquisition policy does not exist as the collection has not been added to since the closure of the Arts Council's Film department in 1998. No films have been disposed of during the existence of the collection.

Preservation

The master copies of the films and associated production paperwork are held by the Arts Council in specialist storage facilities which have a professional climate controlled environment. Digitised copies are held by the National Film Archives at the British Film Institute.

Collection management

The film collection is managed directly by the Arts Council.

Access

The collection has been digitised and access is available through a company who manages loans on behalf of Arts Council England and online to further education and higher education colleges through the University of Westminster. Details of how to obtain access to the collection are available on the following two websites www.concordmedia.co.uk and www.artsonfilm.wmin.ac.uk/filmcollection.

10 Costs apportioned to Arts Council England lottery distribution accounts

Directions issued by the Secretary of State require that costs incurred which relate to both grant-in-aid and lottery activities should be apportioned between the two in accordance with good accounting practice. Consequently, we have apportioned them accordingly, based on an assessment of time spent on each activity. As a proxy for this, we use the proportion of grant-in-aid and lottery payments during the year as the basis of the apportionment.

11 Debtors

	31 March 2012 £000s	31 March 2011 £000s
Trade debtors	1,345	1,163
Other debtors	279	79
Prepayments and accrued income	2,257	1,781
	3,881	3,023

12 Grants paid in advance

The Arts Council permits organisations to draw down cash from a future year's funding agreement to cover short term cash flow problems. No advances were made in 2011/12 (2010/11 £436,000).

13 Creditors: amounts falling due within one year

	31 March 2012 £000s	31 March 2011 £000s
Trade creditors	536	1,045
Other creditors including taxes and social security	184	86
Accruals and deferred income	2,801	2,443
	3,521	3,574

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14 Provisions for liabilities and charges

	Redundancies £000s	Organisational reviews £000s	Property £000s	Dilapi- dations £000s	VAT £000s	Tax £000s	Legal £000s	Emple- yment £000s	Total £000s
At 1 April 2011	519	80	630	361	579	0	21	41	2,231
Arising during the year	181	6	207	482	0	681	16	488	2,061
Used during the year	(95)	(37)	(83)	(52)	0	0	(21)	(15)	(303)
Reversed unused	0	0	(318)	(48)	(415)	0	0	0	(781)
At 31 March 2012	605	49	436	743	164	681	16	514	3,208

Expected timing of cashflows

In the year to 31 March 2013	494	49	436	743	164	681	16	514	3,097
Between 1 April 2013 and 31 March 2017	111	0	0	0	0	0	0	0	111
Later than five years	0	0	0	0	0	0	0	0	0

As at 31 March 2012

Current	494	49	436	743	164	681	16	514	3,097
Non-current	111	0	0	0	0	0	0	0	111

Description of provisions

a) Redundancies	Redundancies for staff on fixed term contracts which expire in the period up until 31 March 2015 and in relation to the restructuring of a staff team have been included
b) Organisational reviews	Redundancies not yet made but decided in the 2009/10 organisational review
c) Property	Provision for building works and lease exit costs
d) Dilapidations	Provisions for dilapidations of premises where it is planned to reduce area occupied
e) VAT	The VAT liability has arisen from the secondment of staff in the period 2006/07 to 2009/10 since when the liability has been charged within the year
f) Tax	Provision for payroll taxes on expenses and benefits identified by an internal review
g) Legal	Provision for legal costs relating to judicial review relating to activities in 2011/12 and set for May 2012
h) Employment	This is an allowance of the cost of contractual sabbaticals that have been agreed with staff which are required to be completed by 31 March 2013

15 Grant offers

	31 March 2012 £000s	31 March 2011 £000s
Forward funding:		
2011/12	n/a	323,479
2012/13	341,666	n/a
2013/14	340,588	n/a
2014/15	348,697	n/a
	1,030,951	323,479

The Arts Council had transitional funding agreements with around 880 Regularly Funded Organisations during 2011/12. The Arts Council has entered into three year funding agreements with 696 national portfolio organisations commencing in 2012/13. Commitments are recognised for each year, with the funding agreements making clear that continued funding is dependent on the organisation continuing to deliver its agreed programme of activity set out in the funding agreement.

Forward funding at 31 March 2012 mainly represents allocations for national portfolio organisations.

16 Leases

At 31 March 2012 the Arts Council had annual commitments under non-cancellable operating leases as set out below.

	Land & buildings 31 March 2012 £000s	Land & buildings 31 March 2011 £000s
Operating leases which expire:		
within one year	0	99
within two and five years inclusive	1,601	1,382
over five years	928	932
	2,529	2,413

17 Capital commitments

There were contracted capital commitments at 31 March 2012 of £62,000 (31 March 2011: £nil). This represents amounts committed against changes, repairs and refurbishment of Arts Council offices.

18 Southbank Centre lease

The Arts Council owns the freeholds of the National Film Theatre, the Museum of the Moving Image, the Hayward Gallery, the Queen Elizabeth Hall, the Purcell Room and the Royal Festival Hall, which are leased to the Southbank Centre. Since the lease is long term and we derive no income from the freeholding, the value of the asset is immaterial and has therefore not been included in these accounts.

19 Royal National Theatre lease

The Arts Council owns the freehold of the Royal National Theatre, which is leased to and occupied by the Royal National Theatre Board Limited. Since the lease is long term and we derive no income from the freeholding, the value of the asset is immaterial and has therefore not been included in these accounts.

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20 Reconciliation of movements in funds

	At 1 April 2011 £000s	Income £000s	Expenditure £000s	Transfers £000s	At 31 March 2012 £000s
Income funds					
Unrestricted funds	784	382,250	(380,495)	(287)	2,252
Revaluation reserve	887	0	0	0	887
Restricted funds					
Other restricted funds	1,539	17,735	(17,521)	(49)	1,704
Capital funds					
Designated funds	4,903	0	0	287	5,190
Donated asset reserve	3,495	0	0	100	3,595
Capital Reserve	9,780	0	(1,181)	0	8,599
Revaluation reserve	93,654	6,612	(40)	(51)	100,175
	115,042	406,597	(399,237)	0	122,402

Description of funds

Income funds

a) Unrestricted funds Grant-in-aid is received from the Department for Culture, Media and Sport. This is the Arts Council's main source of income, and is supplemented by other income. This fund is applied to grants expenditure and the running costs of the Arts Council. Use of these funds in subsequent years is subject to HM Treasury End Year Flexibility regulations

b) Revaluation reserve This relates to the unrealised surplus on revalued freehold properties

Restricted funds

The Arts Council receives grants, sponsorship and donations from various sources for specific activities. Any such income and associated expenditure is identified separately

Capital funds

a) Designated funds This fund relates to capital expenditure on works of art allocated from the unrestricted fund. The transfer figure of £336,000 relates to additions of £287,000 to the collection purchased during the year from unrestricted funds plus income received for purchases of £49,000

b) Donated asset reserve This fund relates mainly to donations received by the Arts Council for obtaining works of art for our collection

c) Capital Reserve The Capital Reserve represents the balance of tangible assets

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

21 Cash flow reconciliation

	2011/12 £000s	2010/11 £000s
Reconciliation of operating surplus to net cash inflow from operating activities		
Operating surplus/(deficit)	7,360	(11,382)
Interest receivable	(54)	(85)
Depreciation charges	1,955	1,776
(Profit)/loss on disposal of fixed assets	170	0
Revaluation of fixed assets	(6,612)	(4,394)
(Increase)/decrease in debtors and prepayments	751	3,215
(Increase)/decrease in grants paid in advance	436	1,618
Increase/(decrease) in grants outstanding	(1,555)	(5,191)
Increase/(decrease) in creditors	(53)	(2,518)
Increase/(decrease) in provisions	978	(1,033)
Net cash inflow/(outflow) from operating activities	3,376	(17,994)

22 Reconciliation of net cash flow to movement in funds

	2011/12 £000s	2010/11 £000s
Increase/(decrease) in cash in the year	2,191	(19,676)
Funds at 1 April 2011	16,153	35,829
Funds at 31 March 2012	18,344	16,153

23 Analysis of net cash

	1 April 2011 £000s	Cash flow £000s	31 March 2012 £000s
Cash	16,153	2,191	18,344

24 Related parties

24a) Council members

We maintain publicly available registers in which Council members declare their interests, including any direct interests in grant applications made to and commercial relationships with the Arts Council. The declared interests in grant recipients for the year ended 31 March 2012 are detailed below. Payments made to these grant recipients during the course of the year are not disclosed here; please refer to the related parties note in previous years' annual reviews for information.

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Grant for the year ended 31 March 2012 £000s	Balance unpaid at 31 March 2012 £000s	Organisation	Council member	Relationship
10	11	The British Museum	Liz Forgan	Board member
2,072	0	Halle Concerts Society	Anil Ruia	Corporate member
522	68	Manchester International Festival		Corporate sponsor
356	0	Axis Web	Janet Barnes	Chief Executive of organisation working with Axis Web
138	7	Museums Sheffield		Partner Organisation to York Museums Trust
652	0	Rich Mix Cultural Foundation	Keith Khan	Former Chief Executive
13	63	London Organising Committee of the Olympic Games and Paralympic Games Ltd		Former Head of Culture
17	5	The British Council		Board member
529	5	UK Centre for Carnival Arts		Creative Director of Carnival Crossroads: East of England Carnival Project
21,527	69	Southbank Centre		Former employee
53	20	City Arts (Nottingham) Ltd	François Matarasso	Partner is a former board member
44	0	Lawnmowers		Artist
1	0	Rebecca Lee		Contractor/employer
111	0	Newcastle University	Peter Standfield	Partner is a board member
1,269	0	Northern Stage Company		Board member
0	1	Cornwall County Council	Sheila Healy	Former Chief Executive
353	0	Kneehigh Theatre Trust Ltd		Board member
0	1	Museums, Libraries and Archive Council		Leading museums group
0	2	Shropshire Council		Former Interim Chief Executive
1,920	180	Arts & Business Ltd	Veronica Wadley	Former advisory board member
0	2	Greater London Authority		Member of the Music Education Steering Group and Mayor's fund musician's board
3,131	0	Northern Ballet		Board member
1,171	0	Whitechapel Gallery	Alice Rawsthorn	Trustee
206	12	Writers' Centre Norwich	Professor Jon Cook	Former board member and partner is former employee

Grant for the year ended 31 March 2012 £000s	Balance unpaid at 31 March 2012 £000s	Organisation	Council member	Relationship
118	0	British Centre for Literary Translation	Professor Jon Cook	Employee of the University of East Anglia and line manager for director of BCLT
65	0	The Otolith Group	Ekow Eshun	Family member is employee
0	2	Greater London Authority		Board member of 'fourth plinth' commissioning group
1,675	87	Institute of Contemporary Arts		Former employee
13	63	London Organising Committee of the Olympic Games and Paralympic Games Ltd		Member of the Public Realm Commissioning Advisory Panel
166	3	University of the Arts, London		Schools Governor
280	6	Dance UK	Alistair Spalding	Former Chair
489	0	Dance Consortium Ltd		Director
834	5	Pioneer Theatres Ltd		Co-producing an Olympic project with Sadler's Wells
2,576	120	Sadler's Wells Trust		Chief Executive and Artistic Director
500	0	Youth Dance England		Host venue is Sadler's Wells
0	3	Ambassador Theatre Group	Rosemary Squire	Director & partner is a director
696	42	Dance Umbrella		Director
21,711	0	Donmar Warehouse Projects Ltd		Landlord & partner is landlord
2,439	0	English Stage Company Ltd		Son is trainee producer
2,071	65	Rambert Dance Company		Partner is Chair
245	0	The Hall for Cornwall Trust		Director
90	6	Contemporary Art Society	Caroline Collier	Former board member
25	25	Tate		Employee
101	1	Visual Arts and Galleries Association		Membership via Tate
489	0	Artichoke Trust Ltd	Nicholas Kenyon	Partner is board member
243	50	Barbican Centre		Managing Director
244	0	Cheek By Jowl Theatre Company		Other/Resident company at the Barbican Centre
2,193	0	London Symphony Orchestra		Other/Resident company at the Barbican Centre
185	0	Modern Masterpieces		Other/Resident company at the Barbican Centre
3,589	72	North Music Trust		Board member
548	230	Serious Events Ltd		Other/Resident company at the Barbican Centre
17,153	85	English National Opera		Board member

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Grant for the year ended 31 March 2012 £000s	Balance unpaid at 31 March 2012 £000s	Organisation	Council member	Relationship
13	63	London Organising Committee of the Olympic Games and Paralympic Games	Nicholas Kenyon	Cultural Olympiad board member
103	190	The British Broadcasting Corporation		Former employee
636	0	Dartington Hall Trust t/a Dartington Plus		Trustee
468	39	Birmingham Opera Company	Peter Phillips	Board member
6,295	15	Welsh National Opera		Former board member
980	0	Almeida Theatre Company	David Carter	Board member
0	3	Ambassador Theatre	Nicolas Humby	Former Director
10	11	The British Museum	Christopher Yates	Employee

Contract for year ended 31 March 2012 £000s	Balance unpaid at 31 March 2012 £000s	Organisation	Council member	Relationship
0	37	Department for Culture, Media and Sport	Liz Forgan	Former board member
0	37	Department for Culture, Media and Sport	Sheila Healy	Former board member for MLA national review of libraries
0	2	Katri Skala	Professor Jon Cook	Partner provides evaluation service for Arts Council England
0	37	Department for Culture, Media and Sport	David Carter	Audit Committee independent member

24b) Directors and senior managers

Executive directors and senior managers in Arts Council England are also required to declare any direct interests in grant applications made to and commercial relationships with the Arts Council. The interests in grant recipients declared for the year ended 31 March 2012 are detailed below. Payments made to these grant recipients during 2011/12 are not disclosed here; please refer to the related parties note in previous years' annual reviews for information.

