

# Annual Report & Accounts

FOR THE YEAR ENDED 31 MARCH 2018





ARTS COUNCIL ENGLAND GRANT-IN-AID  
AND NATIONAL LOTTERY DISTRIBUTION  
ANNUAL REPORT AND ACCOUNTS 2017/18

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34(3) and 35(5) of the National Lottery Act 1993  
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and National Lottery Act 2006).

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# Chair's report



# 01.

# Sir Nicholas Serota CH

CHAIR ARTS COUNCIL ENGLAND



**My first year as Chair of Arts Council England has been busy and energising. I have been hugely inspired by the rich mix of talented practitioners I have spoken with on my visits to cities, towns and rural communities across the country.**

In recent years, the Arts Council has taken determined steps to reach people who have not previously had access to arts and culture, and we are committed to continuing that work.

Programmes such as Creative People and Places have been specifically designed for areas where engagement in the arts has been low. By October 2017 the programme had reached at least 1.45 million people, and more than 90 per cent of audiences came from neighbourhoods with low and medium levels of arts engagement.

Access and representation in the arts remains a priority, and we publish data on diversity annually. Our latest report *Equality, Diversity and the Creative Case*, showed that while there has been progress, disabled people and those from a Black and minority ethnic background are still under-represented in the arts. We need to continue to work hard to make our programmes, workforce and boards more representative of the communities we seek to serve.

Our young and diverse population is a national asset, but it is becoming harder for young people to overcome the socio-economic barriers that hinder progress in education, training and employment. Widening access to cultural institutions will help young people from all backgrounds to realise their potential.

This year I will spend much of my time working with the Durham Commission on Creativity and Education. The Commission brings together a group of leading experts who will investigate the ways in which creativity can enhance the lives of young people.

Amongst the external factors that we face as a sector is the move towards exiting the European Union. We have been clear that the free movement of artists, directors, producers, and the benefits of partnership between the UK and our continental neighbours, must be protected and retained. We will continue to work with the sector and government in its negotiations over the next 12 months.

Aside from the social and creative benefits of arts and culture, the economic importance of the creative industries should not be underestimated. Not only does the cultural sector contribute £10.6 billion to the UK economy – making it bigger than the oil, gas, automotive, aerospace and life sciences industries combined – but it also generates almost half that figure in the export of arts and cultural goods and services and in tourist pounds spent in the UK.

As this Annual Report reveals, international activity generated £69 million for our National Portfolio Organisations in 2016/17, and we want to see this figure continue to rise.

Last year I noted the importance of operational resilience within the companies and organisations that we support. With the ongoing challenges surrounding funding, this remains one of our five main goals and an absolute priority.

Having strong chairs, chief executives and management boards is imperative in both enabling great art and culture to thrive and in generating new income streams to support it. This will continue to be a priority for us and is why I'm so pleased that we have welcomed new members with experience of enterprise and entrepreneurship to our National and Area Councils.

Our sector has challenges ahead but with Arts Council support it has the tools to face these with confidence, bolstered by the knowledge that every day, arts and culture make a huge difference to people and communities across the country.



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# Chief Executive's report



# Darren Henley OBE

CHIEF EXECUTIVE ARTS COUNCIL ENGLAND



**It has been a terrific year for England's creative output, so much so that it is hard to distil the highlights. I find myself drawn to the success story that is Hull's year as UK City of Culture. Its legacy is one that I know will endure. Hull's aura of confidence will I hope be culturally contagious, both for its successor Coventry, now preparing for the 2021 title, and for other towns, cities and rural areas across England too.**

It was also the year that we announced our new National Portfolio for 2018-22. For the first time, we have welcomed museums and libraries to the portfolio and introduced a banding system that relieves administrative burden from smaller organisations, and holds those in receipt of the largest amounts of public money even more to account. We also funded organisations who will help support and develop our sector.

In total, the portfolio has more than 180 new joiners and 829 brilliant arts organisations, museums and libraries spanning the entire country. Through the portfolio we will be investing £170 million more in building the cultural ecology outside London in the next four years, increasing our investment and reach in areas including Coventry and Warwickshire, Torbay, Barking and Dagenham, Tees Valley, Plymouth, St Helens, Folkestone and Gloucester. This is an ambitious and wide-ranging collection of organisations which will inject new energy into the sector, as well as allowing our investment to reach new audiences.

In January, we announced the renaming of our grants programme to Arts Council National Lottery Project Grants, proudly acknowledging the role that the National Lottery has in supporting good causes in arts and culture. We also increased the budget for this programme to £97.3 million each year to enable us to seek out the highest quality work and to create fantastic cultural experiences across the country.

We have also made changes to our Strategic Funds, which are now renamed Arts Council Development Funds. These will focus on audience engagement, diversity, leadership and the use of new technology and innovation in business models. The Arts Council Development Funds' budget will be £72.2 million per year in 2018-22.

The world does not stand still and we must keep evolving too. In January we launched a public conversation in preparation for our new 10-year strategy, which will come into effect in 2020. Consultation will continue this autumn. It's an exciting period of self-reflection and new ideas.

Creative and digital opportunities are continuing to grow. The arts sector needs to be open and adaptable to take advantage of the opportunities that present themselves.

We must ensure we nurture the talent of the next generation. A long-time champion of the importance of music education, I'm pleased that we will continue to fund Music Education Hubs and In Harmony in partnership with the Department for Education. These programmes sit alongside the work our organisations do with children and young people, as well as Youth Music, which has recently been awarded £38.6 million of National Lottery funding over the next four years. Together they make a real difference to thousands of lives in some of the most deprived areas of the country.

Everything we do is aimed at creating and supporting a strong and sustainable future for artists, museums, libraries and arts organisations which is open and accessible to everyone. I believe the foundation stone remains partnership – between local and national government, education bodies, public and private funders, artists, cultural bodies and, of course, the public themselves.



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# Achieving great art and culture

# 03.





# Our key numbers for 2017/18



£947m

ANNUAL EXPENDITURE

676

NPOs & MPMs

5.15%

% OF OUR INCOME  
SPENT ON ADMIN



6,059

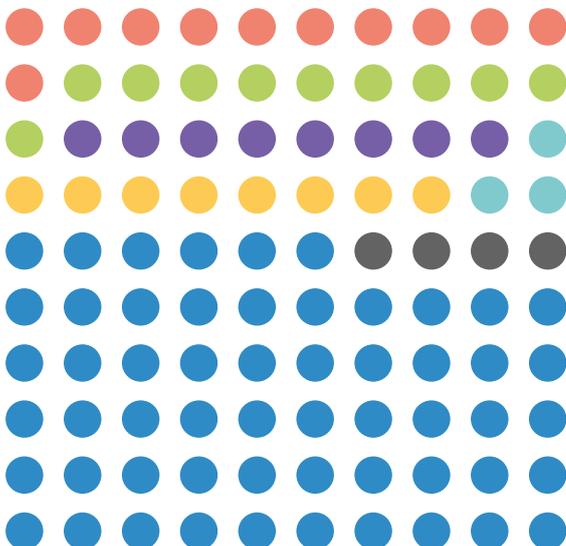
NUMBER OF GRANTS



96%

OF GFTA GRANTS PROCESSED  
WITHIN OUR PUBLISHED TIMEFRAME

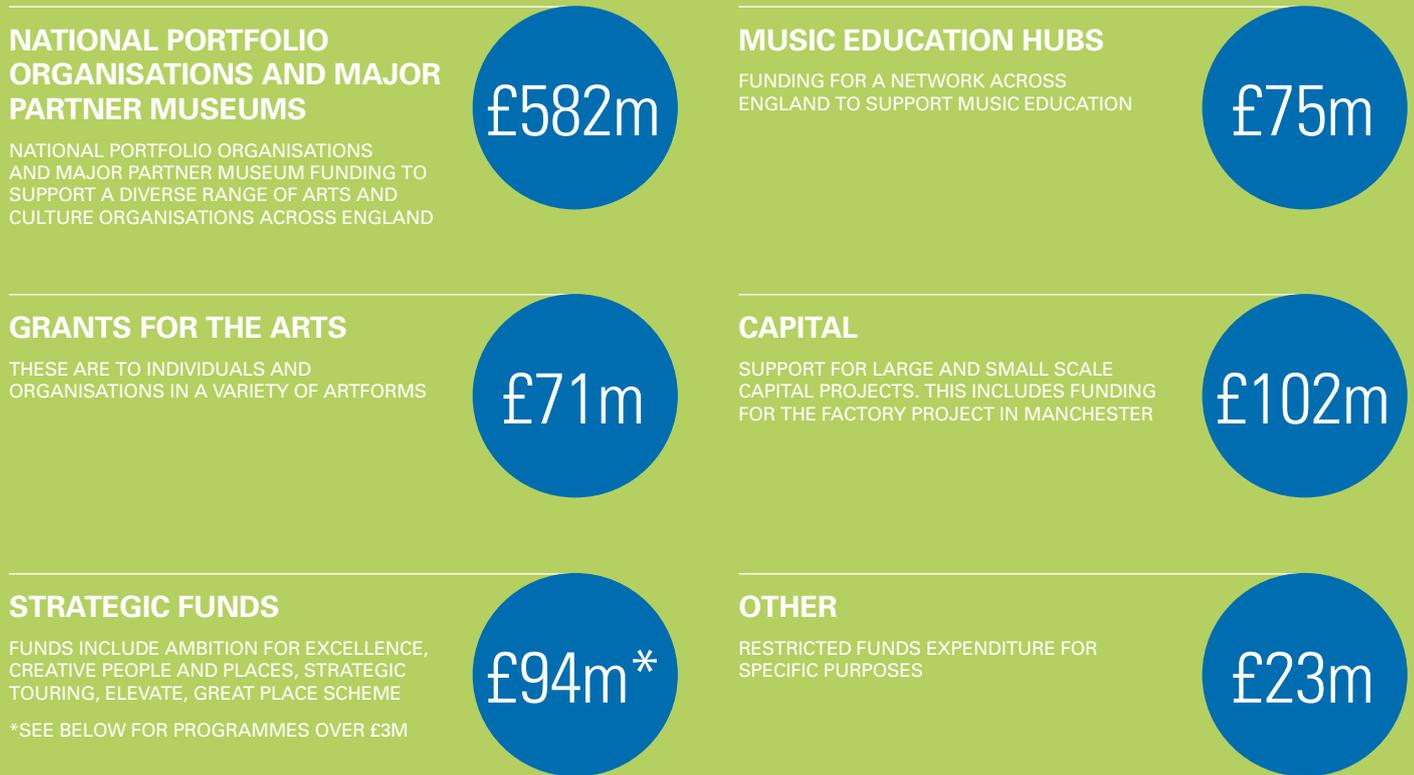
## Our grants 2017/18



- CAPITAL
- NATIONAL PORTFOLIO ORGANISATIONS
- MUSEUMS AND LIBRARIES
- MUSIC EDUCATION HUBS
- STRATEGIC
- OTHER
- GRANTS FOR THE ARTS

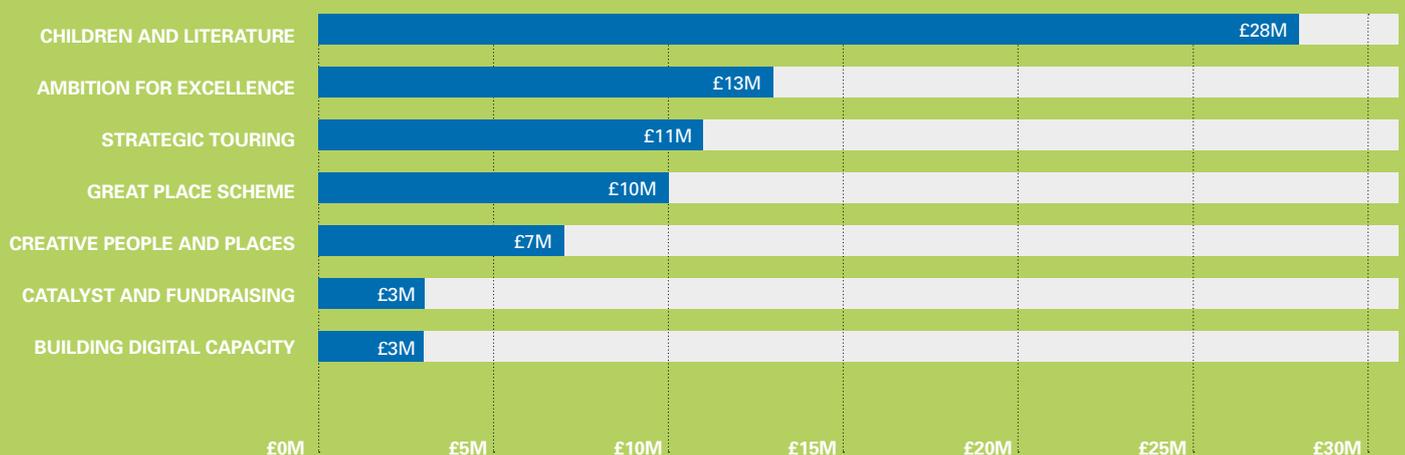
## The chart below shows Arts Council programme expenditure during 2017/18:

### Grant investments we make



### Strategic funds

The strategic funds that Arts Council England awarded funds to during 2017/18 included:



## The number of grant awards by funding source and high-level budget category are set out below:

	2017/18 £Ms	NUMBER OF GRANTS	AVERAGE VALUE £Ms
<b>GRANT IN AID</b>			
MUSEUMS AND LIBRARIES	40	210	0.20
NATIONAL PORTFOLIO ORGANISATIONS	256	574	0.45
STRATEGIC	15	189	0.09
OTHER	27	61	0.44
MUSIC EDUCATION HUBS	75	134	0.56
CAPITAL FUNDS	63	56	1.12
GIA GRANTS FOR THE ARTS & CULTURE	7	637	0.01
<b>LOTTERY</b>			
NATIONAL PORTFOLIO ORGANISATIONS	285	159	1.79
STRATEGIC	77	445	0.17
CAPITAL FUNDS	39	16	2.43
LOTTERY GRANTS FOR THE ARTS & CULTURE	64	3,578	0.02
<b>TOTAL GRANT EXPENDITURE</b>	<b>947</b>	<b>6,059</b>	<b>0.16</b>







# Goals

## 01



## Excellence is thriving and celebrated in the arts, museums and libraries

PROPORTION OF NATIONAL PORTFOLIO ORGANISATIONS UNDERTAKING INTERNATIONAL ACTIVITIES IN THE REPORTING YEAR (KPI 5);

% OF NPOS TOURING INTERNATIONALLY IN 2016-17:

15%

% OF NPOS REPORTING THAT A PROPORTION OF THEIR ACTIVITY HAD AN INTERNATIONAL DIMENSION (NOT INCLUDING WORK TOURED OR PRESENTED OUTSIDE OF ENGLAND):

61%

**When we talk about our appreciation of arts, museums and libraries we begin with the intrinsic – how have they illuminated our inner lives and enriched our emotional world. Through Goal 1, we want to increase the depth and quality of work being produced so we can enhance the individual cultural experience, support world-class talent, ensure the work produced reflects the diversity of contemporary England, and secure England's status as a world centre for cultural excellence. We deliver Goal 1 through all three strands of our investment programme – National Portfolio Organisations, Grants for the Arts and strategic funding.**

Goal 1 incorporates the Creative Case for Diversity, through which we recognise the importance of diversity in producing ambitious, challenging and exciting work that is relevant to contemporary England. Over the last 12 months, we have continued to make significant investment in this area. All our National Portfolio Organisations are required to evidence how they are contributing to the Creative Case through the work they produce, present and distribute. This year, 45 per cent of National Portfolio Organisations were rated 'good' and 54 per cent rated 'met'.