Grant for the year ended 31 March 2012 £000s	Balance unpaid at 31 March 2012 £000s	Organisation	Executive Director/ Senior Manager	Relationship
871	8	Modern Art Oxford	Andrew Nairne	Former employee, Associate with partner
603	0	The Artangel Trust		Family member is an employee
398	41	Royal College of Art		Family member is on board
5	1	National Portrait Gallery		Family member is on board
0	1	National Museums Directors' Conference		Family member is on board
25	25	Suffolk County Council	Laura Dyer	Family member is former employee
0	1	Runnymede Trust	Anupam Ganguli	Board member
522	68	Manchester International Festival	Simon Mellor	Former employee
17	5	The British Council	James Tough	Board member of Scottish Advisory Committee
7	7	Oxford Inspires	Sarah Maxfield	Former Chief Executive
255	0	The Stables	Moira Sinclair	Partner is former employee
0	2	University of Lincoln		Board member
450	0	Phoenix Dance Theatre	Janet Archer	Former Board member
555	2	Liverpool Biennial of Contemporary Arts	Alison Clark-Jenkins	Close friend is Executive Director
275	0	Havering Theatre Trust	Neil Darlison	Family member is Artistic Director
137	0	Music Beyond Mainstream		Former board member
983	0	Northampton Theatres Trust		Board member
57	0	Theatre Absolute		Former board member
508	135	The University of Warwick/Warwick Arts Centre		Former employee
41	0	The Literacy Consultancy	Antonia Byatt	Family member is Chief Executive
206	12	Writers' Centre Norwich		Family member is a board member
56	0	Malvern Theatres Trust Ltd	Phil Gibby	Former trustee
0	2	Theatre Bristol		Partner is employee
6,295	15	Welsh National Opera Ltd		Former employee

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Grant for the year ended 31 March 2012 £000s	Balance unpaid at 31 March 2012 £000s	Organisation	Executive Director/ Senior Manager	Relationship
171	0	Mind the Gap	Tessa Gordziejko	Family member is employee
153	4	North Kesteven District Council	Simon Fitch	Other family member is employee
12	13	Nottingham City Council	Brian Ashley	Former employee
0	10	Tate Gallery	Peter Heslip	Former employee
2,072	0	Royal Liverpool Philharmonic Society	Mark Hollander	Close friend is an employee
88	0	Tutti Fruitti Productions		Partner is an employee
204	10	Engage	Michelle Freeman	Former council member
59	0	Metro-Boulot-Dodo Ltd	Sarah Bond	Close friend of company members
32	3	Serendipity Artists Movement	Paul Brookes	Partner is artistic director
175	0	New Writing North	Matthew Jarrett	Partner is a board member
46	0	Northumberland City Council		Partner is employee
32	3	Children's Discovery Centre, East London	Anna Jobson	Former board member
103	190	The British Broadcasting Corporation	Simon Jutton	Partner is employee
53	1	Chrysalis Arts Development Ltd	Pete Massey	Close friend is employee
20	0	Create Arts Development		Former employee
39	0	Crescent Arts		Former board member
1	0	North Yorkshire County Council		Close friend is employee
20	0	Open Art		Partner is employee
138	7	Museums Sheffield	Helen Parrott	Ex-colleague is employee
0	1	Museums Libraries and Archives Council	Wendy Parry	Former employee
51	0	Burnley Youth Theatre	Anthony Preston	Family member is a board member
104	0	Bedford Creative Arts	Mark Richards	Close friend is employee
21,512	69	Southbank Centre (Hayward Gallery)	Rachel Smithies	Partner is employee

Grant for the year ended 31 March 2012 £000s	Balance unpaid at 31 March 2012 £000s	Organisation	Executive Director/ Senior Manager	Relationship
487	55	All About Audiences	John Sprackland	Partner is employee
5	1	Westminster Arts	Mary-Alice Stack	Board member
8	1	The National Football Museum Ltd	Hedley Swain	Board member
94	0	Wakefield Theatre Trust	Bill Vince	Former board member
198	1	Yorkshire Dance		Former employee
119	81	A New Direction	Sophie Woodward	Partner is employee

Contract for year ended 31 March 2012 £000s	Balance unpaid at 31 March 2012 £000s	Organisation	Executive Director/ Senior Manager	Relationship
65	295	Grant Assessment Monitoring & Evaluation	Althea Efunshile	Family member undertook work experience
8	0	Wharf Media	Paul Leather	Co-owner with partner and board members
0	12	Tom Fleming Creative Consultancy	Catherine Bunting	Associate and advisor/consultant
0	1	Pawlet Brookes	Paul Brookes	Partner is advisor/consultant
4	0	Victoria Chamberlain	Katy Dent	Line manager and landlord

24c) Other government bodies

The Department for Culture, Media and Sport is the sponsoring department for Arts Council England and is regarded as a related party. At the year end Arts Council England had the following balances outstanding with other government bodies:

	Creditor 31 March 2012 £000s	Debtor 31 March 2012 £000s
Balances with other central government bodies	330	614
Balances with local authorities	672	10
Balances with NHS Trusts	0	0
Balances with public corporations and trading funds	243	2

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25 Financial instruments

FRS 29 requires disclosure of financial instruments 'that are complex or play a significant medium to long-term role in the financial risk profile' of the Arts Council. As the cash requirements of the Arts Council are met largely through grant-in-aid received from the Department for Culture, Media and Sport (98.4%), financial instruments play a more limited role in creating risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts to buy non-financial items in line with the Arts Council's expected purchase and usage requirements, or the issue of grants (92.4%). This means the Arts Council is exposed to little credit, liquidity or market risk.

a) Liquidity risk

The Arts Council has a funding agreement with the Department for Culture, Media and Sport for the period from 1 April 2011 to 31 March 2015, renewable in line with the timetable set by Government for the next spending round. In the past year 1.1% of funding was received from sources outside Government in terms of partnership and grant support, mostly in the form of restricted funds, and 0.01% was generated from cash balances. This means that 98.9% of funding is sourced through cash draw downs agreed monthly with the DCMS, based on the predicted need for the month ahead.

b) Interest rate risk

The cash balance of £18,344,000 at 31 March 2012 was held in instant access variable rate bank accounts which carried an average interest rate of 0.22% below base rate. The Arts Council does not place money on deposit with any other bank, financial institution or investment product.

c) Foreign currency risk

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

d) Financial assets by category

	31 March 2012 £000s	31 March 2011 £000s
Trade debtors	1,345	1,163
Other debtors	279	79
Accrued income	1,311	1,053
Due from Arts Council Lottery accounts	418	2,027
Cash at bank and in hand	18,344	16,153
	21,697	20,475

e) Financial liabilities by category

	31 March 2012 £000s	31 March 2011 £000s
Grants outstanding	10,795	12,350
Trade creditors	536	1,044
Other creditors including taxes and social security	184	86
Accruals	2,557	2,285
	14,072	15,765

26 Subsidiary undertakings

Arts Council England owns the entire share capital of Artco Trading Limited through which we operate Own Art, our art purchase scheme and Take It Away, our musical instrument purchase scheme. We have consolidated the following figures for this subsidiary into our accounts.

	2011/12 £000s	2010/11 £000s
Cash at bank and in hand	411	649
Other debtors	0	0
Current assets	411	649
Other creditors	50	78
Amounts due to Arts Council England	302	496
Current liabilities	352	574
Net assets	59	75
Reserves	59	75
Summary profit and loss		
Income		
Income from DCMS	725	1,000
Other income	40	58
	765	1,058
Expenditure		
Staff costs	297	208
Operating costs	484	850
	781	1,058
Surplus/(deficit) for year	(16)	0

27 Post balance sheet event

In accordance with the requirements of FRS 21 events after the balance sheet date, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Independent Auditor's Report to the trustees of Arts Council England. There are no post balance sheet events to report.

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Lottery distribution accounts



Layers of skin, a touring project from Retina Dance company.
Photo: Chris Nash

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Management commentary

Governance statement

Reference and administrative details of the charity

The Arts Council of England, trading as Arts Council England, is a registered charity, charity registration number 1036733. The address of our head office is 14 Great Peter Street, London SW1P 3NQ.

Governance arrangements

Arts Council England was established by Royal Charter on 13 March 1994, taking over those responsibilities in England previously discharged by the Arts Council of Great Britain. Since then, Arts Council England's Royal Charter has been amended three times in 2002, 2008 and 2011. However the objects of Arts Council England have remained unchanged throughout this period except for the fact that the remit of Arts Council England was broadened in 2011 to include some of the responsibilities of the Museums, Libraries and Archives Council. The current objects of the Arts Council as stated in the Royal Charter are to:

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

To achieve these objects, Arts Council England invests in, develops and champions artistic and cultural experiences that enrich people's lives.

Arts Council England works at arm's length from government and has the status of a non-departmental public body. As such, it is regulated in accordance with a Management Statement, Financial Memorandum and Funding Agreement issued by the Secretary of State which is being replaced from April 2012 with a

Management Agreement. In addition, as a registered charity and a chartered body, Arts Council England is subject to a range of obligations and accountabilities set out in regulations and law. We prepare our accounts for grant-in-aid and Lottery separately to comply with accounts directions issued by the Secretary of State and Charity Commission regulations.

Governance structure, roles and responsibilities

National Council is the non-executive board of Arts Council England. Council members, as charity trustees, retain overall responsibility for the work and conduct of the organisation. This includes responsibility for ensuring the achievement of Arts Council England's objectives, as set out in the Royal Charter.

National Council has established nine regional councils to assist it in developing, championing and investing in the arts and culture in each English region.

In 2010, national Council delegated responsibilities for a number of its functions to three standing committees – Arts Policy Committee, Arts Investment Committee and Performance and Audit Committee. A summary of the terms of reference of these committees are set out below. Each committee is chaired by a member of national Council and reports its activities to the next meeting of national Council. Records of all meetings of national Council and its committees are maintained by the Arts Council's governance team or regional offices.

National Council has also established:

- a Remuneration Committee to oversee the pay, performance and conditions of senior staff. A report from the Remuneration Committee is set out on pages 25 to 28
- a Museums Accreditation Committee
- a Museums, Libraries and Archives Designation Panel
- an Acceptance in Lieu Panel to undertake roles related to its new cultural property, museums and libraries responsibilities

National Council has delegated responsibilities for implementation and operational matters to the Chief Executive and Executive Board.

The Chief Executive has been authorised by the national Council to undertake the day-to-day administration and management of the business and staff of the organisation. The Chief Executive is responsible to the

national Council for those matters. The national Council has agreed and issued guidelines to the Chief Executive. The Chief Executive, as the Accounting Officer, is responsible for the Arts Council's overall efficiency and effectiveness and has responsibility for reviewing the effectiveness of the system of internal control. This review is informed by the internal auditors, executive directors within the Arts Council and comments from the external auditors in their management letter and other reports. The Accounting Officer may, on occasions, be required to give evidence to the Public Accounts Committee of the House of Commons.

Written terms of reference and procedures for the Executive Board have been agreed by the Council. The Council has approved the further delegation of powers to a Management Committee. Management Committee is responsible for overseeing the workload and programme of head office operational issues delegated by Executive Board, monitoring organisation-wide financial performance and management issues, taking an overview of HR issues and risk management, and monitoring the strategic funds budget and contingency.

National Council

National Council is responsible for the Arts Council's governance and for setting its mission, overall strategy and three year budgets. The Council considers and approves major matters of policy development, including the overall framework for the strategic delivery of those policies. Its role and responsibilities are clearly outlined in Arts Council England's governance handbook which includes terms of reference for national Council and each of its committees. The handbook is routinely reviewed with changes recommended for national Council's approval as appropriate.

All national Council members are required to act in accordance with the Code of Practice for National and Regional Council Members which is contained in the governance handbook. The code reflects the Nolan principles, which are also contained in the handbook, and both documents are brought to the clear attention of all members during their induction.

National Council has approved a scheme of financial delegations and authorities, which provides a comprehensive scheme for determining an appropriate level of approval or authorisation for financial commitments, which is dependent upon the level of expenditure proposed.

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Council composition

National Council members have a broad range of artform and culture experience and expertise.

National Council consists of 17 members, nine of whom also chair a regional council. Members of our national Council are appointed by the Secretary of State for Culture, Olympics, Media and Sport, except for the national member for London who is appointed by the Mayor of London. National Council members are usually appointed for four years, and may be reappointed for a further term of four years.

The members during 2011/12 are listed in the table opposite.

National Council 2011/12



	Name	Member	First appointed	Second appointment	End of current term
1	Dame Liz Forgan	Chair of the Arts Council	1 Feb 2009		31 Jan 2013
2	Janet Barnes	Member Yorkshire, Chair	1 Feb 2005	1 Feb 2009	31 Jan 2013
3	Jon Cook	Member East, Chair	2 Sept 2008		7 Sept 2012
4	Keith Khan	Member	1 May 2006	1 May 2010	30 April 2014
5	François Matarasso	Member East Midlands, Chair	1 Oct 2005	1 Oct 2009	30 Sept 2013
6	Alice Rawsthorn	Member	27 Feb 2007	1 Feb 2011	31 Jan 2015
7	Anil Ruia	Member North West, Chair	24 Nov 2008		23 Nov 2012
8	Rosemary Squire OBE	Member	26 Jan 2009		25 Jan 2013
9	Alistair Spalding	Member	26 Jan 2009		25 Jan 2013
10	Ekow Eshun	Member	26 Jan 2009		25 Jan 2013
11	Sir Nicholas Kenyon	Member	3 Nov 2009		2 Nov 2013
12	Sheila Healy	Member South West, Chair	4 Jan 2010		3 Jan 2014
13	Peter Phillips	Member West Midlands, Chair	4 Jan 2010		3 Jan 2014
14	Caroline Collier	Member South East, Chair	4 Jan 2010		3 Jan 2014
15	Veronica Wadley	Member London, Chair	1 July 2010		30 June 2014
16	Peter Standfield	Acting Member North East, Chair	1 April 2010		24 May 2011
17	Joe Docherty	Member North East, Chair	25 May 2011		24 May 2015

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Joe Docherty was appointed Chair of the North East Regional Council in May 2011.

Regional councils

National Council values its connection with local artists, local government and arts and cultural organisations. It has established regional councils to provide advice, advocate for the arts and culture and to make some funding decisions in the nine English regions – London, South East, South West, West Midlands, East Midlands, East, Yorkshire, North West and North East.

Regional councils are responsible for supporting and promoting the Art Council's mission and objectives in the region. Each regional council has 15 members except the South East which has 20 members to reflect the larger population of the area. The regional councils meet at least three times a year.

Standing committees

Arts Policy Committee

Decides or advises national Council, on policy for the arts, museums and libraries and makes recommendations to national Council on long-term strategy for Arts Council England. The Committee is chaired by Dame Liz Forgan. Caroline Collier, Joe Docherty, Nicholas Kenyon, and Alice Rawsthorn are members. The Committee meets four times a year or as needed.

Arts Investment Committee

The Arts Investment Committee oversees the implementation of investment and resource strategies and makes investment and operational decisions on behalf of national Council. The committee is chaired by Dame Liz Forgan. Janet Barnes, François Matarasso, Veronica Wadley, Jon Cook, Alistair Spalding and Keith Khan are members. The committee meets six times a year or as needed.

Performance and Audit Committee

This committee undertakes a scrutiny function for the Arts Council. It reviews the performance of the Arts Council across the full range of its business and operations, making recommendations for continuous improvement. In addition it performs the functions required of a traditional audit committee, advising national Council and the Accounting Officer on matters of internal and external audit. The members of the committee during 2011/12 were Anil Ruia (Chair), Sheila Healy, Peter Phillips, Rosemary Squire and Ekow Eshun. There are also three independent members – David Carter and, from 1 January 2012, Christopher Yates and Nicholas Humby. The committee meets four times a year.

Executive Board

The Executive Board is Arts Council England's strategic and executive decision-making body. National Council has approved the delegation of powers for delivery of the agreed policies and strategies to the Executive Board. The Executive Board held 12 formal business meetings in the year as well as a number of away days. Executive Board may establish sub groups to oversee particular projects.

Executive Board

The membership during 2011/12 were:



	Name	Job title
1	Alan Davey	Chief Executive
2	Alison Cole	Executive Director, Advocacy and Communications (on secondment to The Space from 30 November 2011)
3	Laura Dyer	Area Executive Director, Midlands and South West
4	Althea Efunshile	Chief Operating Officer
5	Anupam Ganguli	Executive Director, Resources
6	Paul Leather	Interim Executive Director, Advocacy and Communications (from 1 December 2011)
7	Barbara Matthews	Interim Executive Director, Arts (from 1 November 2011–31 March 2012)
8	Sarah Maxfield	Interim Executive Director, North (from 1 March 2012)
9	Simon Mellor	Executive Director, Arts (from 25 March 2012)
10	Andrew Nairne	Executive Director Arts (to 4 November 2011)
11	Moira Sinclair	Area Executive Director, London
12	Andrea Stark	Area Executive Director, East and South East
13	Jim Tough	Area Executive Director, North (to 7 February 2012)

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Alison Cole was seconded to The Space from 30 November 2011 with Paul Leather appointed to lead the advocacy and communications team in the interim. Whilst Paul Leather attended Executive Board meetings representing the advocacy and communications team from November 2011 onwards, Alison Cole remained a member of Executive Board. Andrew Nairne left the Arts Council in November 2011 and was replaced in the interim by Barbara Matthews until March 2012 when Simon Mellor joined the Arts Council as Executive Director, Arts. Jim Tough left the Arts Council in February 2012 and was replaced by Sarah Maxfield.

Management Committee

The Executive Board has established the Management Committee to which it delegates powers and responsibilities related to finance, management, compliance and operations. The Management Committee held 12 formal business meetings during the year. The Chief Operating Officer is the Chair of Management Committee. The Executive Director Resources, Director Investment, Director Art Strategy and Director Human Resources are permanent members. Fixed term members are nominated for one or two years and comprise of an area executive director, three regional directors and an advocacy and communications director or senior manager.

Highlights of National Council Committee Reports

During 2011/12, National Council considered key strategic issues such as:

- integration of museums and libraries functions into the Arts Council
- progress on establishing the new National portfolio of funded organisations
- transfer of responsibility of funding Tyne and Wear Archive and Museums to the Arts Council
- the resilience of the arts sector
- the on-going Arts Council organisation review
- the Arts Council's relationship with local government, one of its major partners

The four standing committees of the Arts Council met regularly throughout the year. The committees submit a report to national Council after each of its meetings. Summaries of the issues covered in the reports made to national Council in 2011/12 are set out as follows:

- reports from the Arts Investment Committee highlighted the specific investment or grant decisions it had made; this included a small number of re-assessments of

applications to join the National portfolio following an internal or independent complaints review. It also highlighted the progress being made on the development of a suite of new strategic funding programmes to support the delivery of the Arts Council's goals

- reports from the Arts Policy Committee highlighted: the progress being made on the museums and libraries integration; the work that it oversaw on the implementation of the Arts Council strategy, *Achieving great art for everyone*, which led to the publication of the Arts Council Plan in November 2011; and developments in cultural and musical education for children and young people following the publication of the Henley review and the National Plan for Music Education
- reports from the Performance and Audit Committee covered the full spectrum of its work including: the finalising of the Arts Council annual accounts 2010/11; outcomes of internal audit investigations and health and safety audits; and developments on the new performance management framework

The Remuneration Committee did not submit a report to national Council in 2011/12 but a report on its work was included in the annual accounts 2010/11.

The effectiveness of national Council

The Arts Council has a fully functioning and effective national Council. It is led by a high profile and well respected Chair. Members of its national Council are all acknowledged leaders in their fields. National Council has an appropriate mix of skills and seeks to be representative of the sector and public that it serves.

It has an impressive list of achievements in recent years. They include leading a national debate on the arts which culminated in the publication in 2010 of a new 10-year strategy for the Arts Council and the arts in England. In 2010/11, it was widely-acknowledged for having overseen the introduction of a new open and transparent investment process for the arts. In 2011 it oversaw the transfer of key functions of the Museums, Libraries and Archives Council to the Arts Council, and the launch of a new flagship Renaissance funding programme for regional museums.

Formal arrangements are in place to enable national Council and its committees to discharge their responsibilities effectively with the governance team responsible for servicing all national committee meetings and the regional offices responsible for regional council meetings. Agendas

are agreed in consultation with the Chair to ensure that all relevant items are brought to the attention of national Council. Formal minutes of each meeting and an attendance record of individual Council members are maintained by the Arts Council's governance team.

There is a clear policy on declarations of interests, gifts and hospitality for national and regional council members in the handbook. All interests declared are recorded by the governance team and members are routinely asked to check their register and update as necessary. Declarations of interests are included as an agenda item at all meetings, with members asked to declare any specific interests in the items due to be discussed. We maintain a register of interests of our national Council members, which is available on the Arts Council website and for public inspection by appointment at our Great Peter Street address.

The national Council recognises the importance of ensuring that members, as trustees, are fully briefed and introduced to their role in the organisation. All new trustees are offered an induction. This includes: meetings with the Chief Executive and Chair to discuss the role of the members and functions of Arts Council England; a range of meetings with staff about the policies, strategies and activities of the Arts Council; briefing and discussion on their responsibilities as charity trustees; and the Arts Council's policy on handling conflicts of interests. Members who are also appointed to chair a regional council receive a further induction to that role, led by the relevant regional director.

The Chair of national Council holds appraisal meetings with all council members once every two years. One-to-one meetings between the Chair and all members of national Council were held during the winter/spring 2012.

In 2010 Arts Council England introduced a new non-executive governance structure with three standing committees to enable its members to get closer to the business of the organisation so that they may provide more appropriate scrutiny and support to the executive. A review of the new committee structure was undertaken by the Director, Governance and the outcome was discussed by National Council at its meeting in December 2011. National Council agreed to retain the existing structure pending the outcome of the wide-ranging organisational review which was already underway. During 2011/12 the Council did not undertake specific self-evaluation of its effectiveness, but will consider the need to do so in the future.

Three main areas for improvement about its oversight of the Arts Council were identified.

The first related to the delegation of responsibilities to the three committees. While this had provided opportunities for small groups of national Council members to develop an in-depth understanding of the Arts Council's work and provide robust support and challenge to the Executive, for example during the 2010/2011 investment process, it was also noted that the fragmentation of responsibilities across three committees, can make it more difficult for national Council members to maintain an overview of the Arts Council's work. To address this, national Council agreed to increase the frequency of its meetings from three to four meetings a year and is looking at ways to improve its communication with national Council members on action taken in between meetings, pending a more significant review of its governance being undertaken as part of an organisation-wide review.

The second concerned national Council's role in monitoring performance. Arts Council England has established a new performance framework to monitor achievement of the milestones and goals set out in its 10-year strategy, *Achieving great art for everyone*. The role of national Council members in scrutinising performance and holding the Executive to account within that framework is still being defined. It is expected that the Performance and Audit Committee and regional councils will begin to receive regular performance reports in 2012/13.

The third related to the time available in formal council meetings to discuss art and emerging trends in various artforms. It was felt that such matters tended to be discussed informally as they were often crowded out of formal agendas by business decisions about resources and policy developments. It was agreed that additional time should be set aside for discussion of art and culture.

The Executive seeks the views of members of national Council and its committees on the balance, appropriateness and quality of the information and data it receives for decision-making and for assessing the performance of the organisation, and reflects this in improvements made in the presentation of information and data to committees. The Arts Council also undertakes periodic after action reviews of its major investment and decision-making processes, and these reviews incorporate consideration of the effectiveness of decision-making and the information used within those processes.

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Attendance at national Council meetings

The Arts Council's national Council met on four occasions in 2011/12: three ordinary meetings and one away-day. The details of individual members' attendance at those meetings is set out below.

Name	5 July 2011	6 July 2011	13 December 2011	22 March 2012	Total
Dame Liz Forgan	✓	✓	✓	✓	4
Janet Barnes			✓	✓	2
Caroline Collier	✓	✓	✓	✓	4
Jon Cook	✓	✓	✓	✓	4
Joe Docherty	✓	✓	✓	✓	4
Ekow Eshun	✓			✓	2
Sheila Healy	✓	✓	✓	✓	4
Sir Nicholas Kenyon	✓	✓	✓	✓	4
Keith Khan	✓	✓		✓	3
François Matarasso	✓	✓	✓	✓	4
Peter Phillips	✓	✓	✓	✓	4
Alice Rawsthorn	✓	✓	✓		3
Anil Ruia	✓	✓	✓	✓	4
Alistair Spalding	✓	✓	✓	✓	4
Rosemary Squire	✓	✓	✓	✓	4
Veronica Wadley	✓	✓	✓	✓	4

Statement of compliance with corporate governance code and departures

The Arts Council is a non-departmental public body and a charity but it is fully compliant with relevant principles set out in *Corporate governance in central government departments: Code of good practice 2011*. It has an effective national Council which provides leadership for the Arts Council's work. The national Council is appointed by the Secretary of State for Culture, Olympics, Media and Sport who seeks to ensure that the national Council has an appropriate range of skills and experience. The responsibilities of board members are set out in a code of practice. The national Council has arrangements in place to discharge its duties effectively and there are effective arrangements for governance, risk management and internal control.

Grants to locally governed organisations

All grants awarded by the Arts Council are subject to funding agreements and standard conditions. We satisfy ourselves that the relevant conditions are met before payments are made.

Internal control including risk

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 Arts Council England's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Arts Council England for the year ended 31 March 2012 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

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

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

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

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

Risk

During 2011/12, Arts Council England continued to manage risk at the strategic, operational, and individual project, programme and activity levels; and revise and update its risk management policies and procedures.

The Arts Council defines risk as an event or activity which affects the achievement of the Arts Council's objectives. Risks arise from threats to business activity and from the failure to realise opportunities.

Strategic risk

Strategic risks are defined as those that adversely affect the Arts Council's ability to achieve its strategy, *Achieving great art for everyone*. They also often have an adverse effect on the reputation of the organisation externally.

An annual strategic risk workshop is held to identify and assess strategic risks and risks identified are then agreed by Executive Board and assigned to an Executive Board lead and risk owner or 'manager' who will manage mitigating actions and controls thereafter.

Progress on implementing relevant controls and mitigating actions is reported on a quarterly basis to the Management Committee and Performance and Audit Committee. Risk is also a standing item at each of the monthly Management Committee meetings. A quarterly headline report on risk management is provided to Executive Board, and an annual update is formally reported to the national Council in the annual performance and audit committee report.

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2011/12 strategic risks

The following clusters of strategic risks were identified for 2011/12:

Cluster 1: the risk that the 50 per cent cut in the Arts Council's administration budget fundamentally undermines the ambition, quality and sustainability of the arts sector and the Arts Council.

The risk is being mitigated by:

- reviewing and testing our core purpose to help model our future structure, working with the arts and cultural sector, and with staff, to do this
- engaging and empowering our staff in the design of the new organisational structure
- entering into a dialogue with Department for Culture, Media and Sport (DCMS) to ensure they understand the nature of this risk

Cluster 2: the risk that the changes within DCMS lead to unrealistic or an unclear set of expectations about the role and internal capacity of the Arts Council.

The risk is being mitigated by:

- maintaining close relationships with DCMS
- building relationships with other government departments, looking for appropriate opportunities to gain influence within the context of our strategic framework *Achieving great art for everyone*
- clarifying the nature of our relationship with DCMS, agreeing with them how we will judge the success of our relationship, and keeping strategic priorities under regular review

Cluster 3: the risk that the reduction in grant-in-aid as a proportion of Arts Council funding and our greater reliance on Lottery income, constrains our ability to deliver our strategic objectives.

The risk is being mitigated by:

- contributing to a shared agenda with other Lottery distributors for use of Lottery funds
- articulating how we are aligning the two funding streams
- ensuring there is a clear distinction between the valid use of grant-in-aid and of Lottery funding
- capturing metrics on achievements and continuing to maintain strong financial controls
- ensuring a fit for purpose, sustainable and coherent design for funding programmes

Cluster 4: the risk that the integration of museums and libraries into the Arts Council is not successful, impacting on the reputation of the Arts Council and on our ability to deliver across a wider cultural footprint.

The risk is being mitigated by:

- agreeing the terms of our role with DCMS and clarifying assumptions around the implications of our taking on museums and libraries functions with DMCS
- using our strategic framework and its companion document *Culture, knowledge and understanding: great museums and libraries for everyone* as the basis for affirming our role, and as the framework for consulting with the wider cultural sector
- clear and frequent communication channels with stakeholders
- sustained communication with our own staff about the integration and our role
- appropriate induction of new museums and libraries staff
- ensuring that integration of new museums and libraries responsibilities is owned by the whole organisation

Cluster 5: the risk that arts and culture is not seen as relevant in a challenging economic and social context, impacting on our ability to argue for appropriate resources in the next spending review.

The risk is being mitigated by:

- making the case for arts and culture relevant to the social and economic context
- maintaining an impactful advocacy programme
- focusing on grant-in-aid and the benefits to the arts and culture of continued investment, supported by metrics and evidence
- finding a way to evaluate and express the intrinsic value of arts and culture
- focusing on the relevance of arts and culture to local authorities

Cluster 6: the risk that we are unable to maintain the goodwill in the sector that we have built up, impacting on our ability to deliver the aims set out in *Achieving great art for everyone* in partnership with the sector.

The risk is being mitigated by:

- ensuring we maintain an active and developing stakeholder engagement programme and regular communication with partners

- successfully integrating museums and libraries
- maintaining effective working relationships with government whilst protecting autonomy

Cluster 7: the risk that National portfolio organisations are unable to deliver a wider leadership role.

The risk is being mitigated by:

- sharing and developing our thinking on the relationship with the National portfolio organisations so that they 'own' leadership
- being realistic about what National portfolio organisations can do with the resources they have; a negotiated process with clear overview
- being clear internally and externally about how we will measure or judge success and put measures in place to share good practice
- reviewing the risks of the portfolio and individual grants to ensure our funded organisations are robust and capable of delivering
- sharing good practice

Operational risk

Operational risks may not necessarily affect the Arts Council's ability to achieve its strategy. They are lower level risks that are particular to a region, area, head office department, activity, process, programme or project.

Regions, areas and head office departments identify operational risks as part of their annual planning process, including risks identified through investment decisions. Programme and project risks are identified as part of the planning process and the control actions identified will be part of the project, programme or activity implementation plan. They are monitored and reported locally at regular management team meetings.

Where an operational risk becomes a significant or major risk that could affect the whole organisation or becomes so severe that it could impact upon delivery of our strategy, the risk is 'escalated' for consideration as a strategic risk by Management Committee.

Audit

The annual programme of internal audit work is carried out by an external firm of accountants to standards defined in the Government Internal Audit Standards. The work of internal audit is informed by the risk register, an assessment of the assurance requirements, particularly on the most significant risks facing Arts Council England, and the key day-to-day processes and systems in place.

The annual internal audit plan is based on this analysis. It is endorsed by the Executive and approved by the Performance and Audit Committee. The internal auditors receive all Performance and Audit Committee papers and attend the audit part of all Performance and Audit Committee meetings. They provide periodic progress reports including the findings of follow-up reviews, building up to an annual report on internal audit activity. This annual report includes the internal auditors' opinion on the overall adequacy and effectiveness of the systems that internal audit have reviewed. The Performance and Audit Committee reviews and discusses the progress report and the annual assurance report. The internal and external auditors meet with the Performance and Audit Committee before every meeting with no officers present.

Internal audit services have been provided by Deloitte since April 2009.

Review of effectiveness of internal control

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

Assessment of the effectiveness of internal control during 2011/12

Progress in achieving objectives set in the strategic corporate plan is monitored by the Executive Board and the national Council.

Throughout 2011/12 we monitored our strategic, operational and project risks in accordance with our risk management policy. We also continued to revise and refine our risk management policies and procedures.

For 2011/12 internal auditors reported that they were satisfied that sufficient internal audit work has been undertaken to allow them to provide a conclusion of 'adequate and effective assurance' on the design,

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adequacy and effectiveness of the system of internal control. They arrived at this conclusion having reviewed the following processes:

- National portfolio organisation review phase 1
- information technology follow-up
- PAYE and NI compliance review
- business continuity planning
- planning and performance management
- new Lottery grant programmes
- Renaissance
- financial management
- follow-up on previous years' recommendations
- regional visit – London
- regional visit – East Midlands
- regional visit – East
- risk management

Where weaknesses have been identified during the course of internal audit's work, these are reported to the Performance and Audit Committee and an action plan agreed with management to implement the recommendations agreed as part of this process.

Significant internal control issues

No significant issues have come to light during the year. In 2010/11 a significant control issue was identified in relation to the de-commitment of grants. Steps taken to improve the robustness of the governance of the associated decision making process included a review and subsequent publication of the levels of financial delegation, which has provided a general reminder of requirements.

Matters of interest

Changes to our organisational structure during 2011/12

In October 2011 responsibility for the museums and libraries activities previously managed by the Museums, Libraries and Archives Council (MLA) was transferred to Arts Council England. The year 2011/12 is a transition year during which Arts Council England took on responsibility for the Cultural Properties Unit and for some of the MLA's grant giving activities.

This meant that an additional 53 posts were added to the Arts Council's structure and 37 staff transferred from MLA to the Arts Council on 1 October 2011, with other additional posts filled through external recruitment. Pension liabilities that have already accrued pertaining to transferred staff will remain within the Principal Civil Service Pension Scheme, however Arts Council England will be required to provide for any future liabilities under the Arts Council Retirement Plan.

Our approach to human resources

In 2011, the organisation launched a new four year people and culture strategy to support the strategic aims of the Arts Council identified in *Achieving great art for everyone* and to continue the journey to an improved organisational culture which began at the time of the last major organisation review in 2009/10. This strategy identifies four interconnected pillars: collaboration; leadership; talent and resilience; and adaptability, which mirror internally the aspirations the Arts Council has for arts and cultural organisations and artists. We also believe it is important to develop the talent and leadership capability of our own people and to promote effective collaboration, resilience and adaptability to enhance our own organisation's capability to deliver.