The decisions we took in 2017/18 through the National Portfolio investment process have resulted in our 2018-22 portfolio demonstrating an increased commitment to diversity. Among 829 organisations offered funding, 96 self-

define as being Black and minority ethnic led and 35 as being led by disabled people. Twenty of these successful organisations had been part of our Elevate fund, which strengthened their capacity and resilience, and include Ballet Black, a company of dancers of Black and Asian descent, and Venture Arts, which champions the work of learning disabled visual artists.

As part of the application process we required all applicants to evidence how they would contribute to the Creative Case for Diversity and demonstrate how the work they planned to produce, present and distribute reflected the diversity of wider society. Diversity was also one of the key balancing criteria we considered during the decision-making process. The 2018-22 portfolio marks the first time arts organisations, museums and libraries



have been integrated into the same portfolio enabling us to extend our requirements in relation to the Creative Case for Diversity and diversifying audiences and the workforce across the portfolio.

International collaboration is a key contributor to our approach to promoting excellence in arts and culture. In 2017/18, a collaborative co-investment with the Arts Council in South Korea enabled artists and arts organisations in both countries to work together and form lasting relationships. International activity generated £69 million of income for our National Portfolio Organisations during 2016/17 (increasing from £57 million the year before). With more than half of surveyed artists and organisations citing Europe as their first international port of call, we have worked with the sector and Government to understand – and mitigate – the impact of exiting the European Union.

The Designation Scheme exists to recognise museum, library and archive collections which are of exceptional significance and which deepen our understanding of the world and what it means to be human. In 2017/18 we welcomed two further collections into the Designation Scheme – permanent collections held at the Wiener Library, the world's oldest Holocaust archive, and the holdings of The William Morris Gallery, which comprises over



10,000 objects and is uniquely placed to tell the story of the life and work of Morris and his artistic circle. An award of Designation raises the profile of the collection nationally and internationally, and can open the door to new revenue streams, including our own Designation Development Fund and the DCMS Wolfson Fund Museums and Galleries Improvement Fund.

Our Ambition for Excellence programme is aimed at supporting projects that stimulate and support ambition, talent and excellence across the arts sector in England, with a particular focus on building production capacity outside London. This year we awarded over £9 million to 18 projects.

#### CASE STUDY: Ambition for Excellence

Cirque Bijou and Diverse City were awarded £719,322 from our Ambition for Excellence programme towards developing the vision of Extraordinary Bodies, the national integrated circus company of the UK, based in the South West.

In 2017/18, they have developed and produced *What am I Worth?*, an ambitious outdoor touring circus show of scale, featuring exceptional disabled and non-disabled artists. Alongside the creation of this new piece of work, Extraordinary Bodies has this year led a major sector development project to upskill the national circus sector by developing techniques and tools to create work with and for different bodies. This has been a collaborative process that has changed creative practice and further pushed the boundaries of this exciting artform.

*What am I Worth?* will premiere in summer 2018 and feature new circus talent from the UK and Europe. The company will perform in a bespoke and technically unique set piece which is fully accessible.



## 02

## Everyone has the opportunity to experience and to be inspired by the arts, museums and libraries



**Our pursuit of excellence goes hand in hand with a commitment to increased access for the public – as audiences or participants. We deliver Goal 2 through all our investment strands.**

We know there are parts of the country where involvement in art and culture is significantly below the national average. Creative People and Places is a major experiment in cultural democracy and aims to reach and involve people who don't usually engage with the arts. To date, we have committed £50 million over 10 years, and there are currently 21 projects nationally. The independent evaluation for the first three years of activity, published this financial year, clearly demonstrates that more

people from places of least engagement are experiencing the arts. At least 1.45 million people had engaged by October 2017 and more than 90 per cent of audiences come from neighbourhoods with low and medium levels of arts engagement. This year it has been possible to get a deeper insight into who our funded programmes are reaching due to our support for Audience Finder and the requirement for National Portfolio Organisations to collect and share data on their audiences. The table below gives a comparative insight into the reach of National Portfolio Organisations and the Creative People and Places programme benchmarked against the general population.

In February this year, we announced the second round of successful Celebrating Age projects, doubling the total number to 32 projects. Jointly funded by the Arts Council and the Baring Foundation, the programme was developed in response to figures from the Taking Part Survey, showing participation in arts and culture falls dramatically over the age of 75. The new projects span the country and include rural, urban and national activity, with older people shaping and leading some of the activity.

A total of £10.5 million was invested through the Strategic Touring programme this year, focusing especially on areas where people have low engagement with the arts and those that rely on touring for much of their arts provision. It also seeks to extend the reach of high-quality work by broadening the range of venues





AUDIENCE SPECTRUM ANALYSIS	HIGH ENGAGED GROUPS	MEDIUM ENGAGED GROUPS	LOW ENGAGED GROUPS
UK population in terms of the propensity to engage in arts, museums and heritage activities (rounded figures)	22% of audiences/ participants come from the high engaged groups	42% from medium engaged groups	36% from low engaged groups
National Portfolio Organisation audiences (bookers in 2015/16) *note: these are the figures for bookers for ticketed activities	46%* of audiences for ticketed National Portfolio Organisation activity come from the high engaged groups for 2015/16	38% from medium engaged groups	16% from low engaged groups
Creative People and Places reach 2015/16 (year 2)	10% of audiences/ participants for the Creative People and Places programme come from high engaged groups	43% from medium engaged groups	47% from low engaged groups

presenting it, as well as forging stronger relationships between audiences, promoters, venues, artists and producers. Forestry Commission England and Burn the Curtain

will use £139,985 to develop Snark Hunter, a project that will combine digital technology with promenade performance and will tour to forests across England.



We encourage all our funded organisations to be more focused on audiences – to reach more people, broaden the groups they come from and improve the quality of their experience.

This year we announced our new portfolio for 2018-22, which will invest £170 million more in building the cultural ecology outside London over four years. We will increase our reach in areas such as Coventry, Torbay, Barking and Dagenham, Tees Valley, Plymouth, St Helens, Folkestone and Gloucester. We will also invest in Sector Support Organisations to support our Goal 2 focus, including the Audience Agency and the Arts Marketing Association.

Our work in this area is reflected in the Arts Council's funding agreement with Government.

## DCMS management agreement performance indicator

### *Sustained attendance and visitor numbers in National Portfolio Organisations/Major Partner Museums*

In 2016/17, the latest year for which figures are available, our National Portfolio Organisations and Major Partner Museums reported a total audience figure of 87,647,000. A breakdown of the activity types is below:

TOTAL ATTENDANCE AND VISITOR NUMBERS 2015-16 (000s)	TOTAL ATTENDANCE AND VISITOR NUMBERS 2016-17 (000s)	DIFFERENCE
104,232	87,647	(16%)

AREA	TOTAL ATTENDANCE AND VISITOR NUMBERS 2015-16	TOTAL ATTENDANCE AND VISITOR NUMBERS 2016-17	DIFFERENCE
London	60,437	43,317	(28.33%)
Midlands	11,218	9,540	(14.96%)
North	18,904	19,995	5.77%
South East	6,227	9,404	51.02%
South West	7,446	5,389	(27.63%)

The largest reported decrease in attendance and visitor numbers was for exhibitions. This represented 91 per cent of the drop and can be explained in part by the temporary closure of a number of significant cultural buildings for capital work. There are also a number of biennial events that took place in 2015/16 and not 2016/17. Within this data it is interesting to note that audience figures for festivals actually

went up overall, and there was significant regional variation with the largest temporary drops being in London for the reasons cited above. We continue to work with all of our funded organisations to ensure they have robust audience development data and plans and continue their efforts to engage new and diverse audiences. This is something we will continue to monitor.

## Management agreement performance indicator

### *The proportion of National Portfolio Organisations producing at least one screening or broadcast in the reporting year*

TOTAL NO OF ORGANISATIONS WHO REPORT EITHER ONE OR MORE SCREENING OR BROADCAST	% OF PORTFOLIO (N=629)
293	47%

### CASE STUDY: Creative People and Places

The Cultural Spring is a Creative People and Places project which aims to get more people in Sunderland and South Tyneside to experience and be inspired by the arts. South Shields resident Michelle Gerencser has talked about the impact the project has had on her life:

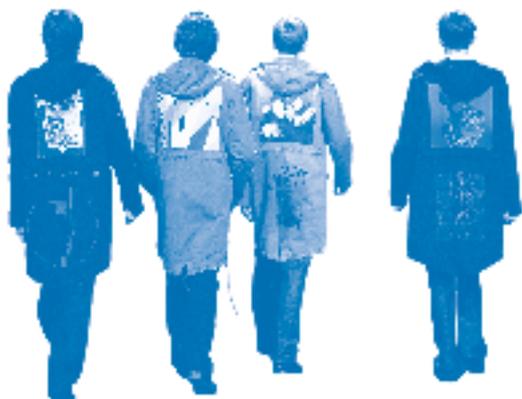
*I never thought of myself as a creative person...The first major production was called **Rush**, which focused on working class struggles. It was a choreographed 40 minutes by Southpaw Dance Company with a community cast – about 80 of us who took part. We were sent this email, and I liked the sound of it. So I went along to a workshop, and then rehearsals, and before we knew it we were dancing in a car park, throwing coloured dust in the air, learning routines with professional dancers...*

*I've got a lovely group of friends from it. We support each other. We go and see things together and it's great. We all say, since we did that first thing we've never looked back. It's been like a rollercoaster three years and where it's taken us is just amazing.*



*I never thought I'd get up on stage. I was always the person saying, no, not me, and now if someone's asking for a volunteer I'm like, yes please!*

*[Cultural Spring has] completely opened my eyes to culture and the arts. I go and see a lot more. It's just a huge part of my life now. Every moment of my spare time is taken up with all of this, and it's brilliant.*



## 03

## The arts, museums and libraries are resilient and environmentally sustainable



### Management agreement performance indicator

*An increase in contributed and earned income in National Portfolio Organisations and Major Partner Museums*

ARTS COUNCIL AREA	2015/16	2016/17	% CHANGE
London	£519,494,635	£519,512,189	0.00%
Midlands	£179,266,407	£203,285,666	13.40%
North	£182,869,130	£185,383,134	1.37%
South East	£108,692,476	£95,111,513	(12.49%)
South West	£78,556,015	£84,219,556	7.21%
All Areas	£1,068,878,663	£1,087,512,058	1.74%

	TOTAL EARNED & CONTRIBUTED	EARNED	CONTRIBUTED
2015-16	£1,068,878,663	£855,464,496	£213,414,167
2016-17	£1,087,513,058	£872,545,625	£214,967,433
% increase/change	+1.70%	+2.0%	+0.7%

Arts organisations, museums and libraries have continued to focus on building resilience. Our annual survey of National Portfolio Organisations and Major Partner Museums for 2016/17 indicated earned income across the portfolio continues to grow and rose by 1.74 per cent from the previous year. Income from

Local Authorities fell by 10 per cent across the country but National Portfolio Organisations and Major Partner Museums continue to push hard on raising additional private income which saw increases of 3 per cent to provide over £211 million for the sector.



We previously invested £5.3 million in the Elevate fund to strengthen the capacity and resilience of 40 organisations, outside our National Portfolio, that were contributing significantly to advancing the diversity agenda. We were pleased to see 30 of those organisations apply to join the 2018-22 portfolio, of which 20 were successful, including Ballet Black, a company of dancers of Black and Asian descent, and Diverse City, who bring together disabled and non-disabled people, older and younger people and people from all backgrounds through an ambitious programme of performance and training.

Organisations are continuing to develop their use of digital technologies in their business models, making art and reaching new audiences. In 2017, 68 per cent of those surveyed in the Arts Council Digital Survey undertaken by Nesta reported major positive impacts on their business models and operations – up from 51 per cent in 2013. Organisations selling event tickets online are up

9 per cent to 71 per cent since 2013, and the number accepting online donations is up 10 per cent to 71 per cent.

The £7 million Arts Impact Fund has shown there is demand for loan financing across the sector, with over 20 investments made to organisations across the country. While it's too early to see those investments repay, the Arts Council's £3 million investment has leveraged £4 million additional funding into the sector, and we will be exploring the possibility of increasing the scale of loan finance in the next investment period.

Over 400 organisations applied to take part in our business support programmes: Prosper, delivered by Creative United, and the Building Resilience programme which provides longer-term organisational development to four cohorts of cultural organisations.

We have continued to increase investment towards building fundraising capacity within the sector. In January 2018, we invested over £2.8 million into 117 organisations through the Catalyst Small Grants programme. Each organisation was awarded between £10,000 and £30,000 to invest in systems, training and development for staff, volunteers and boards to cover the costs of external expertise to increase their fundraising, and 79 per cent of these funds were awarded to organisations outside of London.

The Arts Fundraising and Philanthropy programme – a consortium of business, higher education and arts organisations – delivers training including fundraising courses, mentoring opportunities and mid-career intervention to build fundraising and philanthropy capacity in the cultural sector.

The Arts Council has continued to work closely with Julie's Bicycle to help National Portfolio Organisations and Major Partner Museums reduce their carbon footprint and embed environmental sustainability into their work. The partnership has resulted in year-on-year savings and improvements, leading to a 21 per cent decrease in energy use emissions



and resultant savings of £11 million across the portfolio since 2012/13. Engagement and interest in the subject has risen: in 2013, 35 per cent of the portfolio considered themselves engaged or very engaged compared to 89 per cent in 2017. The Arts Council awarded a new four-year contract to Julie's Bicycle to continue and extend this work.

The 2018-22 National Portfolio will include the Society of Chief Librarians, who will build capacity in the library sector to increase its reach and impact, and to become more resilient. They represent all 151 public library services in England, enabling them to deliver sector-wide reach. Their investment has previously enabled the development of 'universal library offers', which have levered in additional funds from other partners and helped the sector to share costs and resources.