An example of a strategic organisational development intervention during the year is the Leadership Challenge programme aimed at current leaders and senior managers. It has used a particularly innovative blend of 360-degree feedback reports, development centres, taught modules and action learning sets to promote enhanced leadership capability. This has led to those attending the programme to play a major role in the early stages of the organisation review which is currently underway. We plan to offer a similar programme to middle and aspiring managers during 2012/13. As a result of programmes like this and other positive people and cultural developments, the organisation is now

planning to aim for a higher, silver level Investors in People recognition by mid 2012.

Following the major restructure of the organisation in 2009/10, we were pleased to be shortlisted for two management of change awards by national human resources bodies, and being highly commended for the Most Successful Change Management Programme in the HR Excellence Awards.

Internally, there continues to be arrangements to promote effective communication, involvement and consultation with staff. Executive Board, Management Committee and national Council decisions are disseminated through local team briefings, our intranet and regularly emailed updates from the Chief Executive, Chief Operating Officer and others, supplemented from time to time by organisation-wide, region-wide and departmental meetings. Employee 'pulse' surveys, sampling staff opinion on the organisation review process and other significant issues for the Arts Council take place at least every six months, with the findings and action to address any concerns discussed at senior management level. Voluntary staff turnover and sickness absence rates, indicators of organisational 'health', remain low, at 8 per cent and 1 per cent respectively in 2011/12 (2010/11: 8 per cent and 1.7 per cent respectively). Another positive indicator is the low level of formal employee relations cases during the year, running at 1.5 per cent of the total headcount in 2011/12 (2010/11: 1.6 per cent).

More formally, Arts Council England recognises the trade unions Unite and Prospect (for former MLA staff) for consultation and collective bargaining, with well-established consultative arrangements. The National Joint Consultative and Negotiating Committee (NJCNC) handles negotiations about employee reward and benefits, employment terms and policies, together with consultation on restructuring proposals for the whole organisation. The NJCNC is supported by Local Joint Consultative and Negotiating Committees currently in each of the nine workplaces.

In terms of representation levels of some diverse groups within the workforce, these have dropped slightly during the year, as our headcount expanded. The proportion of our current staff who classify themselves as lesbian, gay, bisexual or transgender remains at 9 per cent (2010/11: 9 per cent) and the proportion of disabled staff dropped to 3.7 per cent (2010/11: 4.0 per cent). The proportion

of our staff who classify themselves as Black, Asian or other minority ethnic has dropped to 11.7 per cent (2010/11: 12.5 per cent). These figures will be kept under review and efforts made to ensure we maintain a diverse workforce through recruitment over the coming year. We were pleased to note that this year we were placed 75th in the Stonewall Equality Index of Top 100 Employers committed to promoting equality for lesbian, gay, bisexual and transgender employees.

Objectives and activities for the public benefit

The Royal Charter is at the core of our mission. This mission, *Achieving great art for everyone*, represents what Arts Council England is for, and reflects why John Maynard Keynes set up the Arts Council in 1946, 'to give courage, confidence and opportunity to artists and their audiences'.

Information about our strategic framework, *Achieving great art for everyone* including our goals and priorities and our activities to achieve these, and our funding programmes can be found on pages 10 to 19.

Equality and diversity

In 2011/12 our work on diversity and equality was focused around a different approach which we have called the Creative Case for Diversity and equality in the arts. Our diversity and equality work in previous years has focused on race, disability and gender, largely driven by the general and specific duty requirements under the appropriate legislation. It should be noted however, that for race equality we did not have a legal requirement to produce a race equality scheme, but did so because our standard went beyond legal compliance, and aspired towards best practice. We continue to hold this approach as our benchmark for the production of our new equality scheme for 2012–15. Both the equality scheme and the creative case have a singular objective, which is to play a significant part in our 10-year strategy, *Achieving great art for everyone*.

In September 2011 the fifth and final decibel Performing Arts Showcase was held in Manchester. The showcase successfully achieved its curatorial objectives to show the best work by modern contemporary artists with diverse practice. The new equality scheme will aim to attract organisations, perhaps consortia, to continue this valuable work.

Also in Manchester, as part of the decibel week, the Arts Council held the Creative Case Symposium to engage and seek the involvement of the arts community in our

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new initiative. With over 500 people attending and 1,000 tweets during the day, delegates and observers online endorsed our new approach whilst at the same time emphasising the need to see appropriate actions to match the intentions. More information on both the decibel showcase and the symposium can be found on the Arts Council's website.

Organisation review

The government's 2010 spending review required a reduction in our grant-in-aid administration costs equivalent to 50 per cent by 2014/15. The decrease in funding is phased over the current settlement period with the most significant cuts in 2013/14 and 2014/15. We cannot look at grant-in-aid administration separate to Lottery administration because our staff work across the two funding streams. Therefore we are taking the opportunity to review our whole operation.

The objectives of the review are to:

- reduce our administration costs to the level agreed with DCMS
- explore and implement all opportunities to improve our organisational performance
- meet the expectations and needs of all our stakeholders
- preserve our vision and values – to achieve our 10-year strategy and vision for the arts and culture as defined in *Achieving great art for everyone* and *Culture, knowledge and understanding: great museums and libraries for everyone*
- put in place an Arts Council that is 'future fit'

It is planned that the new structure will be implemented from 1 July 2013.

Subsidiary undertakings

Artco Trading Limited, registered address Central Square, Forth Street, Newcastle upon Tyne NE1 3PJ, is a wholly owned subsidiary of Arts Council England with share capital of two ordinary shares at £1 each. It runs the Arts Council's two interest-free credit schemes, Own Art and Take it away, for the purchase of works of art and musical instruments respectively.

Grant-in-aid funding of £725,000 (2010/11: £1,000,000) for these two schemes goes directly to Artco Trading Limited from DCMS. As at 31 March 2012, there are three Arts Council employees on the Artco Trading Limited board. In addition the board is currently chaired by the Executive Director, Resources. So far as the Chief Executive

is aware there is no relevant audit information of which the National Audit Office is unaware.

Ministerial directions

There were no ministerial directions issued during 2011/12 which affected Arts Council England.

Better Payment Practice Code

We attempt to abide by the Better Payment Practice Code, and in particular pay bills in accordance with contract. Invoices are normally settled within our suppliers' standard terms, usually 30 days. In 2011/12, 95 per cent of undisputed Lottery invoices were paid within 30 days (2010/11: 89 per cent).

Public sector information

On 1 April 2009 Arts Council England became a provider of official statistics under the extended scope of the Statistics and Registration Act 2008.

This means that when the Arts Council produces, manages and disseminates official statistics we strive to abide by the Code of Practice for Official Statistics published by the UK Statistics Authority in January 2009.

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

Data security and personal data

There have been no incidents of lapse of data security or loss of personal data during the year.

Principal advisers

Banker

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

Auditor

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

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

Hyman Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Solicitors

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

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Financial review

Arts Council England receives grant-in-aid from the Department for Culture, Media and Sport (DCMS) and is one of the bodies designated to distribute funds from the National Lottery by the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998).

New Lottery grant commitments (offers made and accepted) in the year 2011/12 totalled £159 million (2010/11: £84 million). At year-end, a total of £149 million (2010/11: £95 million) accepted grant commitments remained outstanding and awaiting payment together with £33 million (2010/11: £14 million) commitments offered but not accepted. This compares with a balance in the National Lottery Distribution Fund, plus bank balances, of £203 million (2010/11: £140 million). We monitor levels of Lottery income closely, and the level of outstanding grant commitments is considered prudent, based on past and projected income flows.

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

The Arts Council was committed to contribute up to £50 million in the original bid and this order allows for the transfer of up to a further £63 million. The Arts Council transferred £30 million (2010/11: £30 million) to the Olympic Lottery Distribution Fund during the year.

At 31 March 2012, our balance in the National Lottery Distribution Fund account was £194 million (2010/11: £125 million). The increase in the balance is due to the slowing down of planned payments preceding the launch of a number of new funding programmes and a significant increase in income above the forecast provided by DCMS. The cash balance at the same date stood at £9 million (2010/11: £15 million).

Further details of the activities and policies of Arts Council England are included in the National Lottery report 2011/12 (see pages 134 to 145).

Full details in relation to financial instruments are given in note 18 of the notes to the Lottery distribution accounts.

Fees paid to the National Audit Office for Lottery external audit services during 2011/12 were £65,500 (2010/11: £73,443).

The Arts Council is a participating employer in the Arts Council Retirement Plan (1994) and the West Yorkshire Pension Fund and also contributes to a group personal pension arrangement. Because these schemes are multi-employer schemes, it is not possible to identify the underlying assets and liabilities of the Arts Council. This means that pensions are treated in the accounts as if they were defined benefit schemes. Note 2b gives further details.

Alan Davey
Chief Executive
3 July 2012

Dame Liz Forgan
Chair
3 July 2012

Statement of trustees' and Chief Executive's responsibilities

Under the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998), the Arts Council is required to prepare a statement of accounts for the financial period in the form and on the basis directed by the Secretary of State for Culture, Olympics, Media and Sport, with the consent of HM Treasury. The accounts are to be prepared on an accruals basis and to show a true and fair view of the Arts Council's state of affairs at the year-end and of our incoming and outgoing resources expended and cash flows for the financial year. In preparing the accounts, the accounting officer must comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction* issued by the Secretary of State, which sets out 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 as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that Arts Council England will continue in operation

The accounting officer for DCMS has designated the Chief Executive as accounting officer for the Arts Council. The responsibilities of the accounting officer, which include the responsibility for the propriety and regularity of the finances for which the Chief Executive is answerable, for keeping of proper records and safeguarding Arts Council England's assets, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by HM Treasury.

Alan Davey
Chief Executive
3 July 2012

Dame Liz Forgan
Chair
3 July 2012

* a copy of the Accounts Direction is available from the Accounting Officer, 14 Great Peter Street, London, SW1P 3NQ.

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Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of Arts Council England's Lottery distribution accounts for the year ended 31 March 2012 under the National Lottery etc. Act 1993. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Trustees, Chief Executive and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Arts Council England's Lottery Distribution circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Arts Council England; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Review and highlighted information to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Arts Council England's Lottery Distribution accounts affairs as at 31 March 2012 and of its net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse

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

9 July 2012

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Statement of comprehensive net expenditure For the year to 31 March 2012

	Note	2011/12 £000s	2010/11 £000s
Expenditure			
Grant commitments made in the year	8	162,023	96,327
Less: lapsed and revoked commitments	8	(2,557)	(11,838)
Net grant commitments		159,466	84,489
Transfer of funds to the Olympic Lottery Distribution Fund	7	30,276	30,276
		189,742	114,765
General expenditure:			
Staff costs	2	1,641	1,625
Other operating costs	3a	706	618
Costs apportioned from grant-in-aid accounts	3b	13,716	10,387
		16,063	12,630
Total expenditure		205,805	127,395
Income			
Share of proceeds from the National Lottery Distribution Fund	7	210,500	179,728
Investment returns on the Distribution Fund	7	1,515	2,092
		212,015	181,820
Other income		1,340	390
Total income		213,355	182,210
Net (expenditure)/income		7,550	54,815
Interest receivable		19	21
Net (expenditure)/income after interest		7,569	54,836

Other comprehensive expenditure

	Note	2011/12 £000s	2010/11 £000s
Net gain/(loss) on revaluation of available for sale financial assets	7	2,362	(246)
Total comprehensive expenditure for the year ended 31 March		9,931	54,590

The notes on pages 117 to 131 form part of these accounts.

Statement of financial position As at 31 March 2012

	Note	31 March 2012 £000s	31 March 2011 £000s
Non-current assets			
Tangible assets	5	0	0
Total non-current assets		0	0
Current assets			
Trade and other receivables	6	122	145
Investments: balance in the National Lottery Distribution Fund	7	194,490	125,457
Cash and cash equivalents		8,555	15,007
Total current assets		203,167	140,609
Total assets		203,167	140,609
Current Liabilities			
Grant commitments due within one year	8	80,148	60,887
Trade and other payables	9	183	186
Due to grant-in-aid accounts		418	2,027
Total current liabilities		80,749	63,100
Non-current assets plus net current liabilities		122,418	77,509
Non-current liabilities			
Grant commitments due in more than one year	8	69,227	34,250
Assets less liabilities		53,191	43,259
Equity			
General reserve		51,074	43,505
Fair value reserve		2,117	(246)
		53,191	43,259

The notes on pages 117 to 131 form part of these accounts.

Alan Davey
Chief Executive
3 July 2012

Dame Liz Forgan
Chair
3 July 2012

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Cash flow statement For the year to 31 March 2012

	Note	2011/12 £000s	2010/11 £000s
Cash flows from operating activities			
Funds received from the National Lottery Distribution Fund	7	115,069	123,204
Other cash receipts		1,340	390
Grants paid	8	(105,228)	(109,423)
Cash paid to and on behalf of employees		(1,641)	(1,625)
Other cash payments		(16,011)	(13,051)
Net cash inflow/(outflow) from operating activities		(6,471)	(505)
Cash flows from investing activities			
Interest received		19	21
Net cash inflow from investing activities		19	21
Net increase/(decrease) in cash and cash equivalents in the period	13/14/15	(6,452)	(484)
Cash and cash equivalents at beginning of period		15,007	15,491
Cash and cash equivalents at end of period		8,555	15,007

The notes on pages 117 to 131 form part of these accounts.

Statement of changes in equity For the year to 31 March 2012

	Note	SoCNE reserve £000s	Fair value reserve £000s	Total reserves £000s
Opening reserve position at 1 April 2010		(11,331)	0	(11,331)
Transferred (to)/from the statement of comprehensive net expenditure		54,836	(246)	54,590
Opening reserve position at 1 April 2011		43,505	(246)	43,259
Transferred (to)/from the statement of comprehensive net expenditure		7,569	2,363	9,932
Closing Lottery reserve at 31 March 2012		51,074	2,117	53,191

Notes on Lottery distribution accounts

1 Accounting policies

a) Basis of accounts

We have prepared these accounts in accordance with the Accounts Direction issued by the Secretary of State for Culture, Olympics, Media and Sport in May 2002. They have been prepared in a form directed by the Secretary of State with the consent of HM Treasury in accordance with Section 35(3) of the National Lottery etc. Act 1993. They meet the requirements of the Companies Acts, and of International Accountancy Standards/International Financial Reporting Standards issued and adopted by the International Accounting Standards Board, so far as those requirements are appropriate.

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

b) Recognition of income and expenditure

All income and expenditure are accounted for on a receivable and payable basis. As required by the Secretary of State, we have made a distinction between Lottery grants that are 'hard' and 'soft' commitments. A hard commitment is when the Arts Council has made a firm offer of grant which (together with appropriate conditions) has been accepted by the recipient. A soft commitment is when we have agreed in principle to fund a scheme and made an offer, but the offer and associated conditions have not been accepted.

Hard commitments are recognised as items of expenditure in the statement of comprehensive net expenditure. Details of soft commitments are disclosed in note 8 to the accounts. Hard commitments payable within one year of the balance sheet date are recognised in the balance sheet as current liabilities. Those payable more than one year from the balance sheet date are shown as grant commitments over one year.

c) National Lottery Distribution Fund

Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Culture, Olympics, Media and Sport. However, the share of these balances attributable to Arts Council England is as shown in the accounts and, at the date of the statement of financial position, has been notified by the Secretary of State for Culture, Olympics, Media and

Sport as being available for distribution by Arts Council England for current and future commitments.

d) Taxation

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

e) Pensions

We provide a defined benefit pension scheme for our employees (the Arts Council Retirement Plan 1994) and are a participating employer in the West Yorkshire Pension Fund. However, as these are multi-employer schemes, we cannot identify our share of the underlying assets and liabilities. We have therefore accounted for the schemes as if they were defined contribution schemes, in accordance with IAS19 Employee Benefits, with the costs of the schemes charged to the statement of financial activities.

f) Apportioned costs

Arts Council England incurs indirect costs, which are shared between activities funded from grant-in-aid and activities funded from the National Lottery. We are required to apportion indirect costs properly between the two areas in accordance with good accounting practice.

It should be noted that grant-in aid accounts are prepared under the Charity SORP 2005, and as such are not impacted by IFRS. There is no material impact on the recharge to Lottery were IFRS a requirement for adoption for the grant-in-aid accounts.

g) Change in accounting policy

There has been no change in accounting policy in the period.

h) Financial instruments

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

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i) Policy on reserves

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

j) Statement of comprehensive net expenditure

The statement of comprehensive net expenditure reports the revaluation reserve on the National Lottery Distribution Fund balance as a note. The statement of financial position also shows this separately as a fair value reserve.

k) Adoption of IFRS

The Arts Council has been required to present the Lottery Distribution accounts under International Financial Reporting Standards since 2009/10.

It is a requirement of IFRS that staff costs include an accrual for any outstanding leave at the close of the year as a potential liability to the organisation. Due to the immaterial nature of this change to these accounts no adjustment for this has been included.

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

2a) Staff costs

	2011/12 £000s	2010/11 £000s
Salaries and wages	1,215	1,132
Employer's national insurance	96	92
Employer's pension contributions	204	203
Agency	126	198
	1,641	1,625

IAS 19 requires the reporting of any unpaid leave or other accrued employment rights where these are material to staff costs. In our view this cost would not be material and so no adjustment has been made in these accounts. In addition to the cost of staff working directly on lottery activities in the table above, £7,857,000 (2010/11: £5,848,000) of the costs apportioned from Arts Council England's grant-in-aid accounts (note 5) relate to staff costs.

The average number of staff engaged directly on Lottery activities for the year ended 31 March 2012 was as follows:

	2011/12		2010/11	
	Permanent Staff	Agency Staff	Total Staff	Total Staff
Management and operational	45	3	48	46

The average number of days of sickness absence per full-time employee during 2011/12 was 3.7 days (2010/11 4.0 days).

2b) Pensions

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

Arts Council Retirement Plan (1994)

The scheme is a defined benefit scheme. Other employers contributing to the scheme are the Arts Council of Wales, Creative Scotland, the Crafts Council and Creativity, Culture and Education. Because it is a multi-employer scheme, we are unable to identify our share of the underlying assets and liabilities. Consequently, we have accounted for the scheme as if it were a defined contribution scheme, in accordance with IAS19 Employee Benefits.

The scheme is financed by payments by Arts Council England and employees into a trustee-administered fund independent of Arts Council England's finances. These contributions are invested by a leading fund management company. The net market value of the scheme's assets at 31 March 2011 was £79.4 million.

An actuarial valuation of the pension fund takes place at least every three years. At the last valuation on 31 March 2010 the actuarial value of the assets using the projected unit method was sufficient to cover 74% of the value accrued to members, a deficit of £25,800,000. As a result, and on the advice of the actuary, we are now paying employer's contributions of 25.6% of pensionable salary for employees who joined prior to 1 July 2006 and 23.6% of pensionable salary for employees who joined after this date.

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

Consumer price inflation rate	3.3%
Long term rate of pay increases	4.8%
Short term rate of pay increases	3.3%
Rate of pension increases	3.3%

Amounts due to the fund at 31 March 2012 were £nil (31 March 2011: £nil).

West Yorkshire Pension Fund

We are an admitted member of the West Yorkshire Pension Fund. Providing pensions to over 200,000 members in 181 mainly local government organisations, 27 Arts Council staff participated in this scheme at 31 March 2012.

The scheme is a defined benefit scheme. However, because it is a multi-employer scheme, we are unable to identify our share of the underlying assets and liabilities. Consequently, we have accounted for the scheme as if it were a defined contribution scheme, in accordance with IAS19 Employee Benefits.

The net market value of total scheme assets at 31 March 2011 was £8.7 billion.

An actuarial valuation of the pension fund takes place every three years. At the last valuation on 31 March 2010, the actuarial value of the assets using the projected unit method was sufficient to cover 93% of the value accrued to members.

During 2010/11 employer contributions were set at 22.7% of pay which changed to 22.4% of pay plus monetary contributions equal to £5,400 in 2011/12.

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

Rate of inflation Retail Prices Index	3.8%
Rate of inflation Consumer Prices Index	3.3%
Rate of pay increases	5.3%
Rate of pension increases	3.3%

Amounts due to the fund at 31 March 2012 were £nil (31 March 2011: £nil).

Legacy Regional Arts Board pension schemes

All active Regional Arts Board pension members, except those from London Arts, transferred to the West Yorkshire Pension fund on 1 April 2002. However, their past service remained with the legacy pension provider as detailed below:

East England Arts	Cambridgeshire Council
East Midlands Arts	Nottingham Council
Northern Arts	Tyne & Wear Pension Fund
North West Arts	Greater Manchester Pension Fund
Southern Arts	Hampshire Pensions Trust
South East Arts	Surrey Council
South West Arts	Devon Council
West Midlands Arts	Staffordshire County Council
Yorkshire Arts	Remained in West Yorkshire Pension Fund

Arts Council England is responsible for meeting any further liabilities relating to Regional Arts Board employees which arise in respect of these funds. Liabilities in relation to four schemes have been cleared by making lump sum payments. The remaining schemes have not indicated that any liability exists. No provision has been made in these accounts for potential sums payable because of the uncertain nature of these liabilities.

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3a) Other operating costs	2011/12 £000s	2010/11 £000s
Travelling, subsistence and entertainment	120	78
Professional fees	82	68
Office and sundry	168	105
Irrecoverable Value Added Tax	83	133
External assessment costs	253	234
	706	618

3b) Costs apportioned from the grant-in-aid accounts	2011/12 £000s	2010/11 £000s
Staff costs	7,858	5,598
Agency staff costs	267	250
Depreciation	712	507
Travelling, subsistence and entertainment	559	334
Rent and rates	1,442	1,174
Professional fees	442	382
Office and sundry	2,088	1,435
Irrecoverable Value Added Tax	348	707
	13,716	10,387

4 Increase/Decrease in Lottery funds	2011/12 £000s	2010/11 £000s
Stated after charging:		
(a) Auditors' remuneration	66	78
(b) Staff travel, subsistence and hospitality	120	78

5 Non-current assets

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

6 Receivables	31 March 2012 £000s	31 March 2011 £000s
Prepayments and accrued income	2	2
Other receivables	120	143
	122	145

7 Investments: balance in the National Lottery Distribution Fund	2011/12 £000s	2010/11 £000s
Balance at 1 April	125,457	97,363
Share of proceeds from the National Lottery Distribution Fund	210,500	179,728
Investment returns on the Distribution Fund	1,515	2,092
Unrealised (losses)/gains	2,362	(246)
Diversion of funds to the 2012 Olympics	(30,276)	(30,276)
Cash drawn down	(115,068)	(123,204)
Balance at 31 March	194,490	125,457

The balance in the National Lottery Distribution Fund at 31 March 2012 was unaudited at the date of signing these accounts.

Arts Council England's ongoing commitments policy can be summarised as follows:

Arts Council England will set additional commitments at a level to ensure that our National Lottery Distribution Fund balance continues to reduce but does not fall below an acceptable limit. This limit is based on our assessment of the risks and uncertainties involved in forecasting ticket income, payments on existing commitments and the need to manage the impact of the diversion of funds to the Olympics. The projection of ticket income is informed by forecasts provided by DCMS.

Olympic Lottery Distribution Fund contribution	2011/12 £000s	2010/11 £000s
Olympic Lottery Distribution Fund contribution remaining	14,103	44,379

The Arts Council along with other Lottery distributors is required to make a contribution from balances to help fund the 2012 Olympics.

A total contribution of £112.5 million was set, and is payable as outlined below.

	2008/09	7,569
	2009/10	30,276
	2010/11	30,276
	2011/12	30,276
	2012/13	14,103
		112,500

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8 Soft and hard commitments	31 March 2012 £000s	31 March 2011 £000s
Soft commitments brought forward	14,125	14,828
Soft commitments transferred to hard commitments	(162,023)	(96,327)
Soft de-commitments	(405)	(110)
Soft commitments made	181,634	95,734
Balance of soft commitments outstanding carried forward	33,331	14,125
Hard commitments brought forward	95,137	120,071
Hard commitments met in the last year	(105,233)	(109,423)
Hard de-commitments	(2,557)	(11,838)
Hard commitments made	162,023	96,327
Balance of hard commitments outstanding carried forward	149,370	95,137
Ageing of hard commitments:		
2011/12	n/a	60,887
2012/13	80,148	22,833
2013/14	39,501	11,417
Post 2014/15	29,721	0
Total hard commitments	149,370	95,137

Commitments accounted for are limited to those where there has been written acceptance from the grant recipient.

9 Current liabilities	31 March 2012 £000s	31 March 2011 £000s
Trade payables	2	20
Accruals and deferred income	125	166
Provision for doubtful debts	56	0
	183	186

10 Leases

There were no commitments under non-cancellable operating leases at 31 March 2012 (31 March 2011: £nil).

11 Capital commitments

There were no contracted capital commitments at 31 March 2012 (31 March 2011: £nil).

12 Charges on assets

Since November 1997, the standard conditions for grants give Arts Council England an option to take a formal charge on assets for building projects for grants exceeding £250,000.

13 Cash flow reconciliation

Reconciliation of operating surplus/(deficit) to net cash flow from operating activities.	2011/12 £000s	2010/11 £000s
Operating surplus/(deficit)	9,931	54,590
Interest receivable	(19)	(21)
Unrealised (gain)/loss on investment	(2,363)	246
(Increase)/decrease in receivables and prepayments	(66,646)	(28,468)
Increase/(decrease) in payables	52,626	(26,852)
Net cash inflow/(outflow)	(6,471)	(505)

14 Reconciliation of net cash flow to movement in funds

Increase/(decrease) in cash and cash equivalents in the year	2011/12 £000s	2010/11 £000s
Increase/(decrease) in cash and cash equivalents in the year	(6,452)	(484)
Funds at 1 April	15,007	15,491
Funds at 31 March	8,555	15,007

15 Cash and cash equivalents

Cash and cash equivalents	1 April 2011 £000s	Cash Flow £000s	31 March 2012 £000s
Cash and cash equivalents	15,007	(6,452)	8,555
	15,007	(6,452)	8,555

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16 Reconciliation of transactions with delegate bodies

National Foundation for Youth Music (Youth Music)

The National Foundation for Youth Music (NFYM) is a delegate body of Arts Council England in distributing lottery funds. Transactions in these accounts relating to this delegation reconcile to transactions in the accounts of NFYM as follows:

	2011/12 £000s	2010/11 £000s
Transactions in Arts Council England accounts:		
Grant commitments in the year	10,000	10,000
NFYM payables balance as at 31 March	2,000	4,000
This reconciles to NFYM's accounts for the year ended 31 March as follows:		
Balance at 1 April	5,299	4,485
Incoming funds: Arts Council England grant	10,000	10,000
other funds	4,921	8,103
Outgoing funds: grant expenditure	(10,149)	(13,925)
other expenditure	(6,377)	(3,364)
Balance at 31 March	3,694	5,299
Arts Council England receivables balance as at 31 March	2,000	4,000

The 2011/12 figures were unaudited at the date of signing these accounts.

17 Related parties

17a) Council members

Arts Council England maintains publicly available registers in which Council members declare their interests, including any direct interests in grant applications made to and commercial relationships with Arts Council England. The declared interests in grant recipients for the year ended 31 March 2012 are detailed below. Payments made to these grant recipients during the course of the year are not disclosed here; please refer to the related parties note in previous years' annual reviews for information.

Grant for the year ended 31 March 2012 £000s	Balance unpaid at 31 March 2012 £000s	Soft grant commitment at 31 March 2012 £000s	Organisation	Council member	Relationship
100	50	0	York Cultural Company	Janet Barnes	Partnership with Riding Lights York Theatre Royal
124	57	0	York Museums Trust		Chief Executive
0	500	0	London Organising Committee of the Olympic Games and Paralympic Games Ltd	Keith Khan	Former Head of Culture

Grant for the year ended 31 March 2012 £000s	Balance unpaid at 31 March 2012 £000s	Soft grant commitment at 31 March 2012 £000s	Organisation	Council member	Relationship
10	1	0	The Hip-Hop Shakespeare Company		Business partner of KK Associates founder and director
0	10	0	Art on the Underground		Board member
0	10	54	Rich Mix		Former Chief Executive
0	24	0	UK Centre for Carnival Arts		Creative director of Carnival Crossroads: East of England Carnival Project
13,952	12,580	0	The Southbank Centre		Former employee
60	30	0	City Arts (Nottingham) Ltd	François Matarasso	Partner is former board member
0	1	0	The Big Art Trust		Board member
65	3	0	Lawnmowers		Artist
9	1	0	Cobweb Orchestra	Peter Standfield	Member
108	75	23	Northern Stage Company		Partner is board member
0	10	0	Cornwall County Council	Sheila Healy	Former Chief Executive
0	0	217	Kneehigh Theatre Trust		Board Member
0	11	0	Museums, Libraries and Archive Council		Former board member for National Review of Libraries & independent panel member for modernising museums
99	50	0	Shropshire Council		Former Interim Chief Executive
10	1	0	Tate St Ives		Member, advisory council
389	222	0	Greater London Authority	Veronica Wadley	Member for music education steering group and Mayor's fund for young musicians board
1,545	1,545	0	Northern Ballet		Board member
21	21	0	Whitechapel Gallery	Alice Rawsthorn	Trustee
10	1	0	British Centre for Literary Translation	Professor Jon Cook	Employee of the University of East Anglia and line manager for director of BCLT
0	1	0	Egg Box Publishing		Director
0	7	0	Sainsbury's Centre for Visual Arts at UEA		Chair
540	493	0	Writers' Centre Norwich		Board member and partner is former employee

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Grant for the year ended 31 March 2012	Balance unpaid at 31 March 2012	Soft grant commitment at 31 March 2012	Organisation	Council member	Relationship
£000s	£000s	£000s			
389	222	0	Greater London Authority	Ekow Eshun	Board member of 'fourth plinth' commissioning group
0	40	0	Institute of Contemporary Arts		Former employee
0	500	0	London Organising Committee of the Olympic Games and Paralympic Games		Member of the public realm commissioning advisory panel
0	7	0	University of Arts, London		Schools Governor
149	149	0	Dance UK	Alistair Spalding	Former chair
80	43	0	Pioneer Theatres Ltd		Co-producing an Olympic project with Sadler's Wells
300	300	0	Dance Consortium Ltd		Director
200	100	0	Youth Dance England		Host venue is Sadler's Wells
353	353	0	Sadler's Wells Trust		Chief Executive
130	13	0	English Stage Company Ltd	Rosemary Squire	Son is trainee producer
145	145	912	Rambert Dance Company		Partner is Chair
150	165	0	The Hall for Cornwall Trust		Director
0	10	0	Contemporary Art Society	Caroline Collier	Former board member
363	293	0	Artichoke Trust Ltd	Nicholas Kenyon	Partner is board member
0	6	0	Barbican Centre		Managing Director
0	500	0	London Organising Committee of the Olympic Games and Paralympic Games Ltd		Cultural Olympiad board member
122	122	0	Modern Masterpieces		Other/Resident company at the Barbican Centre
1,489	1,489	0	North Music Trust		Board member
120	132	0	Serious Events Ltd		Other/Resident company at the Barbican Centre
50	31	0	The British Broadcasting Corporation		Former employee
185	106	0	The Dartington Hall Trust		Trustee
200	214	85	Birmingham Opera Company	Peter Phillips	Board member
3,695	3,695	0	Welsh National Opera		Former board member

17b) Directors and senior managers

Executive directors and senior managers at Arts Council England are also required to declare any direct interests in grant applications made to and commercial relationships with the Arts Council. The interests in grant recipients declared for the year ended 31 March 2012 are detailed below. Payments made to these grant recipients during 2011/12 are not disclosed here; please refer to the related parties note in previous years' annual reviews for information.