The Cultural Destinations programme, set up to increase culture's contribution to the tourist economy, has funded 18 local partnerships to explore ways to diversify their income.

International market development plays an ever more significant role in building financial resilience, with National Portfolio Organisations earning £69 million from international activity in 2016/17. The Arts Council continues to invest in key marketplaces through showcasing, including South by South West (music, and art and technology), Tanzmesse and CINARS (dance), Caravan (theatre), and Venice Biennale Diaspora Pavillion).

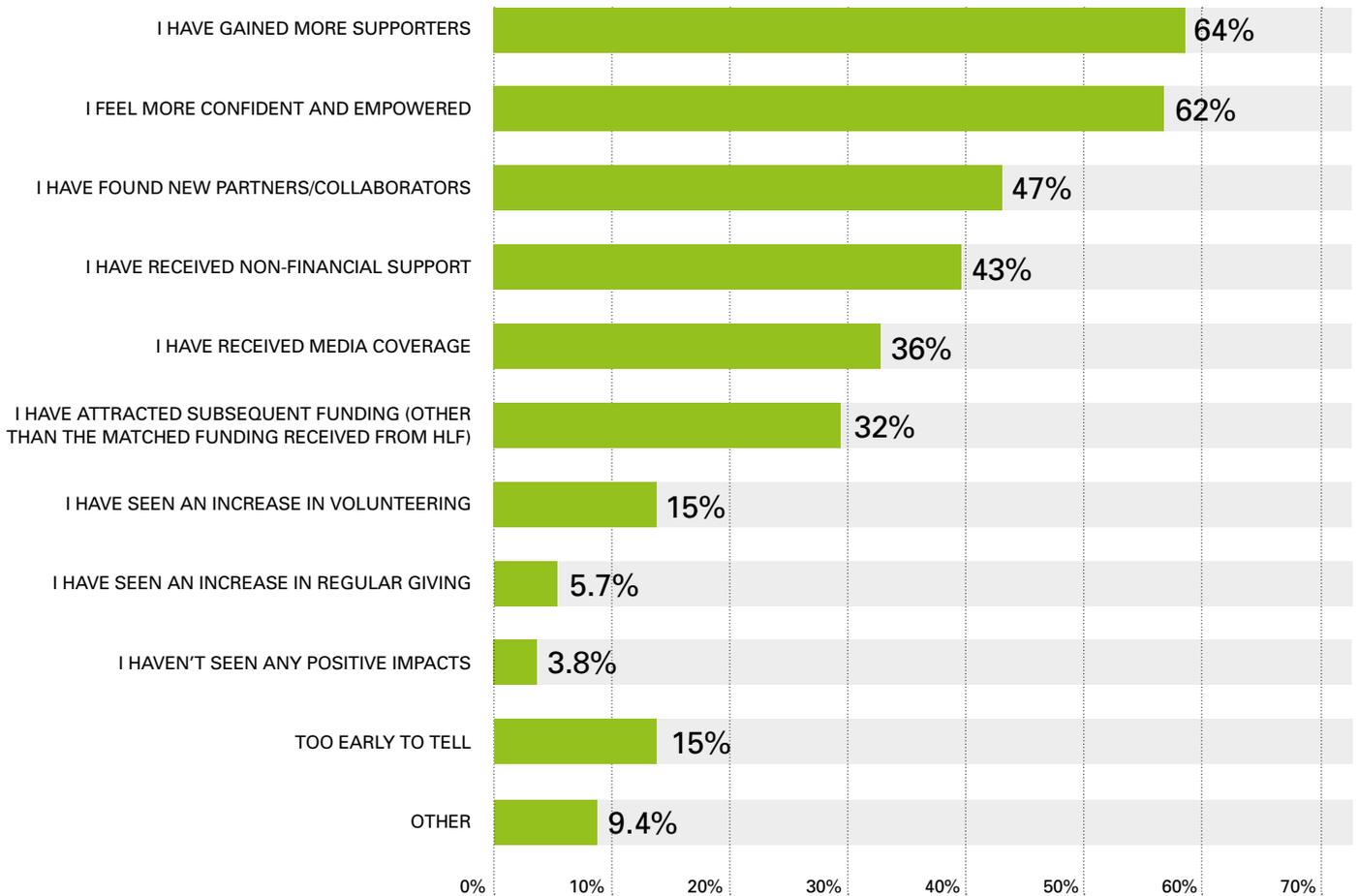
The Accreditation Scheme for museums and galleries in the UK further supports resilience and sustainability. There are currently 1,311 Accredited museums in England and engagement with the scheme remains high.

### CASE STUDY: Crowdfunding

In response to a recommendation in the Government's 2016 Culture White Paper, the Arts Council, in collaboration with DCMS, Nesta and the Heritage Lottery Fund, appointed Crowdfunder to set up a pilot programme which would help us to explore how arts and cultural organisations and funders can best engage with crowdfunding platforms and the wider benefits they can bring. The pilot backed 57 arts and heritage projects, tested the impact crowdfunding can have on how organisations fundraise, campaign and mobilise new supporters, and explored how grant funders can best work with the crowd. A research report published by Nesta in October 2017 found that:

- the £251,500 in match funding provided as part of the pilot helped leverage an additional £405,941 from the crowd of 4,970 backers
- the pilot largely attracted new supporters and finance for arts and heritage organisations, rather than drawing from existing philanthropic sources. 78 per cent of project backers indicated that the money they gave to the campaigns was in addition to what they would ordinarily give to charitable or philanthropic causes
- 48 per cent of backers first heard about the project they supported through social media
- while crowdfunding can help fundraisers easily attract a global audience, 41 per cent of backers in this pilot lived less than 10 miles from the project and 64 per cent said that they expected to visit the project in person

## CASE STUDY STATISTICS: POSITIVE IMPACTS EXPERIENCED SINCE CROWDFUNDING REPORTED BY FUNDRAISERS



DATA PROVIDED BY NESTA, 2017

## 04

## The leadership and workforce in the arts, museums and libraries are diverse and appropriately skilled



### Management agreement performance indicator

*Proportion of National Portfolio Organisation and Major Partner Museum board members who identify with the following characteristics:*

YEAR	NUMBER OF ORGANISATIONS	BME	LGBT	FEMALE	DISABLED
2016/17	652	12.5%	5.1%	46.2%	6.6%

Having the right people in place is key to the success of any organisation, and to driving enterprise and innovation. Organisations that have a workforce, leadership and board with a diverse range of backgrounds and experiences, and have training and development programmes in place can better fulfil their potential.

We collect and publish data from our National Portfolio Organisations each year and we continue to improve our data collection processes to help organisations provide a more accurate picture. However, challenges remain and we still have no disability data for half of the National Portfolio Organisation and Major Partner Museum workforce and no ethnicity data for a third of the workforce.

This year, we analysed and published findings from data collected in 2016/17. We found that, in comparison with the wider working age population, people from a Black and minority ethnic background and disabled people were under-represented across the arts and culture workforce and leadership. Women were also

found to be under-represented in certain leadership roles. More promisingly however, a significantly higher number and value of Grants for the Arts awards went to Black and minority ethnic, disabled and female applicants.

In areas of slow progress there are sometimes deep structural challenges that extend beyond the arts and culture sector. The Arts Council and our funded organisations are subject to wider trends in society and policy that may influence our sector. Our guidance and funding programmes can help organisations address both diversity and skills. This year we invested in a number of programmes to develop the pool of talented and diverse leaders across the sector, at executive and board level.

We announced two new Sector Support Organisations joining our National Portfolio for 2018-22 will have a specific focus on skills. Creative Skillset and Creative and Cultural Skills will help us in our aims to: raise awareness of the opportunities to work in the arts, libraries and museums; ensure there is a level playing



field for everyone starting out in the sector; and make sure that organisations continue to invest in people so that they develop their full potential.

The Clore Leadership Programme focuses on developing a pool of leaders that reflect society at executive and board level through its governance training and programmes for diverse leaders at all stages of their careers. This year's graduate Fellows, supported through the new Developing Leaders Strategic Fund, included the first Music Education Fellow.

Through our Change Makers programme, we invested £2.57 million to support the development of 20 Black and minority ethnic and disabled leaders. Two Change Makers, Sara Wajid and Malavika Anderson, have secured full-time leadership positions at the Museum of London and the Wellcome Trust respectively. Andrew Miller, a Change Maker who was based at Royal and Derngate in Northampton, has recently been appointed to the Arts Council's National Council. Conductor and Change Maker James Rose has worked

with Bournemouth Symphony Orchestra to establish the world's first symphony orchestra to have a professional ensemble led by disabled musicians in a major step forward for the classical music sector in England.

We are also supporting the pilot of HEY100, a new leadership initiative led by the Clore Social Programme. Launched in January, it aims to support leadership development at scale through a place-based model, bringing together the voluntary, cultural and community enterprise sectors in Hull and East Yorkshire.

To support young people interested in governance, this year we worked with the Roundhouse to produce *Guided by Young Voices*, a guide to youth governance aimed at chairs, chief executives and board members, with case studies of how to include young people on your board and in decision-making processes, and the impact it can have when you do.

We will also be investing in digital skills development across the sector, recognising the findings of the fourth digital survey which we publish in partnership with NESTA. While this shows a very significant increase in the proportion of organisations regarding digital as important or essential to their business model (up from 34 per cent in 2013 to 53 per cent in 2017) there have been significant declines in the proportion that see digital as essential to preserving and archiving, many marketing related activities, creation and distribution, operations and exhibition.

£3 million of new investment in The Space will support a programme of digital skills development that will take place between 2018 and 2021, and will engage with around 800 arts organisations. It will include training on digital strategy, online audience development and content creation for broadcast and online, as well as supporting companies to better understand multimedia production and teaching how to reduce barriers to digital-led projects.

### CASE STUDY: Museum development

In 2017/18, Museum Development North West ran a programme of business skills support to help museums as resilient, effectively-run organisations. The programme was open to all staff and volunteers of Accredited museums, or those officially working towards it, in the North West. It had two strands: business skills training delivered by external training partner ACM Training to 39 delegates, and continuing professional development bursaries for staff and volunteers to tailor their own development in business skills.

The training on time management skills proved particularly popular, with demand leading to a second session held in February. Eight bursaries were allocated after the initial sessions with applications ranging from a PRINCE 2 course and training to improve budgeting and record keeping skills, to a full ILM Level 5 qualification in leadership and management.

The programme has seen participating museums more confident in their ability to run themselves as successful businesses going forward.

*As a small, largely volunteer-led and new not-for-profit organisation, it was immensely useful for the Friends of Kirkby Gallery and Prescott Museum group to be assisted with bespoke CPD funding, as it enabled two members of the group to attend a much needed book-keeping course, so as to inform and update their knowledge on financial management processes. This we now hope to do in some shape and form every year to ensure good practice and that knowledge is current. It also has and will continue to serve as positive contact with Liverpool CVS, which is why the course was undertaken.*

Tina Ball, Chair of Friends of Kirkby Gallery and Prescott Museum



## 05

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



Through the Cultural Education Challenge, we aim to fulfil our strategic goal to ensure that more children and young people can access high-quality art and cultural experiences. Building on the strong progress to date, Bridge Organisations have led the development of nearly 90 local cultural education partnerships across the country. Some are fully established and are using an evidence-based approach to address the key issues faced locally in supporting young people to access the arts, museums and libraries – especially those from the most disadvantaged backgrounds.

The 10 Bridge Organisations remain vital in our work to support teachers, schools, further and higher education institutions, local authorities, arts and cultural organisations and youth organisations to embed art and cultural practice in their offers. Programmes such as the Specialist Leaders in Cultural Education and Future Leaders have continued to support teachers to develop their expertise and skills in creative approaches and creative learning.

The Department for Education remains an important strategic partner, and this year we confirmed a further two years of funding for a range of jointly funded music and cultural education programmes including Music Education Hubs, National Youth Music Organisations, In Harmony, the National Youth Dance Company, the Museums and Schools programme and National Saturday Clubs.

Music Education Hubs were funded £75 million in the last year, contributing towards

the vision set out in the National Plan for Music Education. As part of their funding to deliver core and extension roles in 2015/16, the hubs worked with 87.5 per cent of all state-funded schools – a figure that has grown year on year since they were established.

Artsmark is our flagship award programme for schools and, over the last year, the proportion of schools that have engaged has increased from 10 to 14 per cent. Across England, 476 schools were awarded Silver, Gold and Platinum in celebration of their achievements and there are now over 1.3 million pupils attending an Artsmark school. To build on this success, the Artsmark Partnership Programme was this year opened to cultural organisations and over 300 are building a network of support for Artsmark schools, to develop long-term, meaningful relationships across cultural and educational sectors.

Arts Award celebrated 66,582 awards in 2017/18. The award continues to be a key progression and accreditation route recognising young people's achievements in the arts in and out of school. It is now being offered in more settings than ever before, including through programmes such as the National Saturday Clubs and Summer Arts Colleges. Accreditation for arts and leadership skills can open a variety of career progression routes and Arts Award provides recognition for young people's arts and creative skills.

Announced in January, creativity is being further explored through the Durham

Commission, which will consider the impact of creativity and creative thinking in education on the lives of young people.

This year, the Cultural Citizens Programme piloted an approach to engaging with young people not already regularly taking part in arts and culture. Over the life of the pilot, 774 young people took part in 332 arts and cultural experiences, 544 young people achieved an Arts Award and the majority reported they had developed their communication skills, teamworking and confidence.

Over the next four years, our work with children and young people will be strengthened by National Portfolio Organisations. There will be an increase from 524 to 612 organisations producing work for, by and with children and young people, and they will use the Quality Principles to inform their approach – these emphasise the need to involve young people when planning and delivering programmes. Several organisations have focused on young people as leaders, including Contact Theatre in Manchester and Suffolk Libraries, both of which will work to develop the skills and resilience of young people as future sector leaders in the arts, library and cultural sectors.



### CASE STUDY: Youth governance

*What boards are often not so good at is taking a long, hard look at themselves. We all need a kind of 'check your privilege' moment. Young trustees crash into that assumed corporate righteousness that boards can easily find themselves slipping into – they keep us on our toes.*

Baroness Genista McIntosh

Genista McIntosh is no stranger to the boardrooms of cultural organisations. As outgoing Vice Chair of the Roundhouse board, she is talking here about the risk iconic Camden venue took right at the start of its artistic rebirth, a dozen or so years ago: to appoint two young people aged under 25 to its governing body. It is a risk that has paid off handsomely and one that powerfully underlines the organisation's core commitment to working with – and listening to – young people.

The Arts Council's commitment to arts by, with and for children and young people meant that we quickly agreed with the Roundhouse that 'youth governance' deserved much wider currency. So this year, we supported the Roundhouse to produce *Guided by young voices* – a guide for chairs of boards and their chief executives on the process of bringing young people from participation into consultation and decision-making. The report features examples of inspiring practice from around the country and demonstrates that having young trustees is a positive move for any organisation wanting a genuine relationship with its younger audiences and participants.