Grant for the year ended 31 March 2012	Balance unpaid at 31 March 2012	Soft grant commitment at 31 March 2012	Organisation	Executive Director/Senior Manager	Relationship
£000s	£000s	£000s			
40	40	0	Modern Art Oxford	Andrew Nairne	Former employee & Associate & Family member is on board
57	132	0	The Artangel Trust		Family member is an employee
24	27	0	Suffolk County Council	Laura Dyer	Family member is an employee
0	78	140	The Stables	Moira Sinclair	Partner is employee
60	8	0	University of Lincoln		Board member
198	145	0	Corn Exchange (Newbury) Trust	Sarah Maxfield	Board member
0	100	0	Oxford Inspires		Former Chief Executive
0	0	262	Phoenix Dance Theatre	Janet Archer	Former board member
100	50	0	Liverpool Biennial of Contemporary Arts	Alison Clark-Jenkins	Close friend of employee
34	3	0	Nottingham City Council	Brian Ashley	Former employee
10	1	0	November Club	Nicholas Baumfield	Former board member
0	0	25	The Shed	Sarah Bond	Steering group member
10	10	0	Metro-Boulot-Dodo Ltd		Close friend of company members
10	0	0	Hatch		Close friend
10	1	0	Michael Pinchbeck		Close friend
77	39	0	Serendipity Artists Movement	Paul Brookes	Partner is artistic director
540	493	0	Writers' Centre Norwich	Antonia Byatt	Family member is board member
17	8	0	London Borough of Lewisham	Philip Cave	Family member is an employee

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199	99	0	Music Beyond Mainstream	Neil Darlison	Former board member
10	10	0	Northampton Theatres Trust		Board member
65	132	0	Warwick Arts Centre/ University of Warwick		Former employee
70	35	0	Good Vibrations	Susanna Eastburn	Family member is director
33	3	0	Lena Sass	Simon Fitch	Other family member is employee
0	3	0	Arts NK		Other family member is employee
0	59	0	North Kesteven District Council		Other family member is employee
50	25	0	Tate Liverpool	Michelle Freeman	Former employee
32	29	0	Theatre Bristol	Phil Gibby	Partner is employee
60	6	0	Tobacco Factory Arts Trust		Former trustee
3,695	3,695	0	Welsh National Opera		Former employee
20	10	0	Mind the Gap	Tessa Gordziejko	Family member is employee
0	0	49	Tate Gallery	Peter Heslip	Former employee
109	116	0	Tutti Fruitti Productions	Mark Hollander	Partner is employee
20	0	635	Royal Liverpool Philharmonic Society		Close friend is employee
30	3	0	New Writing North	Matthew Jarrett	Partner is board member
10	1	0	November Club		Partner is board member
10	5	0	Children's Discovery Centre, East London	Anna Jobson	Former board member
50	31	0	The British Broadcasting Corporation	Simon Jutton	Partner is employee
42	0	0	I Love West Leeds Festival	Cluny Macpherson	Close friend is employee
8	1	0	Chrysalis Arts Development Ltd	Pete Massey	Close friend is employee
35	4	0	Create Arts Development		Former employee
4	0	0	Crescent Arts		Former board member
25	52	0	North Yorkshire County Council		Close friend is employee

Grant for the year ended 31 March 2012 £000s	Balance unpaid at 31 March 2012 £000s	Soft grant commitment at 31 March 2012 £000s	Organisation	Executive Director/ Senior Manager	Relationship
0	1	0	Artist Parents Talking	Pete Massey	Partner is artist/practitioner
0	10	10	Wunderbar Festival	Marie Nixon	Former close friend is employee
10	1	0	Modular Projects Ltd		Former close friend is employee
57	23	0	Freewheelers Theatre Company	Marina Norris	Partner is artist/practitioner
0	11	0	Museums Libraries Archives Council	Wendy Parry	Former employee
13,952	12,580	0	Southbank Centre (Hayward Gallery)	Rachel Smithies	Partner is employee
0	1	0	All About Audiences	John Sprackland	Partner is employee
30	34	0	The National Football Museum Ltd	Hedley Swain	Board member
30	15	0	Liz Aggiss	Mairead Turner	Close friend
100	90	0	Wakefield Theatre Trust	Bill Vince	Former board member
97	49	0	Yorkshire Dance		Former employee
3,460	3,420	0	A New Direction	Sophie Woodward	Partner is employee

17c) Other government bodies

The Department for Culture, Media and Sport is the sponsoring department for Arts Council England and is regarded as a related party. The National Foundation for Youth Music is similarly regarded as a related party by virtue of its funding relationship with the Arts Council. At the year end Arts Council England had the following balances outstanding with other government bodies:

	Payables 31 March 2012 £000s	Receivables 31 March 2012 £000s
Balances with other central government bodies*	768	194,490
Balances with local authorities	15,071	15
Balances with NHS Trusts	134	0
Balances with public corporations and trading funds	31	0

* the receivables figure relates to our balance in the National Lottery Distribution Fund

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18 Financial Instruments

Cash requirements for Lottery expenditure are met by drawing down against weekly forecasts of need from the balances held on behalf of the Arts Council by the National Lottery Distribution Fund. At 31 March 2011 the fund balance was £125 million. This had increased to £194 million by 31 March 2012, at which point there were £100 million of grant commitments yet to be paid out. In budgeting for current expenditure the Arts Council balances the anticipated outflow of cash payments against grant commitments along with forward forecasts of Lottery income. The Arts Council is confirmed as a Lottery distributor until 2019. This means that the Arts Council is exposed to little immediate credit, liquidity or market risk.

18a) Liquidity risk

In 2011/12, 98.7% of Arts Council England's income derived from the National Lottery. The remaining income derived from investment returns from the balance held with the National Lottery Distribution Fund of 0.7%, and from bank interest and other income of 0.6%.

	£000s
At the balance sheet date, Arts Council England had net assets of :	53,191

We do not believe that we are exposed to significant liquidity risks, and are satisfied that we have sufficient current liquid resources to cover our projected payments over the next financial year.

Liquid assets as at 31 March 2012:	£000s
Market value of National Lottery Distribution Fund investments	194,490
Cash and cash equivalents	8,555

18b) Interest rate risk

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

At the balance sheet date, the market value of the Arts Council's share of the National Lottery Distribution Fund was £194,490,000. In the year, the average return on these investments was 2.26 % (2010/11 1.13%).

	Fund Balance	Investment return	Average return	Proportion of total income
2010/11	125,457	2,092	1.13%	1.15%
2009/10	97,363	1,396	0.58%	0.81%
2008/09	129,622	7,122	3.72%	4.66%
2007/08	155,552	11,272	6.05%	7.41%

Cash balances which are drawn down by Arts Council England from the National Lottery Distribution Fund to pay grant commitments and operating costs are held in an instant access variable rate bank account, which carried an interest rate of 0.22% below base rate during the year. The cash balance at the year end was £8,555,000.

18c) Foreign currency risk

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

18d) Financial assets by category

	2011/12 £000s	2010/11 £000s
Receivables due within one year		
Accrued income	2	2
Other receivables	120	143
	122	145
Investments		
National Lottery Distribution Fund	194,490	125,457
Cash and cash equivalents		
Cash and cash equivalents	8,555	15,007
Total	203,167	140,609

18e) Financial liabilities by category

	2011/12 £000s	2010/11 £000s
Trade payables	2	20
Accruals	125	166
Due to Arts Council grant-in-aid accounts	418	2,027
Grant payables falling due within one year	80,148	60,887
Grant payables falling due over one year	69,227	34,250
	149,920	97,350

19 Exceptional items

The balance brought forward into 2010/11 relates to a provision for the anticipated redundancy costs of the organisation review implemented on 1 April 2010 which was made in 2008/09. This provision was based on the change in staff numbers in total expected from the announced organisation review, and an assessment of the impact of individual decisions made by staff affected in applying for new posts, and the fit that existing staff had in meeting the requirements of these posts. The estimate therefore was based on the total projected number of staff affected, the average pay for that group, and the varying terms and conditions that applied to groups of staff at the point of decisions being taken.

	2011/12 £000s	2010/11 £000s
Balance brought forward	0	865
Provided in year	0	0
Released	0	(865)
Balance carried forward	0	0

20 Events after the reporting period

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

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National Lottery report



Theatre Hullabaloo,
The Night Pirates.
Photo: Mark Savage

National Lottery report

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

Policy Directions

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

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

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

Our strategic framework *Achieving great art for everyone* was published in November 2010 to encourage shared purpose and partnerships across the arts. It provides the rationale for our investment in the arts and will inform our future funding decisions. It has been shaped by the views of artists, arts organisations, the public and our many other stakeholders and partners.

We introduced a regular Stakeholder focus survey in 2009, helping us to strengthen our relationships with the public and other stakeholders and to support our mission to bring great art to everyone. The aim of the research is to ensure we are in touch with the views of our external stakeholders and the public, and to explore levels of trust and confidence in the Arts Council, as well as perceptions of accountability. In April 2012, we published the findings from the 2011 research by independent research agencies DCA and ICM Research. We are determined to have a clear vision, complemented by strong, supportive and responsive relationships with all those we work with. The research is being repeated in 2012/13 in order to track any changes in opinions and to track the Arts Council's progress.

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

Informed by a major consultation, *Achieving great art for everyone* sets out a 10-year vision with five ambitious goals at its heart. Within each goal, we set out why it is an important area of work, what we will do and what success looks like. We also indicate the priorities within each goal that we will focus on during the period 2011–

15. The *Arts Council Plan*, published in autumn 2011, described our approach to these priorities in more detail.

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

At the end of January 2012, we launched Creative people and places, a £37 million fund over three years aimed at focusing investment in parts of the country where people's involvement in the arts is significantly below the national average, with the aim of increasing the likelihood of participation.

Criteria for Grants for the arts require applicants to demonstrate specifically how the funding applied for provides opportunities for the public to engage with the arts activity. There is additional priority given to projects that are happening in areas of low cultural infrastructure and those that aim to engage people who would not usually take part in arts activities. Grants for the arts continues to give priority during the application process to applicants who are applying for funding for the first time. For example, Stella Libraries received £86,000 for an initiative in partnership with all 33 of London's library authorities. One book is chosen for the whole city to read and discuss over a concentrated month-long period each year, and is brought to life by a series of wide-ranging events. The artistic programme includes large-scale reading groups, a graphic novel commission, author events, film screenings, theatre shows, newly-commissioned hip-hop performances and workshops, family events, writers' residencies and a significant strand of digital activity.

Another example is our funding for Kajans, a social enterprise that works with adults, children and young people, delivering arts, education, enterprise, health and social welfare programmes for the diverse population of Aston, one of the most deprived wards of Birmingham. Its new building launched in February 2011 and received £695,000 Lottery funding from the Arts Council.

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

Children and young people remain a development priority at the heart of our organisational plan for 2008–11. We continue to assess applications for Grants for the arts funding as to how well they meet the needs of children and young people.

This year, Grants for the arts awarded £28,721,121 to arts projects specifically aimed at children and young people. For example, Scene & Heard were awarded £10,000 for a programme of mentoring and performances in playwriting and acting for young people in Somers Town, provided by volunteer theatre professionals. Children take the lead is a project, awarded £67,551, that invites children to take the lead in exploring high quality art and culture, with a particular focus on visual arts organisations working with organisations such as Kettle's Yard and Yorkshire Sculpture Park. Key2Radio 103 is a participatory arts project receiving £10,000, which helps to provide opportunities for hard to reach and disengaged young people to develop digital arts and broadcast skills – through a series of participatory arts workshops to develop digital/technical, creative writing and performance skills.

We awarded Turner Contemporary gallery in Margate £4.2 million Lottery funding and the building opened in April 2011. In its first year, the gallery welcomed 495,000 visitors (more than treble what was predicted) including 20,000 people who had never been to an art gallery before and over 35,000 more children visiting with their families.

In 2011, the firstsite gallery in Colchester was nominated for a 'Family Friendly Museum Award' by the Kids in Museums organisation. As well as making the gallery accessible and being height and language aware, firstsite has created a dedicated children's guide so children can navigate themselves around the exhibitions and interpret the artwork on their own.

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

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

In December 2011 a new £45 million Strategic touring programme was launched for funding during 2012–15. It is designed to encourage collaboration between organisations so that more people across England experience and are inspired by the arts, particularly in places which rely on touring for much of their arts provision.

Through Grants for the arts we have also supported festivals and other events of national significance, such as MANDALA, a large-scale outdoor sited work. The project involves newly-commissioned live South Asian music and dance with 3D projections on civic buildings in both Birmingham and Nottingham.

Other projects include an award of £10,000 to Red Dog Theatre which works with disadvantaged and homeless young people to support their transition back into the community through participatory workshops which allow them to work alongside professional artists to develop and extend their skills, confidence and community spirit. Breathing Space Art by Asha Munn, receiving £49,071, is a participatory photographic project that engages victims of crime and is a reversal of her award-winning project supported by Grants for the arts in 2010 that invited participation from young offenders. The project is also supported by Yorkshire Sculpture Park and Victim Support.

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

Grants for the arts encourages high quality experiences for people participating in the arts. Voluntary and community groups are eligible to request funding and we aim to support participation through the programme. For example, Hartfield Community Play received £45,630 funding to support the production of a community promenade play for and about Hartfield village in East Sussex. There are 226 local volunteers involved in the delivery of the project, 96 of whom are in the play itself. The Steering Committee is representative of a number of different groups in the village including the parish council, history society, Ashdown Forest Conservators, school parents, playschool staff, Hartfield guides and a local school for young people with epilepsy.

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

The Grants for the arts assessment criteria support excellence, promote development opportunities for artists, and encourage innovation and artistic risk. We place additional priority on development of new ideas and the use of arts in new contexts, formats and places. Examples include FutureEverything which received £84,000 in support of Truth and Beauty at London 2012, an innovative and ground-breaking digital arts project for the Cultural Olympiad. The work will present a visualisation of online expressions of emotion and audience response

National Lottery report

during individual sporting events held at the London 2012 Olympic and Paralympic Games. Green Eyed Zero received £9,632 for a small tour of *Folie a Deux* an innovative combination of digital technology, circus skills and physical theatre. The piece takes the audience on a journey through the minds of two characters who are sharing a room in a mental health facility. Aoife Mannix was given £9,160 for *Misunderstood Monsters*, an exciting new interactive performance for children which uses poetry, live music, and digital technology. Using a smart phone app, which can be downloaded later by parents, St George tracks down monsters created by the young audience members.

The new home for Phoenix Dance Theatre and Northern Ballet, which received £4 million of funding through Arts Council England, won Best Arts Project in the 2011 National Lottery Awards. This award coincided with the companies celebrating their first anniversary in their new home. The building officially opened in January 2011 and since then both companies have created and toured new dance productions around the UK, and provided world-class dance training to the next generation of budding professional dancers and to thousands of people of all ages and abilities.

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

All of our application processes, as well as those of our delegate Youth Music, require applicants for funding to clearly demonstrate the expected public benefit of their proposed activity. We give this careful consideration during our assessment processes.

i) The need to further the objectives of sustainable development.

Under our new capital investment programme 2012–15, we are committed to furthering the objectives of sustainable development and expect projects, as far as possible, to take account of all long-term benefits and costs – environmental, social and economic. Organisations will need to respond to legislative changes around climate change and acknowledge the increasing public pressure for responsible sustainable development. We expect organisations applying for capital investment to consider energy efficiency as a priority.

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

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

We welcome and encourage applications to Grants for the arts from organisations wishing to improve their longer-term sustainability by developing their organisational resilience. Through Grants for the arts we invested over £10 million in organisational and business development in 2011/12.

In addition to these one-off grants, we have delivered and are evaluating programmes aimed at helping organisations undertake change projects to secure their financial and organisational future. This includes Thrive (a fund to enable organisations to improve aspects of their performance that would lead to greater sustainability for them or the sector within which they operate), Sustain (our response to the impact of the recession on arts organisations whose sustainability is important in delivering our mission of great art for everyone) and a one-off action research programme providing tailored support to a small number of organisations facing challenges or opportunities in organisational development.

l) The desirability of working jointly with other organisations, including other distributors.

We work with a number of partners in a variety of ways to help get the most out of our Lottery money and the projects we fund. When assessing applications to Grants for the arts, we regularly seek comments from local authorities on applications that benefit or take place in their area. With major capital projects, we work closely with other funders to ensure that we have a common understanding and approach to the particular circumstances of each project. We continue to meet regularly with the other distributors to explore and discuss the best ways to get the most out of Lottery money for the good causes.

Catalyst, our new £100 million culture-sector-wide private giving investment programme, is aimed at helping cultural organisations diversify their income streams and access more funding from private sources by developing organisational expertise and approach to funding.

Catalyst has been created with joint investment from the Arts Council, Heritage Lottery Fund and the Department for Culture, Media and Sport (DCMS).

m) The need to ensure that all those receiving Lottery money acknowledge it using the common Lottery branding.

We recognise how important it is that the public can see how the Lottery has benefited the arts and other good causes. We make it a condition of funding for all successful applicants that they acknowledge receiving Lottery funding by using the common Lottery branding.

n) The need to require an element of partnership funding, or contributions in kind from other sources, to the extent that this is reasonable to achieve for different kinds of applicants in particular areas.

All our funding programmes require applicants to demonstrate their ability to attract partnership funding from other sources when this can be reasonably expected. We believe that this is important not only because it means that our Lottery funds go further, but also because it demonstrates that the proposed activity has the support of the wider community and others. The new Catalyst programme requires organisations to raise money from private giving as match funding for their grants.

o) The need (a) to support projects which are for a specific, time-limited purpose, (b) to ensure that Arts Council England has the necessary information and expert advice to make decisions on each application and (c) for applicants to demonstrate the financial viability of projects.

We have only ever used Lottery funding for specific time-limited projects. Our application materials and assessment processes have been reviewed and developed over a number of years to ensure that we have the necessary information on which to base decisions.

In the case of major capital projects, all applications for funding are assessed against a number of criteria comprising: leadership, governance and project management; sustainability and resilience; partnership funding; capital costs; quality of capital proposals.

Monitoring and evaluation

We continue to use a single set of principles to inform the level of monitoring we carry out for each of our funding programmes. The level is based on an analysis of risk that takes into consideration:

- the amount of money involved
- the strategic importance of the activity
- any other risk factors

We do not necessarily avoid risk; it is often a central aspect of the creative process. Our approach is to manage risk by carefully assessing all applications we receive and tailoring our monitoring requirements on a project-by-project basis. Where the risks associated with a project are considered low, a 'light touch' approach is adopted, enabling us to concentrate our resources on monitoring and supporting projects where the risks may be higher.

We evaluate our funding programmes regularly to assess whether they are delivering the benefits that we expect for artists, arts organisations and the wider public. We use the findings of such evaluations to refine existing programmes and inform the development of future ones.

We describe how we approached monitoring and evaluation for each of the programmes below.

Grants for the arts

Grants for the arts is our flagship open application programme that provides Lottery funding to individuals, organisations and for national activities. Grants range from £1,000 to £200,000 and can cover activities lasting up to three years; 2010/11 was the eighth full year of operation. An appropriate level of monitoring for each project is determined during the assessment stage of each application. Our assessors consider what likely risks a project may face and, if thought necessary, additional conditions are attached to our offer of funding. These conditions require projects to demonstrate either before or during their activities that they have taken appropriate steps to mitigate the risks that we have identified. We undertake an ongoing training programme for our assessing staff to ensure consistency in how we apply our monitoring principles.

Further details on how we assess and monitor applications and awards can be found on our website.

Youth Music (National Foundation for Youth Music)

Youth Music is a UK charity using music to transform the lives of disadvantaged children and young people. It funds, supports and develops exemplary music provision at every stage of a young person's development.

Youth Music distributes approximately £9.2 million of Lottery funds on our behalf through a number of grant modules backed up by the Youth Music Network

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(an online community connecting organisations and individuals). The work helps children and young people with least opportunity discover their creativity and potential through music making.

Youth Music uses the Charities Evaluation Services Outcomes Framework as the basis for effectively assessing, monitoring and evaluating these schemes, sharing the emerging findings and good practice widely across the sector.

Further information on Youth Music's activities is available from Youth Music's website.

Strategic Lottery programmes

Strategic funding will be used alongside our National portfolio investment to target particular challenges, opportunities or gaps in the delivery of those priorities. It will be open to any individual, organisation or consortia that meet the eligibility criteria.

Awards will support additional work, rather than the running costs of arts organisations. National portfolio organisations that apply will need to show how work supported by strategic funding is additional to their core programme.

Strategic funding must be invested in arts activities, as required by Lottery regulations. Museums and libraries can therefore only apply to this programme for work that is primarily arts focused.

In 2011/12, we ran a Lottery programme for new commissions for The Space. The Space is a new, experimental pilot service, managed by Arts Council England and developed in partnership with the BBC. It has been designed to give arts and culture organisations the opportunity to experiment and engage with new and existing audiences in a completely innovative digital environment.

We committed £3.5 million of Lottery funding to The Space in order to fund 53 new art commissions to be shown on the platform.

Audience focus

Audience Focus is a £7.5 million fund from which we will commission work to make the arts more audience focused, and invest in initiatives that increase, widen and sustain audiences and visitors for the arts.

The fund, which launched in November 2011, aims to achieve the Arts Council's goal of encouraging more people to attend and participate in the arts by helping arts organisations better understand, retain and expand their audiences. Three major awards were made in the first round and these were announced in February 2012.

The commissions were awarded to three large-scale, exciting and ambitious programmes, each of which covers one of the objectives of the fund: understanding audiences; collaborative action; and best practice.

For the understanding audiences part of the fund, the Arts Council has offered £3,268,000 over three years to Audiences Plus, a consortium of specialist audience development agencies led by All About Audiences and Audiences London.

This new national consortium, based in Manchester and London, will provide one-to-one support to organisations, as well as a number of innovative new tools and resources to help them better understand their current and potential audiences. These will include a national database of arts attendees, an online audience analytics system and a DIY audience focus toolkit.

For the collaborative action part of the fund, a consortium led by the Association of British Orchestras has been offered £1.1 million over three years to develop Family Friendly Arts, a large-scale national programme to increase levels of engagement by families and young people. It will be run by a consortium of arts membership organisations from across the visual and performing arts sectors, including the Theatrical Management Association, Society of London Theatre, Independent Theatre Council, Visual Arts and Galleries Association and Dance UK.

For the best practice part of the fund, the Arts Council has awarded the Arts Marketing Association almost £900,000 over three years to develop a new national service to collate, share and implement efficient and effective arts marketing and audience development techniques.

The Arts Marketing Association is the professional development body for those working in arts marketing and audience development. It will work alongside a range of specialist agencies and consultants to help organisations find the best ways to attract both digital and live audiences.

Knowledge gained from all the programmes will be available to arts organisations, museums and libraries, local authorities and the wider cultural sector.

Around £2 million of funding remains for a second round of applications to the Audience focus fund. This will be used to address any needs the Arts Council identifies as not being fully addressed by the first round of commissions. Details of how to apply for the second round will be announced in late 2012.

Creative people and places

Creative people and places a £37 million fund, will focus our investment in parts of the country where people's involvement in the arts is significantly below the national average, with the aim of increasing the likelihood of participation.

Over three years, the Creative people and places fund will invest in around 15 programmes of activity that use radical new approaches to developing excellent, inspiring and sustainable arts experiences for communities not currently engaging with the arts.

The Arts Council has used the Active People survey to identify 71 areas of the country which fall into the lowest 20 per cent of arts engagement. Typically, grants of between £500,000 and £3 million will be invested in a number of these areas with the aim of increasing participation.

The Creative people and places programme opened to applications on 30 January 2012 and the first round of successful applications will be announced in August 2012.

Excellence, both artistic and in engaging communities, will be at the heart of successful applications, with the Arts Council investing in programmes that encourage long-term collaborations between local communities and arts organisations, museums, libraries and local authorities.

As well as increasing artistic participation in these areas, the Creative people and places investment will help the Arts Council learn about the impact of different approaches to increasing engagement. The knowledge gained from the programme will be made available to arts organisations, museums and libraries, local authorities and the wider cultural sector.

Mature funding programmes closed to new applications

The following programmes have been closed to new applications for a number of years and have a small, dwindling number of awards that require monitoring:

- major capital programmes (small capital awards can still be made through Grants for the arts)
- stabilisation and recovery

Details of how we monitor these programmes can be found on page 137 and in paragraph o) above.

Financial Directions

Under section 26(3), (3a) and 4 of the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998), the Secretary of State issued Financial Directions to the Arts Council, as set out below.

The Arts Council of England ('the Council') shall comply with the requirements contained within the attached Statement of Financial Requirements, which have the status of Directions under section 26 of the National Lottery etc Act 1993, as amended ('the Act'). The Statement of Financial Requirements complements the Council's Management Statement and Financial Memorandum (MS/FM), which deals with corporate management matters and with the application of non-Lottery funds, and should be read in conjunction with the MS/FM.

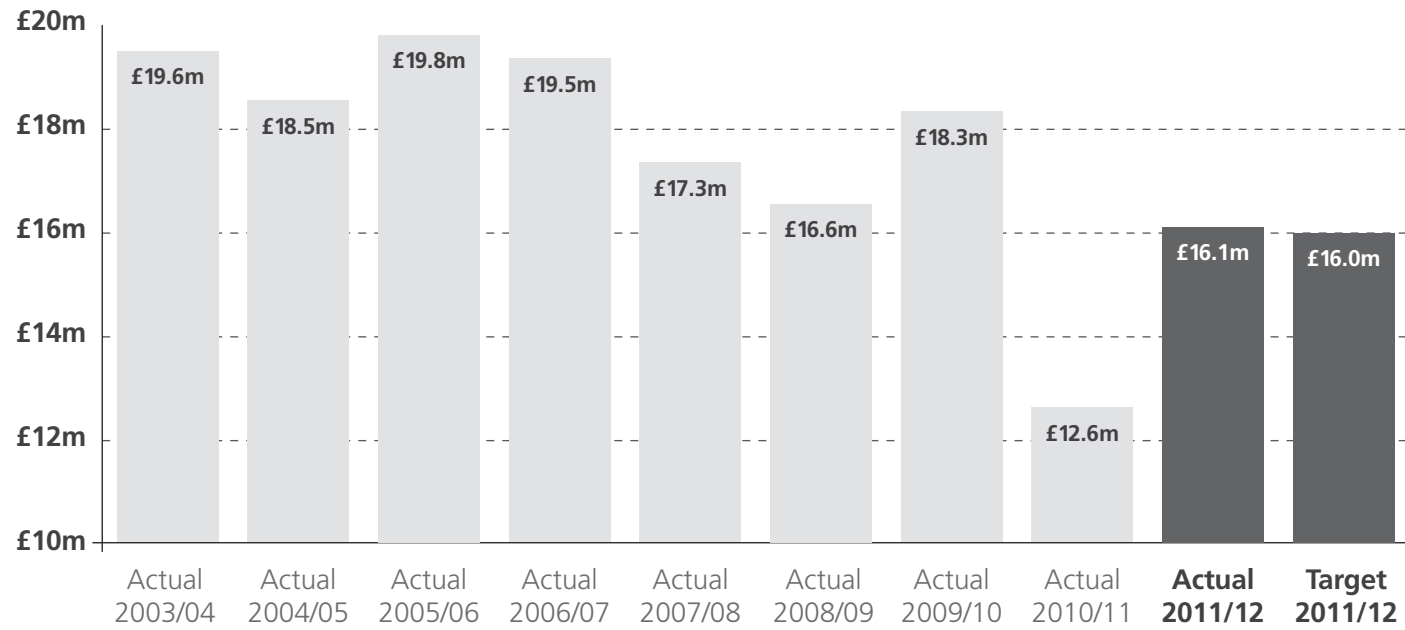
We confirm that, to the best of our knowledge, we complied fully with the financial requirements in 2011/12. A copy of the Statement of Financial Requirements is available from us.

Performance against targets for administrative efficiency

In accordance with the Financial Directions issued by the Secretary of State, we operate a system of performance measures and targets for analysing our administrative efficiency.

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1) Actual Lottery administration costs



	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2011/12
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Target
Actual administration costs*	19.57	18.54	19.77	19.49	17.33	16.55	18.34	12.63	16.06	16.00

* excludes exceptional items and one-off IT development costs

2) Adjusted Lottery administration costs

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2011/12
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Target
Adjusted administration costs*,**	19.57	18.03	18.71	18.09	15.61	14.60	15.76	10.69	13.29	13.24

* excludes exceptional items and one-off IT development costs

** figures have been adjusted for inflation using 2003/04 as the base year

The figures in this table are for illustration only. The adjusted figures reflect the inflation rate for 2010/11 as defined by the Treasury's GDP deflators.

3) Actual Lottery administration costs as a proportion of Lottery income

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Actual administration costs as % of Lottery income*	12.15%	10.96%	11.49%	13.05%	11.44%	10.92%	10.59%	6.95%	6.95%

* excludes exceptional items and one-off IT development costs

Grants processing times

Since the start of our flagship Lottery programme Grants for the arts in April 2003, we have undertaken to process applications to decision within the following turnaround times

Size of application	Turnaround time
Applications for funding up to and including £10,000:	6 weeks
Applications for funding for £10,001 and above:	12 weeks

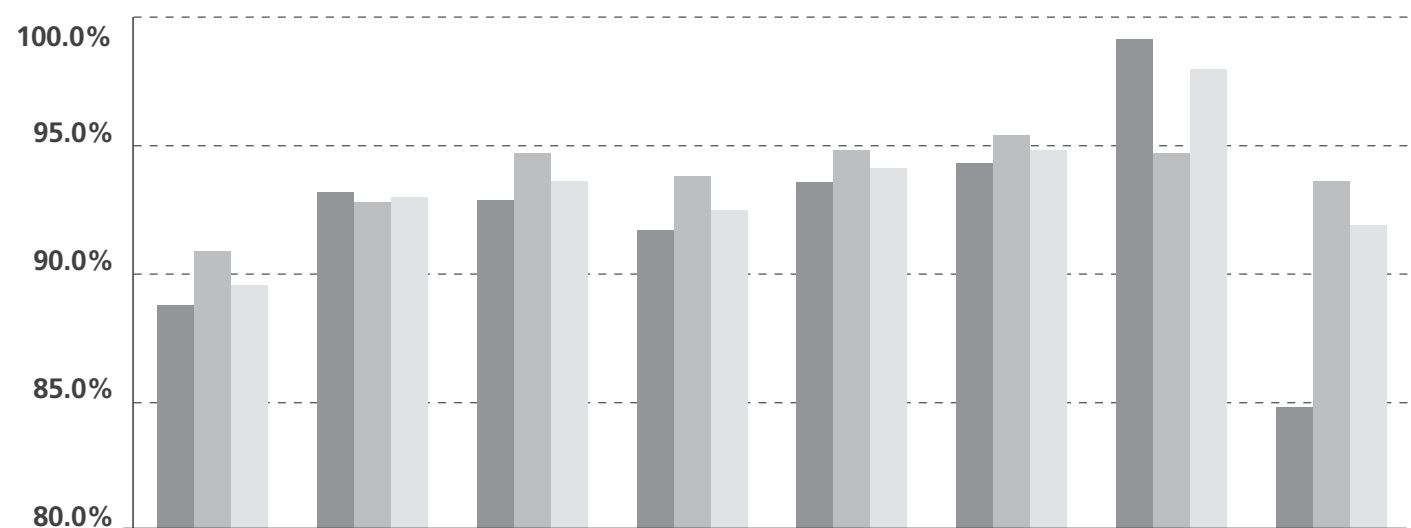
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Since 2009/10 we have adopted a target of processing 90% of all applications within our stated turnaround times. The chart below shows how we've performed against this target.