Chloe Donovan, one such young trustee, summed up what she had learned:

*There is the experience of seeing how a business is run. The insight and skills you gain in areas such as strategy or accounting are invaluable. And the biggest thing is the confidence you gain from seeing that your opinion is valid and valued.*



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# Remuneration report 1 April 2017—31 March 2018

PART-AUDITED INFORMATION

# 04.



**The remuneration report covers the whole organisation and the costs have been apportioned to both Grant-in-Aid and Lottery distribution accounts. The salary and pension disclosures for senior staff and the disclosures required by the Hutton Review have been audited.**

### THE REMUNERATION COMMITTEE

Arts Council England has a Remuneration Committee for specific matters relating to the remuneration and performance of its Chief Executive and Executive Directors. The committee operates within written terms of reference, and usually meets once during the year to agree annual pay increases and performance bonuses for the Executive Board. The Chief Executive also makes reward recommendations to the committee in respect of those staff on Executive Board who report directly to him. At the meeting which took decisions in respect of 2017/18 executive remuneration, the members of the committee were Sir Nicholas Serota, Peter Phillips (Chair), Matthew Bowcock CBE, Alistair Spalding CBE and Nazo Moosa.

### COUNCIL MEMBERS' REMUNERATION

Our supplemental charters issued in 2002 and 2006 provide us with the authority to remunerate our National Council members, who are also Area Council chairs, and our National Chair. Remuneration amounts are set by the Department for Digital, Culture, Media and Sport (DCMS) and agreed by the Charity Commission.

Members of National Council, who are also chairs of Area Council, were entitled to remuneration of £6,400 each per annum during 2017/18 (2016/17: £6,400). During 2017/18 a total of eight members of National Council served as Area Council Chairs for some or all of the year. The Chair's remuneration was agreed by DCMS at £40,000 per annum. Following his appointment in February 2017 the Chair of Arts Council England, Sir Nicolas Serota, opted not to take any remuneration for this role whilst

he remained Chief Executive of the Tate. His salary during this period (1st February 2017 to 31st May 2017) was £13,333 and he elected to pay this into an Arts Council Staff Development Fund. His salary for the period 1st June 2017 to 31st March 2018 was £33,333.

### EXECUTIVE DIRECTORS' REMUNERATION (audited)

Increases in salary and other performance related payments to Executive Directors are not under the control of Arts Council England management. Whilst the Chief Executive makes reward recommendations in respect of those staff on Executive Board who report directly to him, any salary increases and bonus payments to the CEO and Executive Directors must be approved by the Remuneration Committee.

For 2017/18 the committee awarded the CEO and Executive Directors a consolidated salary increase of 1 per cent – in line with the annual cost of living pay increase for all other Arts Council staff under the constraints of the Government's public sector pay cap.

All performance payments to Executive Directors are normally earned on the basis of exceeding performance objectives and overall contribution to the effective leadership of Arts Council England. This is assessed formally through an annual appraisal process. The Executive Directors were each awarded a bonus payment of £1,500 in respect of their performance in 2016/17. They all chose to donate this to a staff development fund. The Chief Executive was awarded a bonus payment of £17,500. He chose to donate £7,500 of this to the same staff development fund and the remainder to the First Generation scholarship fund at Manchester Metropolitan University. This is a scheme which supports young people from backgrounds who do not usually enter higher education.

MEMBER	SALARY £000s	EMPLOYERS' PENSION CONTRIBUTIONS £000s	VARIABLE PERFORMANCE PAYMENT £000s	TOTAL REMUNERATION 2017/18 £000s	TOTAL REMUNERATION 2016/17 £000s
<b>Darren Henley OBE</b> Chief Executive	148	30	0	<b>178</b>	170
<b>Laura Dyer</b> Deputy CEO (Places & Engagement)	121	24	0	<b>145</b>	129
<b>Simon Mellor</b> Deputy CEO (Arts & Culture)	121	24	0	<b>145</b>	129
<b>Elizabeth Bushell</b> Chief Finance Officer	107	22	0	<b>129</b>	109
<b>Mags Patten</b> Executive Director (Public Policy & Communications)	108	22	0	<b>130</b>	120
<b>Francis Runacres</b> Executive Director (Enterprise & Innovation)	106	22	0	<b>128</b>	111
<b>Richard Russell</b> Chief Operating Officer	106	22	0	<b>128</b>	104

Five members of Executive Board received payment in exchange for giving up part of their annual leave entitlement. This payment is included in the above figures. Members of the Executive Board do not receive any 'benefits in kind.'

The Hutton Review asks organisations to disclose the median remuneration of Arts

Council England's staff and the ratio between this and the remuneration of the highest paid director. The following calculation is based on the full time equivalent staff number at the reporting period end date on an annualised basis and compares this to the normal annual remuneration of the Arts Council's CEO, Darren Henley.

	2017/18 £	2016/17 £
Highest paid director's remuneration	<b>144,630</b>	143,318
Median remuneration	<b>30,885</b>	30,578
Ratio	<b>4.68</b>	4.69

THE RANGE OF STAFF REMUNERATION DURING THE YEAR WAS £17,685 TO £144,630 (2016/17: £17,510 TO £143,318).

### COMPENSATION SCHEME – EXIT PACKAGES (audited)

Details of redundancies and other exit packages agreed during 2017/18 are as follows:

EXIT PACKAGE COST BAND	2017/18			2016/17		
	NUMBER OF COMPULSORY REDUNDANCIES	NUMBER OF OTHER DEPARTURES AGREED	TOTAL EXIT PACKAGES DURING 2016/17	NUMBER OF COMPULSORY REDUNDANCIES	NUMBER OF OTHER DEPARTURES AGREED	TOTAL EXIT PACKAGES DURING 2015/16
< £9,999	1	0	<b>1</b>	2	0	2
£10,000 – £24,999	1	0	<b>1</b>	2	0	2
£25,000 – £49,999	0	0	<b>0</b>	0	0	0
£50,000 – £99,999	1	0	<b>1</b>	0	0	0
£100,000 – £149,999	1	0	<b>1</b>	0	0	0
<b>Total number of exit packages by type</b>	<b>4</b>	<b>0</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>4</b>
<b>Total resource cost £000s</b>	235	0	<b>235</b>	51	0	51

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.

### TAX ARRANGEMENTS OF PUBLIC SECTOR APPOINTEES

In accordance with HM Treasury guidance on disclosure, the following tables set out the number of interim staff and the assurances given about tax status.

For all off-payroll engagements as of 31 March 2018, for more than £245 per day and that last for longer than six months:

Number of existing engagements as of 31 March 2018. <i>Of which:</i>	1
Number that have existed for less than one year at the time of reporting	–
Number that have existed for between one and two years at the time of reporting	1
Number that have existed for between two and three years at the time of reporting	–
Number that have existed for between three and four years at the time of reporting	–
Number that have existed for four years or more at the time of reporting	–

Arts Council England confirms that all existing off-payroll engagements, outlined above, have at some point been subject to a risk-based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought and received.

There were no new off-payroll engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018, for more than £245 per day and that lasted for longer than six months.

It is Arts Council England's policy to only employ people "Off Payroll" once the relevant assurances have been received. There were no off-payroll engagements of board members and/or senior officials with significant financial responsibility between 1 April 2017 and 31 March 2018.

Number of off-payroll engagements of Board members and/or senior officials with significant financial responsibility, during the financial year	–
Number of individuals that have been deemed 'Board members and/or senior officials with significant financial responsibility', during the financial year	8



## TRANSFER VALUES

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A transfer value is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The calculation of the pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Arts Council Retirement Plan. They also include any additional pension benefit accrued to the member as a result of buying additional pension benefits at their own cost. Transfer values are worked out in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction resulting from Lifetime Allowance Tax which may be due when the pension benefits are taken.

## INCREASE IN TRANSFER VALUE (NET OF INFLATION)

This reflects the increase in transfer value that is funded by the employer net of the increase in accrued pension due to inflation. This increase also excludes contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement or purchased via an Additional Voluntary Contribution contract) and uses common market valuation factors for the start and end of the period. During the year the Trustees of the Arts Council Retirement Plan reviewed the factors used to calculate the CETV. As a result this has resulted in the 2017/18 CETV having a lower value when compared to previous years.



MEMBER	ACCRUED PENSION (LUMP SUM) AT 31 MARCH 2018 £000s	INCREASE IN PENSION (LUMP SUM) IN YEAR (NET OF INFLATION) 2017/18 £000s	TRANSFER VALUE AT 31 MARCH 2018 £000s	INCREASE IN TRANSFER VALUE (NET OF INFLATION) 2017/18 £000s	TRANSFER VALUE AT 31 MARCH 2017 £000s
<b>Darren Henley OBE</b> Chief Executive	15 (43)	27 (20)	232	<b>(53)</b>	146
<b>Laura Dyer</b> Deputy CEO (Places & Engagement)	44 (132)	4 (10)	804	<b>54</b>	833
<b>Simon Mellor</b> Deputy CEO (Arts & Culture)	16 (49)	2 (6)	332	<b>34</b>	307
<b>Elizabeth Bushell</b> Chief Finance Officer	25 (74)	4 (13)	388	<b>54</b>	381
<b>Mags Patten</b> Executive Director (Public Policy & Communications)	6 (19)	1 (4)	103	<b>14</b>	94
<b>Francis Runacres</b> Executive Director (since 1st November)	22 (67)	3 (9)	449	<b>51</b>	417
<b>Richard Russell</b> Executive Director (since 1st November)	38 (114)	6 (19)	692	<b>108</b>	644

**Darren Henley OBE**  
**Chief Executive**

DATE: 2 JULY 2018

**Sir Nicholas Serota CH**  
**Chair**

DATE: 2 JULY 2018

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# Sustainability report



05.



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## The sustainability report covers the whole organisation and the costs have been apportioned to both Grant-in-Aid and Lottery distribution accounts.

The key aims of our Environmental Sustainability policy are set out below:

- adhere to the Greening Government Commitments
- meet all current and foreseen environmental legal requirements and related official codes of practice, and require our suppliers to do the same
- communicate and engage with all staff about our environmental policy and performance
- ensure that the goods and services we purchase support our environmental objectives wherever practicable and encourage our suppliers and contractors to improve their own environmental performance
- identify and provide appropriate training, advice and information for staff and encourage the development of new innovations
- publish our environmental sustainability performance in our Annual Report

This year we've made progress on estate changes by reducing the amount of office space we occupy in Cambridge from 504m<sup>2</sup> to 80m<sup>2</sup> – the resultant reduction in emissions will be published on our 2018/19 Annual Review.

This significant reduction in floor space is subject to a 'Smart Working' pilot project that aims to re-think the way in which we work and how we use IT to reduce travel. The new office has access to shared meeting facilities and break-out space and we've issued staff with IT equipment to enable them to work more flexibly.

As a result of the estate changes, our overall use of office space has reduced to within the parameters set by Government to 8m<sup>2</sup> by March 2018.

## KEY ACHIEVEMENTS IN 2017/18

In addition to the Cambridge office move, we also renewed the lease for our Leeds office and took this opportunity to invest in new LED lighting to reduce energy consumption and improve the working environment for staff.

## PERFORMANCE COMMENTARY

Emissions arising from the operational property estate have remained largely unchanged with the following exceptions:

- There has been an increase in waste reported at our Manchester office at The Hive. The way in which waste is calculated for this office by the landlord is based on allocating the total waste bill for the building amongst the occupiers. The Hive is a multi-tenanted building and until 2016/17 contained some vacant space. Now more tenants are in the building the waste figures have increased and as a consequence the Arts Council is liable for a proportion of this increase.
- The increases reported for the South West office are also due to the way in which our waste and consumption figures are apportioned, rather than as a direct result of our own activities.



TRAVEL		2015/16	2016/17	2017/18
CO <sub>2</sub> (tonnes)	Rail	161	159	<b>152</b>
	Air	17	34	<b>30</b>
	Car	101	106	<b>107</b>
	<b>Total</b>	<b>279</b>	<b>299</b>	<b>289</b>
Cost (£)	Rail	721,039	713,038	<b>838,816</b>
	Air	18,425	21,081	<b>29,634</b>
	Petrol	125,886	132,122	<b>132,771</b>
	<b>Total</b>	<b>865,349</b>	<b>866,241</b>	<b>1,001,221</b>
Miles	Rail	2,221,043	2,063,853	<b>1,946,977</b>
	Air	100,499	210,701	<b>188,278</b>
	Car	314,714	329,783	<b>331,927</b>
	<b>Total</b>	<b>2,636,256</b>	<b>2,604,336</b>	<b>2,467,182</b>

WASTE		2015/16	2016/17	2017/18
Non-financial indicators (tonnes)	<b>Total</b>	<b>173.04</b>	<b>183.82</b>	<b>331.32</b>
	Landfill	20.45	21.24	<b>0.74</b>
	Reused/ recycled	152.59	162.57	<b>330.57</b>
Financial indicators (£)	<b>Total</b>	<b>21,408</b>	<b>22,035</b>	<b>14,250</b>
	Landfill	2,048	1,310	<b>2,122</b>
	Reused/ recycled	19,361	20,725	<b>12,128</b>

GREENHOUSE GAS EMISSIONS		2015/16	2016/17	2017/18
CO <sub>2</sub> (tonnes)	Total gross emissions (CO <sub>2</sub> )	327	347	<b>284</b>
	Gross emissions Scope 1 (direct)	64	74	<b>52</b>
	Gross emissions Scope 2 (indirect)	263	273	<b>232</b>
Energy consumption (kWh)	Electricity	569,132	661,602	<b>563,470</b>
	Gas	346,280	403,285	<b>280,915</b>
Financial indicators (£)	Expenditure energy	80,769	109,593	<b>110,058</b>

FINITE RESOURCE CONSUMPTION		2015/16	2016/17	2017/18
Non-financial (m3)	Water Supplied	3,569.44	3,898.32	<b>4,244.26</b>
	Per full time equivalent (FTE)	8.15	8.66	<b>8.63</b>
Financial indicators (£)	Water supply costs (office water)	7,902	10,336	<b>12,658</b>

The majority of the data used in the preparation of this report is based on the information provided by our suppliers. However, at the time of writing (April 2018), data for some of the locations was not available. In line with HM Treasury guidance estimates have been made based on the previous quarters' actuals and, in limited circumstances, estimates have been made using 2016/17 data.

All conversion factors used to produce CO<sub>2</sub> outputs for travel have been taken from those produced by DEFRA.

We will continue to monitor and report progress on key performance indicators that have a direct impact on carbon emissions and our efficiency targets (eg office space utilisation).