	2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2011/12 Target
A	88.8%	93.2%	92.9%	91.7%	93.6%	94.3%	99.1%	84.9%	90%
B	90.9%	92.8%	94.7%	93.8%	94.9%	95.3%	94.7%	94.7%	90%
C	89.6%	93.0%	93.6%	92.5%	94.1%	94.9%	98.0%	91.9%	90%

- A Percentage of applications for up to £5,000 processed in six weeks or less
 B Percentage of applications for £5,001 and above processed in 12 weeks or less
 C Overall percentage of applications processed within target time

* please note that for the years of 2004/05 to 2009/10 the target time was six weeks for applications for up to £5,000 and 12 weeks for applications over £5,000



	2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Target
A	88.8%	93.2%	92.9%	91.7%	93.6%	94.3%	99.1%	84.9%
B	90.9%	92.8%	94.7%	93.8%	94.9%	95.3%	94.7%	94.7%
C	89.6%	93.0%	93.6%	92.5%	94.1%	94.9%	98.0%	91.9%

Policy on additionality

The Arts Council and the organisations that distribute Lottery funds on its behalf recognise and respect the additionality principles of Lottery funding. Lottery funding enables us to extend the reach and increase the impact of the activity that we could undertake if only Exchequer funds were available.

Together with the other Lottery distributors who make up the Lottery Forum, we have agreed to share the following common definition of additionality:

'Lottery funding is distinct from government funding and adds value. Although it does not substitute for Exchequer expenditure, where appropriate it complements government and other programmes, policies and funding'.

We and our delegates will have regard to the principles of additionality and this policy when we set the strategic objectives of our Lottery-funded programmes and when we decide how each programme will operate. We have, and will continue to use, Lottery funding to fund specific time-limited activity that would not take place without the support of the Lottery.

Performance against strategic objectives

The financial year 2011/12 was the first year covered by *Achieving great art for everyone*, our strategic framework for the arts and our plan, which set out five goals and 13 priorities for the arts. Detailed information on our priorities can be found on pages 10 to 19.

These priorities have been central to all of our Lottery-funded activities.

Customer service charter

In June 2008, we agreed with the other Lottery distributors and with DCMS to replace our common customer service charter with a set of customer service principles.

Progress report on major Lottery awards over £5 million

This section reports on projects that have received awards totalling over £5 million, even if they involve a number of separate awards. It includes any projects that were active at 1 April 2011 but fully paid during 2011/12 and those with outstanding balances at 31 March 2012. The totals reflect any changes made to awards since the original decisions.

The projects are divided into three sections:

- A** projects still to be completed at 31 March 2012
- B** projects completed and opened during 2011/12
- C** projects completed and opened in previous years but with final payments still outstanding at 1 April

A Projects still to be completed at 31 March 2012

Bristol Old Vic Trust Award: £6,331,050

(Lottery £5,751,808; grant-in-aid £579,242)
 The capital works to the Bristol Old Vic Theatre Complex, for which our funding is being used, is divided into two work packages.

The first work package will include the full refurbishment of the auditorium including new seats, acoustic improvements and air circulation, as well as essential repair and modernisation of the stage and the sound and lighting infrastructure. A new performance space will be created by fitting a retractable seating rake in the side stage, allowing performance on the full depth of the theatre's stage at a 90 degree turn from the original auditorium. The Paintshop will be reconfigured as a flexible space for artists' workshops and live performance, whilst also retaining its capacity for large-scale scenic construction.

The second work package will see the creation of modern, open plan offices and the refurbishment of the current rehearsal room including the installation of a large skylight. This work package will also include the creation of a new rehearsal room/education space and a new theatre heritage gallery.

£4,298,750 paid (67.9% of the total award)

Liverpool and Merseyside Theatres Trust Award: £17,027,719

(Lottery £16,931,311; grant-in-aid £96,408)
 The Liverpool and Merseyside Theatres Trust run both the Everyman Theatre and the Playhouse Theatre. This project will rebuild the Everyman building on the current site using an enlarged footprint provided by a previous building purchase. The building will retain the unique character of the main auditorium while significantly improving backstage and public facilities and providing extra space for the community and new writing programmes. The planned completion date for this project is autumn 2013.

£6,447,229 paid (37.9% of the total award)

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Rambert Trust Limited Award: £7,000,000

Rambert Trust Limited is building a new headquarters at Doon Street, London, adjacent to the National Theatre. This building will increase their profile and will put dance at the heart of the UK's highest concentration of creative organisations. The aim of the new building is to improve Rambert Dance Company's already excellent artistic standards, create a national centre for choreography and allow their outreach programme to grow and increase accessibility of the company. The building is due to complete in summer 2013.

£1,659,160 paid (23.7% of the total award)

Southampton City Council Award: £7,344,000

Southampton's new arts complex will create dramatic new contemporary arts spaces in the heart of the city, built on the old Tyrrell and Green site. The new arts complex will bring internationally acclaimed art exhibitions and a full programme of performing arts. These will share their home with outstanding resources for film-makers, providing new creative opportunities for everyone across the city and beyond.

£619,620 paid (8.4% of the total award)

B Projects completed and opened during 2011/12

After a project has been completed and opened, the Arts Council retains a percentage of the award for payment until a full account for the project has been received and/or final certificates have been issued.

Colchester Borough Council Award: £9,370,000

(Lottery £9,176,603; grant-in-aid £193,397)
 Colchester Borough Council worked in partnership with the firstsite art gallery towards the development of a new visual arts facility that showcases established artists and emerging talent and meets a regional need for a large-scale, contemporary visual arts venue. The spaces will also act as a focus for the University of Essex's Latin American art collection. The firstsite gallery opened in September 2011.

£8,147,757 paid (87% of the total award)

Wakefield City Council Award: £5,570,000

(Lottery £5,365,405; grant-in-aid £204,595)
 The local authority has created a new cultural amenity for the city as part of a comprehensive regeneration plan. The development of the Hepworth, a major new art gallery, comes from the offer of 30 sculptures by Barbara Hepworth's estate, as well as a desire to re-house Wakefield Gallery's own large art collection. The project will vastly improve accommodation for collections,

exhibitions and education activity. The 10 gallery spaces will make this one of the UK's largest purpose-built galleries outside London. The gallery reopened in May 2011.

£5,570,000 paid (100% of the total award)

C Projects completed and opened in previous years but with final payments still outstanding at 1 April 2011. After a project has been completed and opened, the Arts Council retains a percentage of the award for payment until a full account for the project has been received and/or final certificates have been issued.

Birmingham City Council Award: £8,682,497

(Lottery £8,292,283; grant-in-aid £390,214)
 In partnership with SAMPAD (South Asian Arts Development Agency), mac (Midlands Arts Centre) has developed a capital project, delivered by Birmingham City Council. The project includes a new visual arts gallery, a new performing arts studio and performance space, a refreshed and refurbished theatre, a new digital media studio and significantly enhanced public areas. The arts centre opened in May 2010.

£8,682,497 paid (100% of the total award)

Royal Shakespeare Company Award: £60,389,239

(Lottery £58,963,924; grant-in-aid £1,425,315)
 The Royal Shakespeare Company (RSC) is one of the most significant theatre production companies in the UK and has a prominent international reputation. The company focuses on the plays of Shakespeare as well as developing and producing new work. This project involved the redevelopment of the Royal Shakespeare Theatre in Stratford-upon-Avon to provide better facilities for audiences, performers and staff.

The RSC reopened the building in late 2010 with a series of preview events and activities. The first performances took place in early 2011.

£60,389,239 paid (100% of the total award)

Leeds City Council Award: £16,100,000

The project is a partnership between Leeds City Council, Leeds Grand Theatre and Opera North. Phase one provides a new base and rehearsal centre for Opera North and refurbishment and modernisation of the Leeds Grand Theatre. It comprises a mix of new build development, operational improvements and heritage investment. It reopened in October 2006. Phase two has created the Howard Assembly Room, The Emerald Grand Hall and a new glass link bridge. The restoration of the former

Assembly Rooms has resulted in a 350-seat flexible performance space and home to the Orchestra of Opera North. It reopened in January 2009.

£15,840,572 paid (98.3% of the total award)

The Public (previously c/PLEX) Award: £35,252,084

The Public opened in June 2008 and plays an active part in the regeneration of the area, offering a gallery, music venue, theatre, learning centre, meeting place, community centre and work space that is open for everyone. The innovative building is set in the heart of Sandwell, West Bromwich, one of the most deprived areas of the UK.

In 2009 Sandwell Arts Trust, a charitable trust owned by Sandwell Leisure Limited – a part of Sandwell Metropolitan Borough Council – was set up to manage The Public, and Arts Council England continues to have a strong relationship with the centre.

The Public is firmly focused on the future and offers a vibrant mixed programme of arts activity alongside managed workspace, learning and conference facilities. There has been an increasing number of visitors to the Public in the past 12 months and a projection of over 180,000 visits by the end of this financial year (2011/12). The new arts activities are designed to help increase these visitor numbers further.

A number of creative and commercial organisations, including Black Country Touring, are now resident in the building and Sandwell Arts Trust has increased The Public's income, both through office rental and other commercial activities such as events and conference facilities. The ambition remains to increase the number of people in the Sandwell community who engage in the arts.

£35,252,084 paid (100% of the total award)

Council and regional council members April 2011–March 2012

Council	East Regional Arts Council	East Midlands Regional Arts Council	London Regional Arts Council	North East Regional Arts Council	North West Regional Arts Council	South East Regional Arts Council	South West Regional Arts Council
Dame Liz Forgan (Chair)	Jon Cook (Chair)	François Matarasso (Chair)	Veronica Wadley (Chair)	Peter Standfield (interim Chair until May 2011, retired March 2012)	Anil Ruia (Chair)	Caroline Collier (Chair)	Sheila Healy (Chair)
Janet Barnes	David Butcher	Cllr Cat Arnold (appointed March 2012)	Ajay Chowdhury (reappointed March 2012)	Joe Docherty (Chair, appointed May 2011)	Cllr Shan Alexander (reappointed March 2012)	Jon Adams	Julien Boast (appointed January 2012)
Caroline Collier	Cllr Chris Fegan (appointed November 2011)	Cllr Roger Begy	James Conway (appointed January 2012)	Fiona Gasper	Professor Steve Hawley (reappointed March 2012)	Matt Adams (resigned December 2011)	Cllr Dave Butt
Professor Jon Cook	Paul Kirkham (resigned August 2011)	Cllr Ian Cartwright	Cllr Andrew Curtin (reappointed March 2012)	Carol Bell	Cllr Margaret Jackson (reappointed March 2012)	Therese Evans (appointed January 2012)	Cllr Graham Carr-Jones
Joe Docherty (appointed May 2011)	Cllr Matthew Lee (appointed November 2011)	Tim Desmond (appointed March 2012)	Marcus Davey	Clr Neil Bradbury (appointed November 2011)	Michael Jones (appointed March 2012)	Yinnon Ezra (appointed January 2012)	Cllr Simon Cook
Ekow Eshun	Donna Lynas	Mick Gallagher	Robert Dufton (appointed January 2012)	Clr David Budd	Cllr Andrew Knowles (resigned May 2011)	Nick Giles	Jane Drabble (appointed January 2012)
Sheila Healy	David Morrall	Bill Gee	Jennifer Francis (reappointed March 2012)	Clr Sheelagh Clarke (retired February 2012)	Wyllie Longmore	Cllr Judith Heathcoat (appointed July 2011)	Camilla Hampshire
Sir Nicholas Kenyon	Cllr Penny Otton (retired March 2012)	Cllr Andre Gonzalez de Savage	David Hall (appointed January 2012)	Eric Cross	Cheryl Martin	Cllr Mike Hill (appointed April 2011)	Carolyn Hassan
Keith Khan	William Pope	Uzma Johal	John Middleton (reappointed March 2012)	Clr Keith Davidson	Peter Mearns	Sarah Hohler (retired April 2011)	Morven Hughes (resigned September 2011)
Francois Matarasso	Tamara Rojo	Martin Molloy (appointed January 2012)	Munira Mirza	Maurice Dezou (resigned May 2011)	Cllr Gary Millar (reappointed March 2012)	John Sailsman (resigned September 2011)	Tony Lopez
Sir Andrew Motion (Observer)	Mathew Russell	Corey Mwamba (retired July 2011)	Cllr Guy Nicholson	Tina Gharavi (retired March 2012)	Andrea Nixon (appointed March 2012)	Peter Seddon	Marian McNier (retired May 2011)
Peter Phillips	Nicky Webb	Hetain Patel	Cllr Florence Nosegbe (appointed July 2011)	Cinzia Hardy	Nicola Parker (appointed March 2012)	Gavin Stride	Cllr Andrew Morgan (appointed January 2012)
Alice Rawsthorn	Cllr Susan Wigglesworth (retired March 2012)	Wendy Rouse	Cllr John Kelly (appointed November 2011)	Clr Eunice Huntington	Cllr Tony Williams (reappointed March 2012)	Emelia Telese	Cllr Antonia Noble (appointed January 2012)
Anil Ruia OBE	Jason Yarde	Anette Schafer (retired July 2011)	Cllr Flick Rea	Clr John Kelly (appointed November 2011)		Eckhard Thiemann	Terrence O'Rourke (appointed January 2012)
Peter Standfield (interim until May 2011)	Cllr Robert Bucke (appointed March 2012)	Prof Mary Stuart	Cecilia Wee	Keith Merrin (appointed November 2011)		Jamie Watton	Jaswinder Singh (appointed January 2012)
Alistair Spalding	Gillian Beer (retired March 2012)	Emily Thrane (retired March 2012)	Sue Wyatt (reappointed March 2012)	Ross Smith (appointed November 2011)		Jane Weeks (appointed January 2012)	David Sproxtton (resigned March 2012)
Rosemary Squire OBE		Nick Ashton (retired March 2012)		Julie Ward (resigned July 2011)			Cllr Stuart Wheeler (appointed June 2011)
Veronica Wadley							

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- 4 Lottery distribution accounts
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Council and regional council members April 2011–March 2012

West Midlands Regional Arts Council

Peter Phillips
(Chair)
Emma Daker
Cllr Claire Darke
Stuart Griffiths
Gwenda Hughes
Cllr Terry James
(retired March 2012)
Cllr Hazel Lyth
(retired June 2011)
Neil Maybury
Zoe Partington-Sollinger
Liz Roberts
Cllr Chris Saint
(retired March 2012)
Nigel Singh
Ammo Talwar
(retired March 2012)

Yorkshire Regional Arts Council

Janet Barnes
(Chair)
Cllr Bernard Atha
Cllr Caroline Bayliss
(appointed March 2012)
Sita Brand
Cllr Richard Burton
Shirley Collier
(appointed March 2012)
Lee Corner
(appointed March 2012)
Cllr Sonja Crisp
(appointed March 2012)
Cllr David Dagger
Cllr John Fort
Leila Jancovich
(retired March 2012)
Sohail Khan
Cllr Christine O'Sullivan
(retired March 2012)
David Porter
(reappointed March 2012)
Stephen Purcell
(retired March 2012)
Doug Sandle
Geetha Upadhyaya
(reappointed March 2012)



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There are two corrections to make to note 24a *Related parties – Council members* in the annual report and accounts for 2012.

Page 84 - Peter Standfield's partner is a board member of Audiences North East rather than Newcastle University. The grant listed for the year ended 31 March 2012 for the sum of £111,000 relates to Audiences North East.

Page 85 - Rosemary Squire has registered an interest in Donmar Warehouse Projects. The grant for the year ended 31 March 2012 should read £502,000 rather than £21,711,000.

We apologise to our Council members and the organisations concerned.