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# Trustees' report and management commentary



# 06.



## GOVERNANCE STATEMENT

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. The Arts Council of England, trading as Arts Council England, is a registered charity, charity registration number 1036733.

This is a single trustees' report and management commentary which covers the requirements for both the Grant-in-Aid accounts and the Lottery distribution accounts during the period 1 April 2017 to 31 March 2018.

## ROLE, MISSION, OBJECTIVES AND ACTIVITIES FOR THE PUBLIC BENEFIT

The current objects of Arts Council England as stated in its 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) and 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

The Royal Charter is at the core of our mission as reflected in our strategic framework, *Great Art and Culture for Everyone*.

Information about our strategic framework, our goals and activities to achieve these, as well as our funding programmes can be found on pages 10 to 35.

## ARTS COUNCIL ENGLAND GOVERNANCE FRAMEWORK

Arts Council England is an arm's length non-departmental public body. It is also a registered charity. Accountability to ministers is managed through the usual control mechanisms for arm's length bodies.

Arts Council England is regulated in accordance with a management agreement agreed with the Secretary of State for Digital, Culture, Media and Sport. This is supplemented by an agreement for the Provision of Services in Relation to Cultural Objects outlining the statutory framework for delivering the cultural property functions on behalf of the Secretary of State for Digital, Culture, Media and Sport. The management agreement was revised in light of the new obligations on Arts Council England following the Tailored Review. These revisions were agreed by National Council in March.

As a registered charity and a chartered body, Arts Council England is also subject to a range of obligations and accountabilities set out in regulations and law. We prepare our accounts for Grant-in-Aid and Lottery distribution separately to comply with accounts directions issued by the Secretary of State and Charity Commission regulations.

Arts Council England is fully compliant with relevant principles around governance best practice for public service and charitable bodies as set out in the *Corporate governance in central government departments: Code of good practice 2017*.



# Arts Council England's Non-Executive Governance Structure

Arts Council England's governance framework consists of a National Council, five Area Councils, an Executive Board, and a number of committees and panels that National Council has delegated responsibilities to. Area Councils, panels and committees are as shown below:

## National Council

(15 members including the Chair)

### ROLE

- govern and hold overall authority for Arts Council England
- retain overall responsibility for the work and conduct of the organisation
- make decisions on Arts Council England's mission, objectives, priorities and strategies
- make decisions on grants above a certain threshold
- monitor delivery of 10-year strategic framework
- approve corporate plan
- approve Grant-in-Aid and Lottery accounts
- advocate for arts and culture and Arts Council England

## Five Area Councils

(Chairs sit on National Council, 14 other members, including local authority reps, artists, and arts and culture practitioners)

### ROLE

- advise on policy and strategy
- make decisions and recommendations on National Portfolio applications

## Museums Accreditation Committee

(16-20 members)

### ROLE

- make decisions on Accreditation status and applications from museums and galleries in the UK
- provide quality assurance
- advocate for the scheme

## Performance and Audit Committee

(Chair sits on National Council, four National Council members and three independent members)

### ROLE

- assess and advise on the organisation's financial risk, performance management, governance and value for money
- perform the responsibilities of an Audit and Risk Assurance Committee

## Designation Scheme Panel

(10 members)

### ROLE

- make decisions on Designation applications from museums, libraries and archives
- provide quality assurance
- advocate for the scheme



## Remuneration Committee

(Chair sits on National Council, four other National Council members)

### ROLE

- make decisions on senior executive salaries, bonuses and other terms and conditions

## Acceptance in Lieu Panel

(6-24 members)

### ROLE

- advise on items offered to the nation in lieu of Inheritance Tax or through the Cultural Gifts Scheme, on Conditional Exemption and on Immunity from Seizure

## Arts Council Collection Acquisition Committee

(eight members)

### ROLE

- advise on new additions to the Arts Council Collection with reference to the Acquisitions and Disposal and Collections Development policy



## MEMBERSHIP OF NATIONAL COUNCIL

Members of National Council are appointed by the Secretary of State for Digital, Culture, Media and Sport who seeks to ensure that National Council has an appropriate range of knowledge, skills and experience. More than half of National Council members are female. All newly appointed trustees of the National Council receive a comprehensive induction upon joining, so that they are fully briefed and introduced into their role in the organisation. Appropriate training and support is offered to trustees on an ongoing basis.

The composition of National Council in 2017/18 was as follows:

### Sir Nicholas Serota CH

(CHAIR)

### Professor Jon Cook

(SOUTH EAST AREA COUNCIL CHAIR – UNTIL 30 SEPTEMBER 2017)

### Professor Roni Brown

(SOUTH EAST AREA COUNCIL CHAIR – FROM 15 NOVEMBER 2017)

### Joe Docherty

(NORTH AREA COUNCIL CHAIR – UNTIL 30 SEPTEMBER 2017)

### Kate Willard

(NORTH AREA COUNCIL CHAIR – FROM 15 NOVEMBER 2017)

### Sheila Healy

(SOUTH WEST AREA COUNCIL CHAIR – UNTIL 30 SEPTEMBER 2017)

### Dame Rosemary Squire

(SOUTH WEST AREA COUNCIL CHAIR – FROM 15 NOVEMBER 2017)

### Peter Phillips

(MIDLANDS AREA COUNCIL CHAIR – UNTIL 30 SEPTEMBER 2017)

### Sukhy Johal MBE

(MIDLANDS AREA COUNCIL CHAIR – FROM 15 NOVEMBER 2017)

### Veronica Wadley

(LONDON AREA COUNCIL CHAIR)

### Maria Balshaw CBE

### Matthew Bowcock CBE

(UNTIL 31 OCTOBER 2017)

### David Bryan

(UNTIL 31 OCTOBER 2017)

### David Joseph CBE

### Sir Nicholas Kenyon

(UNTIL 2 NOVEMBER 2017)

### Nazo Moosa

(UNTIL 31 OCTOBER 2017)

### Alistair Spalding CBE

(UNTIL 30 SEPTEMBER 2017)

### Dame Rosemary Squire

(UNTIL 4 DECEMBER 2017, AFTER WHICH SHE BECAME SOUTH WEST AREA COUNCIL CHAIR)

### Andrew Miller

(FROM 15 NOVEMBER 2017)

### George Mpanga

(FROM 15 NOVEMBER 2017)

### Elisabeth Murdoch

(FROM 15 NOVEMBER 2017)

### Paul Roberts OBE

(FROM 15 NOVEMBER 2017)

### Tessa Ross

(FROM 15 NOVEMBER 2017)

## HIGHLIGHTS OF NATIONAL COUNCIL MEETINGS IN 2017/18

During 2017/18, National Council and its committees considered key strategic issues and routine business planning; the topics considered included:

- our programme budgets for 2018/19 to 2021/22
- consideration and final agreement of our National Portfolio for 2018-22
- our investment approach for non-National Portfolio funding in 2018-22
- Quality Metrics
- youth music funding 2018-22
- funding of the Early Years Access to Literature project
- models of support for literary fiction

- discussion of the outcomes of the Museums (Mendoza) Review
- Music Education Hubs investment for 2018-20
- the contents of the *Equality, Diversity and the Creative Case* Annual Report
- proposals for the Creative Land Trust project
- initial discussions about the development of our new 10-year strategy
- Arts Council England's Corporate Plan 2018-2020
- the Arts Council England/DCMS management agreement
- Arts Council England's Scheme of Financial Delegated Authority
- approval of a number of grants, including capital grants of around £98.9 million to organisations under the Arts Council's capital programme

Further details about National Council's work during the year are available in the minutes from its meetings published on the Arts Council's website.

### THE EFFECTIVENESS OF NATIONAL COUNCIL

Arts Council England recognises that an effective National Council is key to the delivery of its mission.

National Council has arrangements in place to discharge its duties effectively and ensure proportionate yet effective governance, risk management and other systems of internal control.

National Council members are appointed based on their areas of specialist interest or experience of the arts and culture world, either as practitioners, administrators, academics or executives. They hold responsibility for ensuring the achievement of the Arts Council's objectives, deciding on policy and priorities, and investing money in artists and arts and cultural organisations.

National Council also engages directly with all of the strategic, operational and financial challenges facing Arts Council England and provides leadership for Arts Council England's work.

### SUMMARY OF NATIONAL COUNCIL'S REVIEW OF ITS EFFECTIVENESS

National Council considered its effectiveness in 2017/18 at its May 2018 meeting. As part of this review, members considered the terms of reference for National Council and the way in which the Council had operated in practice over the year. The meeting also discussed the appraisal of the Chair which had been undertaken by two National Council members.

The general conclusion was that National Council had operated effectively in 2017-2018. It had taken several key decisions over the year. This included agreeing programme budgets for 2018-2022 and identifying the National Portfolio of arts museum and library organisations that will receive annual investment funding over that period. There had also been progress in addressing the issues raised in the previous year's review of effectiveness.

There had been a significant turnover of National Council members in 2017/18, with 10 out of 14 members having left as their terms had come to an end. While noting the steps that the organisation had taken to manage the risks associated with such a large turnover on the organisation, there was concern about the delays with the recruitment process. In the light of this, National Council asked the Executive to work with officials in the Department for Digital, Culture, Media and Sport to avoid a similar occurrence in future.

Other suggestions for improvement were:

- to ensure that the National Council fully utilised the wealth of experience, knowledge and expertise on its Area Councils
- to consider how National Council members could support the Chair and Chief Executive of the Arts Council in their advocacy roles

Members also emphasised the importance of the papers presented to inform their decision-making being as clear and succinct as possible. The Chair of the Arts Council will be working with the Chief Executive to address the issues identified.

NATIONAL COUNCIL ATTENDANCES	NATIONAL COUNCIL	PERFORMANCE & AUDIT COMMITTEE	REMUNERATION COMMITTEE
Sir Nicholas Serota CH	7/7	–	–
Maria Balshaw CBE	6/7	–	–
Matthew Bowcock CBE	3/4	2/2	1/1
Professor Roni Brown	2/3	–	–
David Bryan	3/4	–	–
Professor Jon Cook	2/4	–	–
Joe Docherty	4/4	–	–
Sheila Healy	3/4	–	–
Sukhy Johal MBE	3/3	–	–
David Joseph CBE	7/7	–	–
Sir Nicholas Kenyon	2/4	–	–
Andrew Miller	3/3	–	–
Nazo Moosa	4/4	2/2	1/1
George Mpanga	2/3	–	–
Elisabeth Murdoch	3/3	–	–
Peter Phillips	4/4	2/2	1/1
Paul Roberts OBE	3/3	1/1	–
Tessa Ross	3/3	–	–
Alistair Spalding CBE	4/4	1/2	1/1
Dame Rosemary Squire	4/7	–	–
Veronica Wadley	6/7	–	–
Kate Willard	3/3	0/1	–
OTHER MEMBERS OF PERFORMANCE & AUDIT COMMITTEE			
Christopher Yates		3/3	–
Anne McMeel		3/3	–
Claire Ashby		3/3	–

PLEASE NOTE THAT THE ATTENDANCE FOR THE NATIONAL AND AREA COUNCIL CONFERENCE IN NOVEMBER IS NOT INCLUDED IN THE ABOVE DATA.

## COMMITTEES AND SUB-COMMITTEES

### Area Councils

There are five Area Councils covering the breadth of England and reflecting Arts Council England's operational structure, appointed to assist National Council in developing, championing and investing in the arts and culture.

They support and promote the organisation's mission and objectives by providing advice on draft policies, making funding decisions and acting as advocates for the arts and culture, creating a live connection at an area level.

Each Area Council consists of 15 members including the Chair who is also a member of National Council. Area Councils meet five times a year. The Chair of the London Area Council is appointed by the Mayor of London with approval from the Secretary of State.

### Performance and Audit Committee

National Council has appointed a Performance and Audit Committee to review and report on the systems of risk and internal control, governance and performance management.

The Performance and Audit Committee is chaired by Paul Roberts, a member of National Council. Paul was appointed in December 2017. Peter Phillips chaired the Performance and Audit Committee until October 2017 when his term ended. Performance and Audit Committee comprises of four National Council members and three co-opted independent members with expertise in audit and accounting matters. All National Council members receive papers and minutes of Performance and Audit Committee meetings. The Chair of the Performance and Audit Committee provides a report to National Council following each meeting, and as he deems necessary. The Performance and Audit Committee also provide a full report to National Council on their performance once a year.

The key areas scrutinised by the Performance and Audit Committee during 2017/18 included findings from internal audit reviews, the external audit of the annual report and accounts and the Governance Statement, and the Arts

Council's risk management processes. The committee also agreed a programme for internal audit, considered our approach to improving performance reporting, considered the strength of our information security, and was given regular feedback on our organisational risks.

The Performance and Audit Committee undertook a self-evaluation of its effectiveness in April 2018. Members felt that the committee was running effectively, but asked for a larger number of agenda items to be focused on the 'performance' aspect of Arts Council England's work.

### Remuneration Committee

National Council has appointed a Remuneration Committee to deal with the matters set out in the remuneration report. The Remuneration Committee normally meets annually.

### Executive management

National Council has delegated responsibilities for the implementation of its strategy and operational matters to the Chief Executive and Executive Board. The Chief Executive has been authorised by National Council to undertake the day-to-day administration and management of the business and staff of the organisation and is responsible to National Council for those matters.

As Arts Council England's Accounting Officer, the Chief Executive is responsible for its 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, the Deputy Chief Executives, Executive Directors within Arts Council England and comments from the external auditors in their management letter and other reports. The Accounting Officer may, on occasion, be required to give evidence to Parliament's House of Commons Public Accounts Committee.

Executive Board comprises of the Chief Executive, two Deputy Chief Executives, and four other senior directors. The Chief Executive is appointed by National Council with the approval of the Secretary of State for Digital, Culture, Media and Sport.

Executive Board meets formally regularly throughout the year to consider key policy, strategic and operational matters and provide advice to National Council, and it also oversees the financial performance and risk management of Arts Council England as a whole. Appropriate management structures have been created

throughout the organisation to assist Executive Board members to oversee their respective departments and areas of responsibility.

Executive Board is supported by a Management Committee, a National Investment Panel whose membership includes the two Deputy Chief Executives and the five Area Directors, and other panels and decision-making groups.

There are written terms of reference and procedures for National Council and its sub-committees and Executive Board.

## MEMBERSHIP OF EXECUTIVE BOARD IN 2017/18

NAME	JOB TITLE
1 Darren Henley OBE	Chief Executive
2 Laura Dyer	Deputy Chief Executive (Places and Engagement)
3 Simon Mellor	Deputy Chief Executive (Arts and Culture)
4 Elizabeth Bushell	Executive Director and Chief Financial Officer
5 Mags Patten	Executive Director, Communication and Public Policy
6 Richard Russell	Executive Director and Chief Operating Officer
7 Francis Runacres	Executive Director, Enterprise and Innovation

## RISK MANAGEMENT AND INTERNAL CONTROL

### Risk management

National Council ensures there are effective arrangements for internal control including risk management at Arts Council England.

The system of internal control is based on an ongoing process designed to identify and prioritise 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 yet economically. 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. National Council takes the view that the absolute mitigation of all risks would be undesirable. It believes that it is important that Arts Council England is innovative and can take managed risks in pursuit of its overarching goal of 'great art and culture for everyone'.

The system of internal control has been in place at Arts Council England for the year ended 31 March 2018 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### System for managing risk

The Department for Digital, 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.

Arts Council England operates a range of controls over the funding programmes it operates to ensure the grant funding provided is used for the purposes intended. These controls are designed to be commensurate with the level of risk associated with each funding programme and the organisation's appetite for risk. The controls include ensuring signed funding agreements are in place, monitoring payment conditions before payments are released, reviewing activity returns and regularly monitoring risks to funded organisations.

The risk management process is facilitated and monitored by the Governance and Planning Department. The management of key risks is subject to independent review and assurance through the internal audit process, which reports to the Performance and Audit Committee. The National Council reviews the risk register and risk management arrangements annually.

During 2017/18, Arts Council England continued to manage risk at the strategic, operational, and individual project and programme levels.

Strategic risks are identified through periodic workshops with senior staff, through escalation from operational risk registers, or as they arise. They are then agreed by Executive Board and assigned an Executive Board lead and risk owner or 'manager' who manages mitigating actions and controls thereafter. We report quarterly to Executive Board and the Performance and Audit Committee on progress in implementing relevant controls and mitigating actions on strategic risks.

Operational risks are also monitored on a quarterly basis, with progress on implementing relevant controls and mitigating actions reported to the Management Committee. Programme and project level risks are monitored by the relevant programme lead or

project board on a timescale appropriate to the programme or project.

The principal risks and uncertainties facing the Arts Council are set out below.

The major residual risks which National Council considers most significant are:

### The possibility of further cuts in local authority investment in arts and culture remains a major risk to the achievement of our goals

Local government is the largest investor in the arts and culture sector in England. However, since 2010 its investment has dropped considerably. Further cuts in the amount local government invests could destabilise the arts and culture ecology and impinge on the achievement of our five strategic goals. We are working with individual local authorities, the Local Government Association and others to press the case for continued local authority investment in the sector and showcase some of the more innovative approaches to funding the arts and culture being adopted by some local councils. Leadership academies for local government officials were held in October and December 2017, and the online Good Practice toolkit was launched in July 2017.

### The uncertainty of the financial environment continues to impact on the resilience of the sector, including the potential impact of Brexit and access to European funds and touring/export to EU countries

We are working closely with Government to explore the opportunities of building international markets for English artists, and arts and cultural organisations. In 2017 we undertook a sector survey to gather evidence on how the sector sees the impact of Brexit, and commissioned research from EUCLID to tell us the total sum of money UK organisations receive from European programmes (other than Creative Europe) to understand the potential deficit.

### We are perceived as not allocating our resources fairly in terms of geographical distribution

We have put in place a series of measures to address this risk. They include a commitment that at least 75 per cent of our Lottery investment over 2015-18 will be spent outside of London and delivery of a 4 per cent increase in National Portfolio investment outside London for the 2018-22 period. We maintain ongoing dialogue with representative bodies such as the Core Cities Group and the LGA Rural Service Network to ensure that they understand our investment approach and that we have a better understanding of the issues that they face. We are also working to maintain our relationships with existing mayors and to build effective working relationships with new mayors.

## The pressure on internal staff capacity represented a major risk for the Arts Council in 2017/18 as we worked to prepare and deliver the 2018-22 National Portfolio investment round

In 2017/18 we created new posts, covered by savings in the administration budget, to address some of our resourcing issues. We have also identified new ways of working to enable us to manage additional strain on staff resources from an increased NPO portfolio. This remains an ongoing risk as we seek to balance resource allocation with the level of activity we commit to and the external demands made on us. We will continue to review our resource requirements and where necessary shift our resources to address key priorities.

### Data security and personal data

Arts Council England continues to maintain its performance in responding effectively to information requests, identifying opportunities to proactively disclose information, and embedding good information handling behaviours across the organisation.

There were no major security incidents involving data at the Arts Council during 2017/18. There were 13 minor incidents where there was no adverse impact on, or damage to, individuals in relation to personal data. The Arts Council dealt with all incidents immediately; each was investigated to see if any changes needed to be made to the Arts Council's systems and processes. There was one incident of data loss which was reported to the ICO, along with the measures which had been put in place to prevent this happening again. No further actions were required by the ICO.

### Conflicts of Interest

As a public body we have a code of ethics that makes sure all staff adhere to the Seven Principles of Public Life, the Bribery Act 2010 and the Government rules on code of conduct in non-departmental public bodies (NDPBs). In particular, staff are required:

- to act, and be seen to act, with independence and impartiality while working for the Arts Council; and

- to take steps to avoid conflicts of interest, by registering and declaring any conflicts between personal interests and the work of the Arts Council as they arise

### Whistleblowing policy

Arts Council England's whistleblowing policy is derived from the Public Interest Disclosure Act 1998 (PIDA) which exists to protect any members of staff who make disclosures in good faith about wrongdoing or activity which is against the public interest. The policy is made available to all permanent and temporary staff and is published on our intranet. Two whistleblowing cases were investigated during 2017/18.

### Internal audit

The annual programme of internal audit work is carried out by an external firm of accountants to standards defined in the Public Sector 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 Management Committee and approved by the Performance and Audit Committee. The internal auditors receive all Performance and Audit Committee papers and attend the 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. Internal audit services are being provided by RSM.

In their annual report RSM stated that, in their opinion:

The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal controls to ensure that it remains adequate and effective.

### **Review of effectiveness of internal control**

The Accounting Officer and the 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 with 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. A review of the effectiveness of our system of internal control has taken place. National Council and the Performance and Audit Committee have been advised about the findings in the review and a plan to address weaknesses and ensure continuous improvement of the system is in place.

### **Assessment of the effectiveness of internal control during 2017/18**

Progress in achieving objectives set out in the Arts Council's 10-year strategy is monitored by the Executive Board and National Council.

For 2017/18, internal audit reviewed the following areas:

- finance key controls – Payroll
- area office review – London
- area office review – Midlands
- Artsmark
- DCMS Tailored Review implementation
- GDPR follow up
- Cyber Security
- Internal Audit follow up

Where weaknesses have been identified during the course of internal audit's work, the findings and the action that management have taken to address key weaknesses have been reported to the Performance and Audit Committee.

Throughout 2017/18 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.

**Darren Henley OBE**  
**Chief Executive**

2 JULY 2018

**Sir Nicholas Serota CH**  
**Chair**

2 JULY 2018

## People update

### OUR ORGANISATION – HOW WE MAKE THINGS HAPPEN



492

#### FTE EMPLOYEES

123 Relationship  
Managers

5 regional teams

New specialist  
Director roles

New National Senior  
Manager roles

Apprentice programme  
in place



9

#### OFFICES

8.9m<sup>2</sup> office space  
per person

Regional presence

Cambridge office move to  
reduce space occupied

Piloting Smart  
working project



90

#### GOVERNANCE BODY MEMBERSHIP

New National Council  
in December 2017

5 Area Councils

Area Councils make  
decisions on NPO awards  
up to £800k for National  
Council approval

Some highlights of our year in 2017/18 included:

The introduction of new specialist director roles, to lead the Arts Council's strategic development into some new areas:

- Director, Northern Economy and Partnerships – will provide leadership for the Yorkshire region, and lead the North's work in relation to economic growth across the area, positioning arts and culture so that they benefit from that growth and are integrated into economic development strategies.
- Director, Engagement and Audiences – will hold a national and international overview of engagement with the arts and culture and contribute to our broader programme of strategy and policy development. They will lead on our Creative People and Places work.
- Director, Skills and Workforces – will offer leadership of Goal 4 of the Arts Council's strategy, *Great Art and Culture for Everyone*, ensuring the sector leadership and workforce is diverse and appropriately skilled.
- Director, Audience Insight and Innovation – will help lead our work on supporting the arts and cultural sector to become 'fit for purpose' for the digital economy. This will include the promotion of a more widespread data culture across the sector and supporting them in the use of appropriate new technologies to engage with current and potential audiences. They will also lead our work in engaging with current and potential media partners.
- Director, Business Improvement and Innovation – will help lead our work to identify, develop and implement appropriate solutions to support arts and cultural organisations in seeking out additional financial resources and ensuring those resources are deployed effectively. This will include the promotion of a more widespread culture of innovation and entrepreneurship across the sector and supporting the use of new technologies.
- Director, Music Education – will provide devoted strategic leadership for our work on music education, including Music Education Hubs, the national youth music organisations, Youth Music and other Department for Education funded projects, currently including In Harmony. It will lead on the ongoing implementation of the National Plan for Music Education.
- Director, Museums – will lead our response to the challenges set for us by the Museums Review, and work with the Director, Collections and Cultural Property, to create closer integration between our museums and collections and cultural property functions.
- The introduction of seven new senior managers to support the work of our national disciplines and provide additional capacity for directors who have shared area and artform/discipline responsibility to focus more on area management and other strategic challenges. Each role has responsibility for two artforms/disciplines. Working closely and flexibly with the relevant directors, they will undertake key planning, strategic fund development and co-ordination roles nationally.
- The launch of some other new senior manager roles. One will help develop our brief on public policy including, but not limited to, health, wellbeing, criminal justice and socio-economic disadvantage. Another will work with the Executive Director, Enterprise and Innovation (E&I) to identify, develop and implement solutions to support the arts and culture sector to innovate and be entrepreneurial and to better deliver the Arts Council's strategy and goals in that area. In response to the Tailored Review the role of Counter Fraud Manager has been created.

## Annual staff survey

Our annual staff survey took place in September 2017. Some highlights included:

- a 79% response rate
- 74% rating the Arts Council as a good or very good place to work
- 80% said they would speak highly to others about the Arts Council
- 83% said they understood how their job contributes to the Arts Council's mission
- 69% said they wanted to take on more responsibility in their role going forward

Our programme for the recruitment and placement of an average of 11 new apprentices per year for each of the next three years is underway.

Our programme for the refresh of our recruitment practices to enhance the organisation's diversity profile is also underway, following a review of these by the EW Group.

Our Investors in People mid-term review showed us to be in good shape for re-accreditation next year.

The Arts Council has to comply with strict requirements around salary bill growth and worked within the 1 per cent maximum increase in overall paybill permitted by the Government pay remit for 2017/18. This year, staff were awarded a pay increase of 1 per cent, which was the maximum allowed within the Government pay remit. However to supplement this, we continue to operate a popular final salary pension plan and, now in its second year, the scheme to allow staff to sell and purchase their annual leave was also subscribed to by 193 staff.

There was one tribunal claim received in the year; however formal employee relations cases remained at a low level. We have renewed and refreshed our recognition agreement with the union, Unite.

Our gender pay gap results as at 31 March 2017 were published in early 2018 and showed the mean average ordinary salary difference between our male and female employees at this time was 6.7 per cent – down from 9.6 per cent at the end of March 2016. The median ordinary salary difference was 2.6 per cent – down from 6.5 per cent at the end of March 2016.

Voluntary staff turnover in 2017/18 was low – at 5.4 per cent (9.31 per cent in 2016/17). Sickness absence rates also remain low, at 2.03 per cent in 2017/18 (1.54 per cent in 2016/17). This equates to 5.0 days per employee in 2017/18 (3.1 days 2016/17)

## TRADE UNION FACILITY TIME

The Trade Union (Facility Time Publication Requirements) Regulations 2017 took effect on 1 April and means that public sector employers are now required to publish certain information on trade union officials and facility time in their annual report.

Facility time covers duties carried out for the trade union or as a union learning representative, for example, accompanying an employee to a disciplinary or grievance hearing. It will also cover training received and duties carried out under the Health and Safety at Work Act 1974.

The information for Arts Council England is as follows:

### Relevant union officials

What was the total number of Arts Council England employees who were relevant union officials during the relevant period?

NUMBER OF EMPLOYEES WHO WERE RELEVANT UNION OFFICIALS DURING THE RELEVANT PERIOD	FULL TIME EQUIVALENT EMPLOYEE NUMBER
18	17.3

### Percentage of time spent on facility time

How many of Arts Council England employees who were relevant union officials employed during the relevant period spent a) 0%, b) 1%-50%, c) 51%-99% or d) 100% of their working hours on facility time?

PERCENTAGE OF TIME	NUMBER OF EMPLOYEES
0%	0
1-50%	18
51%-99%	0
100%	0

### Percentage of pay bill spent on facility time

The figures below show the percentage of Arts Council England's total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period.

Total cost of facility time	£28,406
Total pay bill	£17,075,864
Percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100	0.17%

### Paid trade union activities

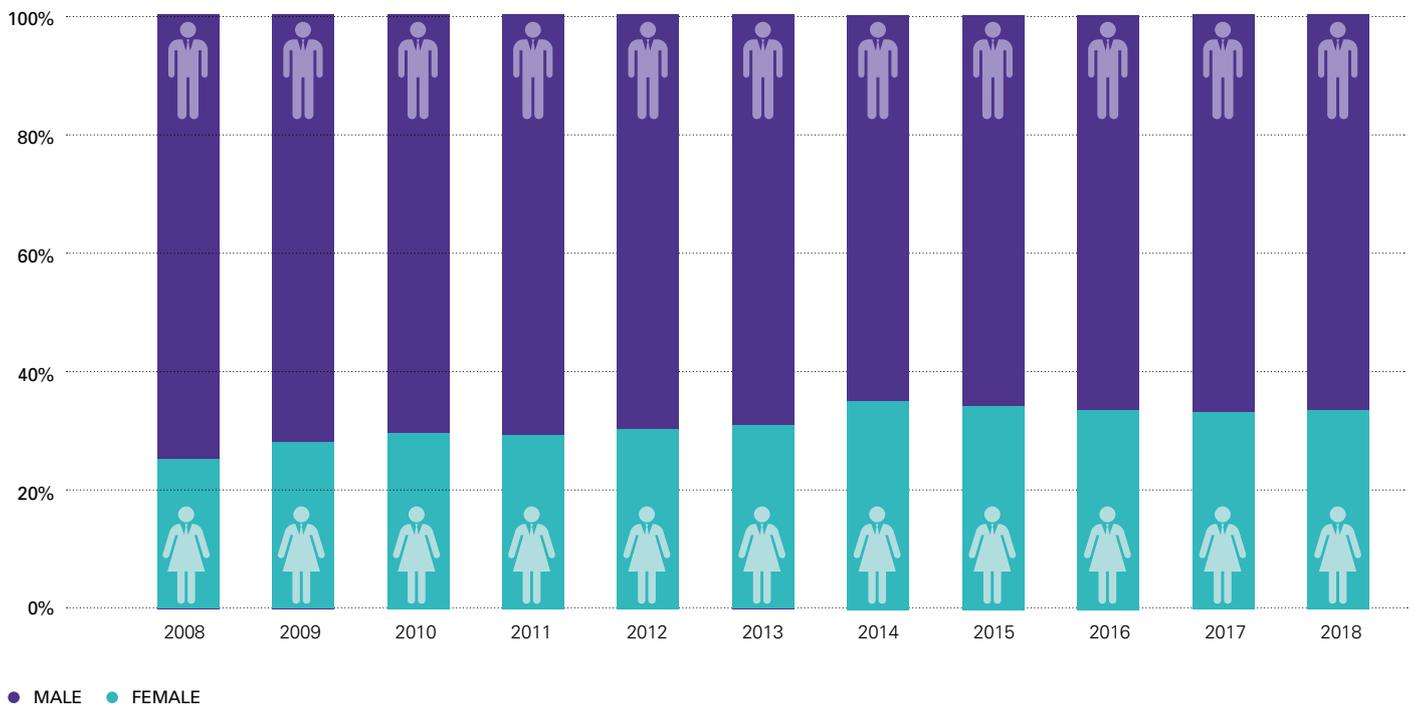
As a percentage of total paid facility time hours, how many hours were spent by employees who were relevant union officials during the relevant period on paid trade union activities?

Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ total paid facility time hours) x 100	100%
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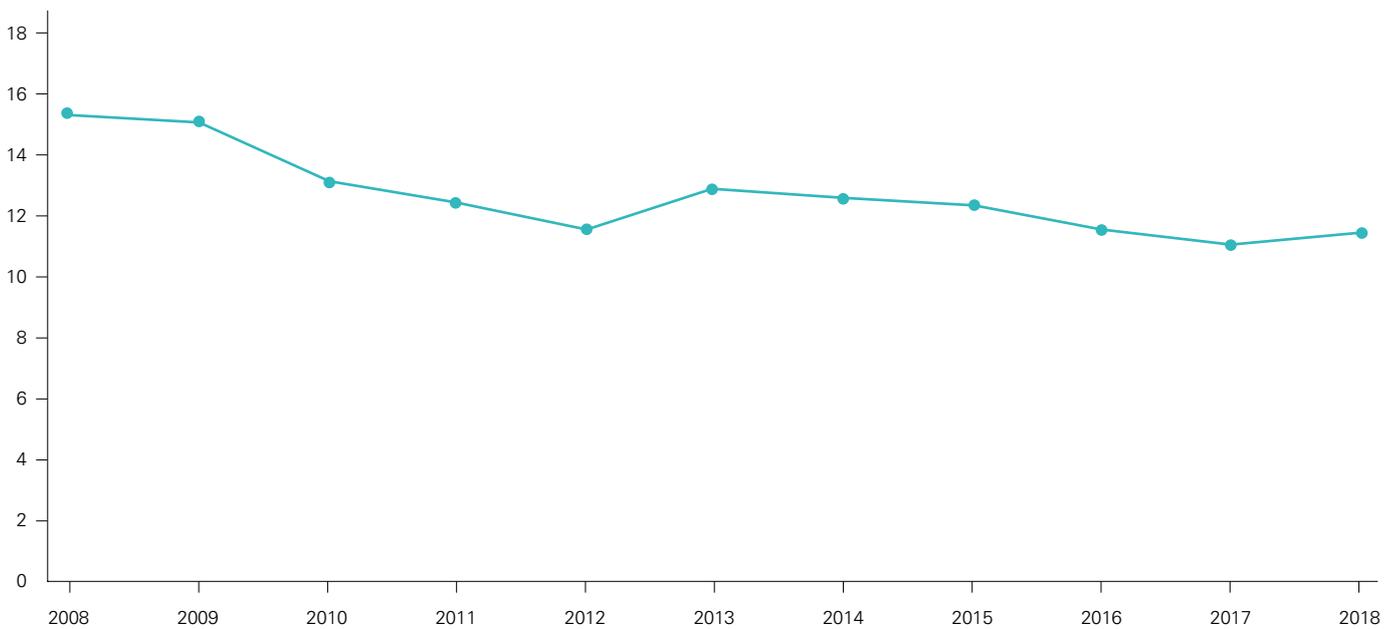
### DIVERSITY UPDATE

The Arts Council is committed to diversity within the Arts Council staff base and its governing bodies. The graphs below set out the diversity statistics for Arts Council staff for 2017/18.

## GENDER COMPARISON

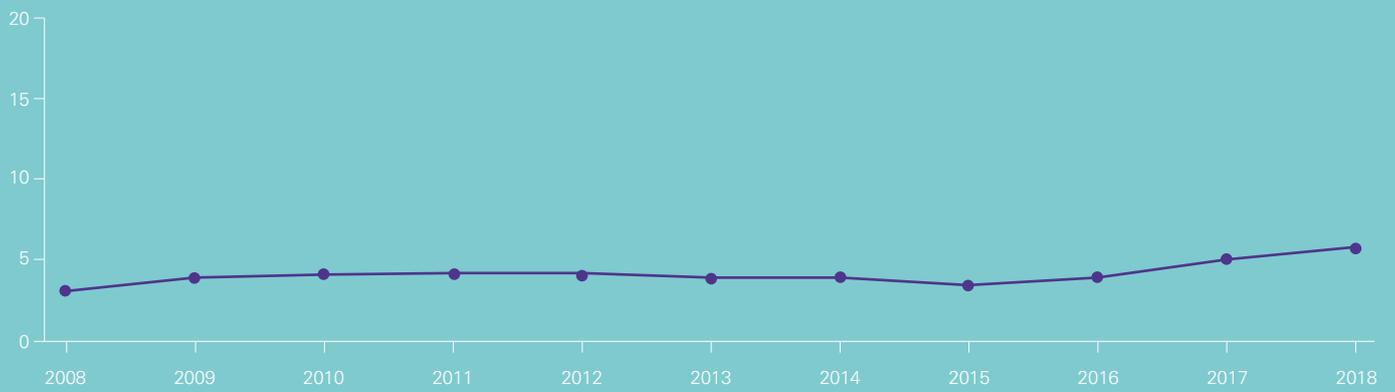


## % OF STAFF WHO ARE BLACK OR MINORITY ETHNIC

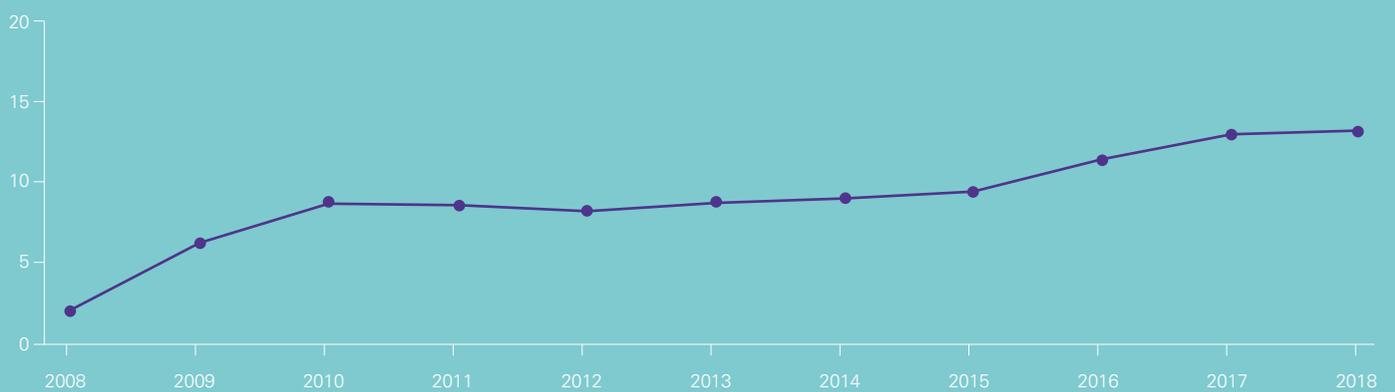




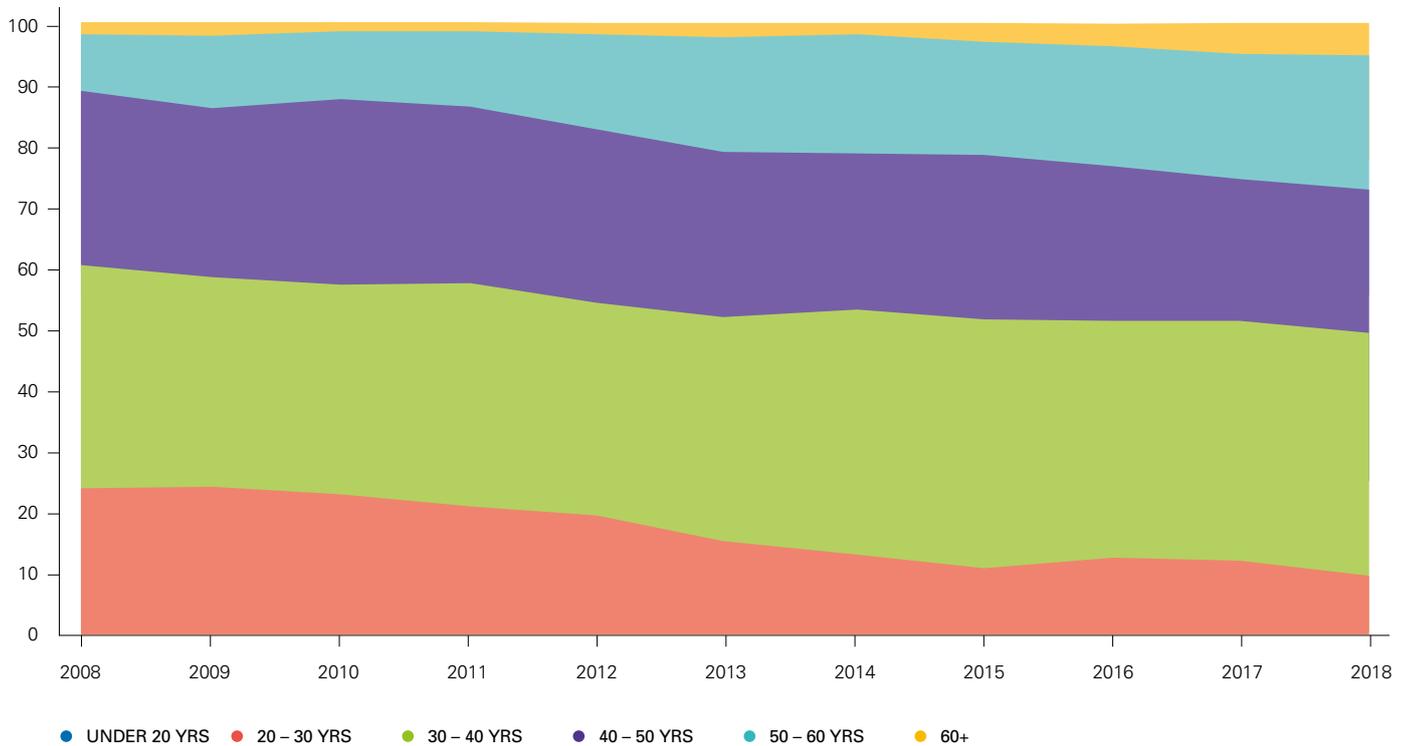
### % OF STAFF WHO ARE DISABLED



### % OF LGBT STAFF



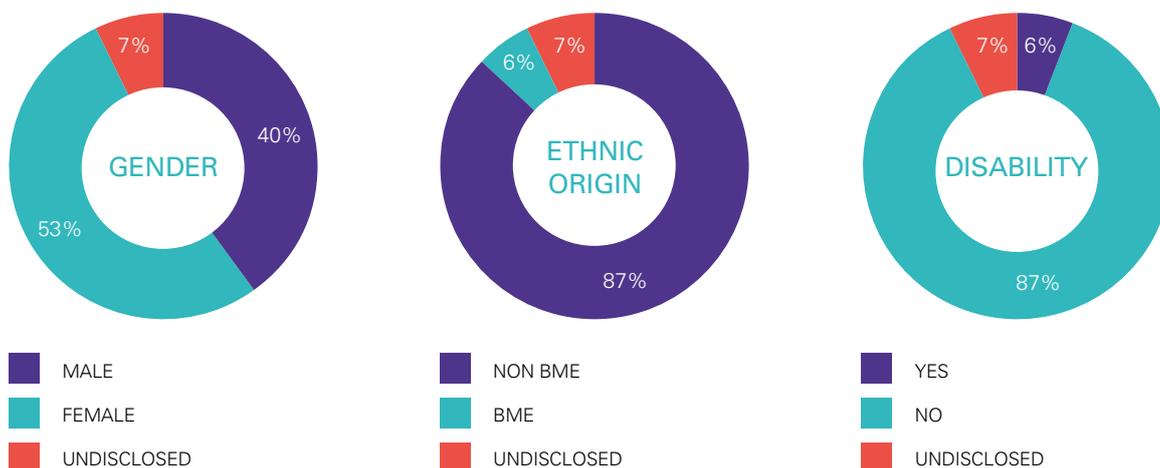
### AGE PROFILE OF STAFF



In terms of representation levels of some diverse groups within the workforce, the proportion of our current staff (at 31 March 2017) who classify themselves as lesbian, gay, bisexual or transgender is 13.1 per cent (2016/17: 13.1 per cent), disabled is 5.6 per cent (2016/17: 5.1 per cent) and the proportion of our staff who classify themselves as Black or other minority ethnic is 11.5 per cent (2016/17: 11.1 per cent).

In terms of work to improve the representation of diverse groups within the Arts Council staff base, we have commenced reviews of perceptions of the Arts Council as an employer by prospective external candidates and also whether our end-to-end recruitment process can do more to enhance this.

### DIVERSITY STATISTICS FOR NATIONAL COUNCIL



## GRANTS TO LOCALLY GOVERNED ORGANISATIONS

All grants awarded by Arts Council England are subject to funding agreements with clearly laid out terms and conditions. We satisfy ourselves that relevant conditions are met before payment is made.

## 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 Arts Council England 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.

## BETTER PAYMENT PRACTICE CODE

We attempt to abide by the Better Payment Practice Code, and in particular pay bills in accordance with our contracts. Invoices are normally settled within our suppliers' standard terms, usually 30 days, and we aspire to settle valid invoices within 10 days. During 2017/18, 100 per cent of invoices were paid within 30 days (2016/17: 100 per cent) and we paid 99.4 per cent of invoices within five days (2016/17: 97.3 per cent).

## CORPORATE INFORMATION

### **Principal address as at 31 March 2018**

21 Bloomsbury Street  
London WC1B 3HC

### **Banker**

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

### **Auditor**

Comptroller and Auditor General  
National Audit Office  
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

### **Administrators, actuaries and investment advisers to the West Yorkshire Pension Fund**

Aon Hewitt  
25 Marsh Street  
Bristol  
BS1 4AQ

### **Solicitors**

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



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# Strategic report

# 07.





## FINANCIAL REVIEW, GRANT-IN-AID

### Our income

Arts Council England receives Grant-in-Aid from the Department for Digital, Culture, Media and Sport (DCMS). DCMS provided Grant-in-Aid of £497 million for the year (2016/17: £494 million), which included £60.2 million of capital funds to allocate as grants. It also included funding via the Department for Education of £78.8 million (2016/17: £78.8 million) to support the implementation of the recommendations in the Henley reviews of music and cultural education.

### GRANT-IN-AID AND LOTTERY INCOME



During the year we awarded grants to our National Portfolio Organisations of £278 million (2016/17: £279 million). In 2017 the Arts Council announced the proposed allocations for National Portfolio Organisations for the period 2018-22 and signed grant funding agreements with these organisations.

In addition, we spent £47 million (2016/17: £53 million) through grants and direct expenditure on strategic initiatives and £76 million (2016/17: £75 million) on restricted activities, mainly Music Education Hubs.

The Arts Council received funding specifically for the following projects during 2017/18:

	REVENUE FUNDING £MILLION	CAPITAL FUNDING £MILLION
RSC China	0.290	
Factory Manchester		34.000
Colston Hall		5.180
Shakespeare's Globe – training	0.156	
Royal Opera House – training	0.200	
Southbank Centre – festival	0.200	
Hull City of Culture	5.600	
Birmingham Dance Hub		0.500
S1 Artspace		0.500
Shakespeare Knowsley		5.000
Drapers Hall, Coventry		1.000
Hall for Cornwall, Truro		2.000
Royal Society of Arts pilots in schools	0.450	

As a non-departmental public body, we have a duty to stay within our departmental expenditure limits (DEL) budgets set by DCMS, irrespective of how the financial statements then translate when prepared under the Charities SORP.

Our out-turn against our revenue DEL budgets, set by DCMS, is a £0.18 million underspend (2016/17: £0.2 million underspend). However, the statement of financial activities shows net income for the year of £1,548,000 (2016/17: £5,382,000).

The difference between our performance against our DEL and the net income for the year of £1,371,000 is attributable to adjustments related to pension costs, the treatment of provisions (which include the West Yorkshire Pension Fund liability) – ie new provisions and unutilised provisions are not included within our DEL totals until they are utilised. This does not match the accounting treatment but is consistent with HM Treasury's consolidated budgeting guidance.

At 31 March 2018, Arts Council England had unrestricted reserves of £12.7 million (2016/17: £12.6 million) together with £0.9 million (2016/17: £0.9 million) restricted income funds and endowment capital funds 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 means that we would require DCMS approval to use our reserves if it were necessary to do so.

Fees paid to the National Audit Office for Grant-in-Aid audit services during 2017/18 were £69,900 including VAT (2016/17: £69,900 including VAT). Full details in relation to financial instruments are given in note 26 to the Grant-in-Aid accounts.

## LOTTERY DISTRIBUTION

Arts Council England 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 in the year totalled £465 million (2016/17: £196 million). At year-end, a total of £516 million (2016/17: £280 million) accepted grant commitments remained outstanding and awaiting payment. This compares with a balance in the National Lottery Distribution Fund, plus bank balances, of £305 million (2016/17: £317 million).

We monitor levels of Lottery income closely, and the level of outstanding grant commitments is considered sensible, based on past and projected income flows, given that our £516 million of Lottery grant commitments are known to be spread over a four-year period to 31 March 2022. At 31 March 2018, our balance in the National Lottery Distribution Fund account was £298 million (2016/17: £315 million); this reduction of £17 million is part of a planned approach to reduce the National Lottery cash balance to the levels agreed by National Council in 2016/17.

Actual proceeds received in 2017/18 were £229 million. This was approximately the same as 2016/17 and £17 million more than originally forecast.

During 2017 Camelot UK carried out a strategic review of its business and has made a number of changes to its operations. We will continue to monitor actual and projected income closely to ensure that our planned expenditure is affordable.

Our Lottery balance policy was updated by National Council in 2017. Based on an assessment of the relevant risks, National Council approved that our Lottery budgets should preserve a balance of at least £50 million in each year over the period to 2021/22. This is the equivalent of approximately three months' worth of income, which we feel is sufficient to mitigate the risks involved while ensuring that we commit to as high a value of Lottery grant programmes as possible. We may also choose to build up our Lottery balance for a particular reason, for example to enable the launch of a new programme where a significant budget is required in one financial year. However, our aim is to maintain a balance that does not exceed £150 million. We review this policy annually and may either revise this figure upward or downward based on our assessment of the risks.

Our Lottery balance exceeds this principle this year because we took a decision in previous years to build up a Lottery reserve. Our National Council has therefore agreed in principle that we can now release this reserve to bring down our Lottery balance over our next budget setting period to a level more in line with the minimum balance noted above. Further details of the activities and policies of Arts Council England are included in the National Lottery report 2017/18 (see pages 164 to 177).

Full details in relation to financial instruments are given in note 19 of the notes to the Lottery distribution accounts.

Fees payable to the National Audit Office for Lottery external audit services during 2017/18 were £58,250 (2016/17: £58,250).

## CONSOLIDATED ACTIVITIES

We prepare separate accounts for our Grant-in-Aid and Lottery distribution as required by the Secretary of State for Digital, Culture, Media and Sport. 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 illustrative results for the two accounts combined for the 2016/17 and 2017/18 financial years.

	2017/18 £000s	2016/17 £000s
<b>INCOME</b>		
Grant-in-Aid income	<b>497,030</b>	494,161
Share of the National Lottery Distribution Fund	<b>228,192</b>	227,475
Investment returns on the Distribution Fund	<b>660</b>	741
Other income	<b>1,605</b>	1,848
<b>Total income</b>	<b>727,487</b>	724,225
<b>EXPENDITURE</b>		
Net Grant-in-Aid grant commitments	<b>477,941</b>	475,164
Other Grant-in-Aid arts expenditure	<b>4,089</b>	3,788
Net Lottery grant commitments	<b>460,922</b>	187,445
Support costs	<b>30,734</b>	29,071
<b>Total expenditure</b>	<b>973,686</b>	695,468
Net gains/(losses) on investments	<b>(5)</b>	60
<b>Net income/(expenditure)</b>	<b>(246,204)</b>	28,817
Gain on revaluation of heritage assets	<b>5,375</b>	6,438
Actuarial gains/(losses) on defined benefit pension schemes	<b>765</b>	(495)
	<b>6,140</b>	5,943
<b>Net movement in funds</b>	<b>(240,064)</b>	34,760
<b>Consolidated reserves brought forward</b>	<b>416,636</b>	381,876
<b>Consolidated reserves carried forward</b>	<b>176,572</b>	416,636

Administration costs in 2017/18 for Grant-in-Aid and Lottery combined totalled £30 million compared with £29 million in 2016/17. Overall, administration costs are 5.15 per cent of income (2016/17: 4.8 per cent). Grant-in-Aid administration (excluding one-off IT costs) totalled £13.65 million, which is 3.9 per cent of income (2016/17: 2.9 per cent). Lottery administration (excluding one-off IT costs) totalled £16.3 million, which is 7.1 per cent of income (2016/17: 7.8 per cent). Grant-in-Aid one-off IT costs in 2017/18 were £386,716 (2016/17 £384,442), and Lottery one-off IT costs were £436,435 (2016/17: £461,974). The split over the two income streams continues to reflect the level of activity in Lottery investment compared to Grant-in-Aid.

### PLANS FOR THE FUTURE

Since 2010, our investment has been made according to the goals of our 10-year strategy, *Great Art and Culture for Everyone*, and this will continue to guide all of our work for the next two years.

National Council agreed proposals for the development of our investment beyond the National Portfolio for 2018-22 at their meeting in December 2017. This proposal will streamline the number of funding programmes from over 60 separate grants and funding programmes managed through strategic funds (National Lottery and Grant-in-Aid). It has been the intention for some time to reduce this volume as it not only has significant workload implications for staff, but also for organisations.

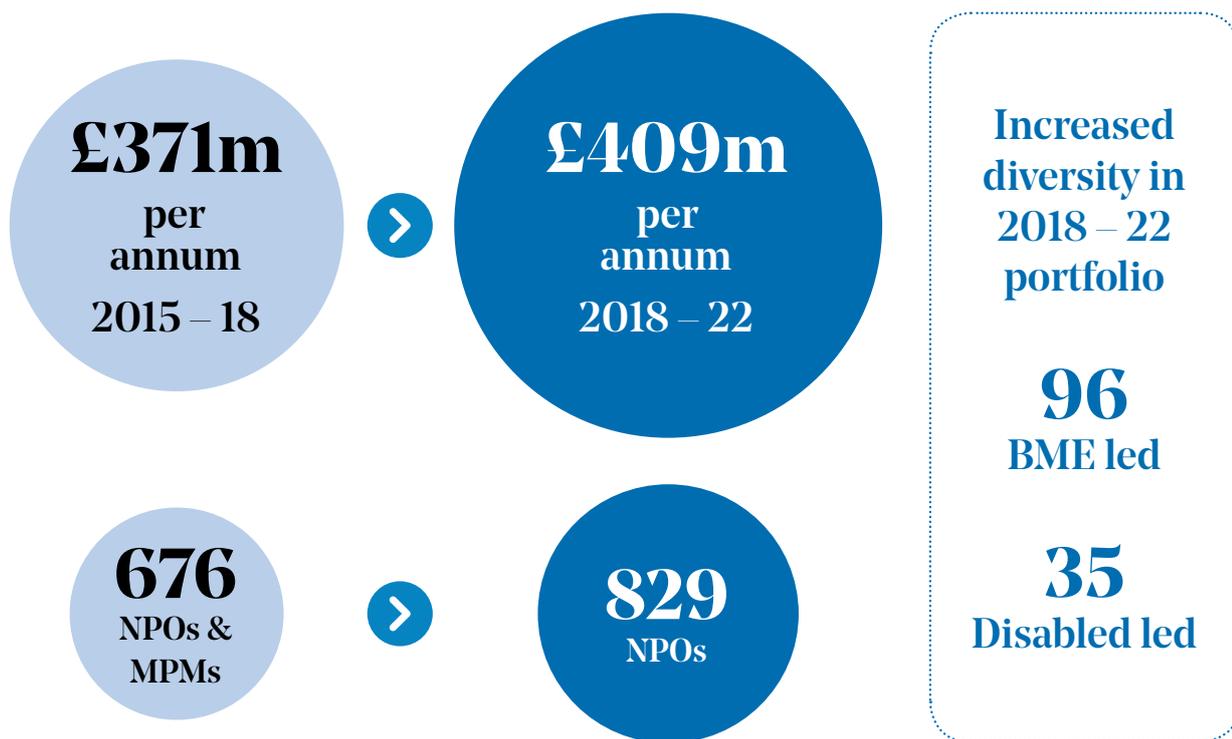
The proposal for 2018-22 is that fewer than 40 budget lines will be managed, many of which comprise single grants or a relatively small number of grants. National Council have agreed to create a number of new funds, including Arts Council National Lottery Project Grants, a new fund for individual creative practitioners (Developing Your Creative Practice) and a series of development and investment funds which will contribute to achieving our goals.

Through the planning process for the 2018-22 investment round, National Council have agreed the following principles:

- achieving a 4 per cent points shift in the proportion of the National Portfolio budget to be invested outside London, supporting diversity and avoiding stasis – achieved by increasing the National Portfolio budget
- supporting diversity and avoiding stasis in the London portfolio by reducing grants to (some) larger London-based National Portfolio Organisations from 2018/19 onwards to be redistributed to diverse-led organisations in London
- increasing the Grants for the Arts budget (now Arts Council National Lottery Project Grants) to facilitate a successful integration of museums and libraries

During 2017/18 we continued to fund our existing National Portfolio and also announced the 2018-22 portfolio of 829 organisations across England, which is an increase of 153 compared to the existing 2015-18 portfolio.





The map below shows the geographical location of our 2018-22 National Portfolio Organisations.



In 2017 the Arts Council has commenced work on the next 10-year strategy that will cover the period from 2020 to 2030. This will be a significant piece of work and will engage with key stakeholders on priorities for the sector. The first stage of developing the 10-year strategy is a conversation with the sector and key stakeholders on priorities. The aim is to publish the 10-year strategy in 2019, to commence from April 2020.

We must ensure that our investment benefits communities right across England, with a particular focus on the least engaged. We have put in place a series of measures to increase the amount spent outside London. They include a commitment that at least 75 per cent of our Lottery investment over 2015-18 will be spent outside of London, and a 4 per cent increase in National Portfolio investment outside London for the 2018-22 period.

## STATEMENT OF TRUSTEES' AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under both the Royal Charter and the National Lottery etc Act 1993 (as amended by the National Lottery Act 1998), Arts Council England 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 Digital, Culture, 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 Arts Council England's state of affairs at the year end and of our incoming resources, resources expended and cash flows for the financial year.

The Grant-in-Aid accounts are also prepared so as to comply with the Charities SORP 2015 and the Lottery distribution accounts are prepared in line with the Government Financial Reporting Manual. Both sets of accounts are also expected to:

- observe the accounts directions issued by the Secretary of State which set out accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis, and make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Charity Statement of Recommended Practice or Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements
- be prepared on a going concern basis, unless it is inappropriate to presume that Arts Council England will continue in operation

The Principal Accounting Officer of DCMS has designated the Chief Executive as Arts Council England's Accounting Officer. The responsibilities of the accounting officers for Grant-in-Aid and Lottery distribution arm's length bodies are set out in chapter three of Managing Public Money. Formally the Accounting Officer is the person who Parliament calls to account for stewardship of its resources.

The Accounting Officer signing off these accounts has gained assurance in the following ways:

- a meeting with the Chief Finance Officer to go through the financial controls
- a meeting with the internal auditors to discuss the annual audit opinion and a meeting with the National Audit Office to discuss the process and findings of the external audit
- discussing the annual review and accounts at an Executive Board meeting attended by Executive Board colleagues, including the Chief Financial Officer
- attending Performance & Audit Committee where matters are scrutinised

The Accounting Officer confirms that, as far as he is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

The Accounting Officer confirms that, as far as he is aware, the annual report and accounts as a whole is fair, balanced and understandable and he takes responsibility for the annual report and accounts and the judgement required for determining that it is fair, balanced and understandable.

In approving these accounts, the Trustees have complied with their duty under section 11 of the Charities Act 2011 to have due regard to guidance published by the Charity Commission.

A copy of the Grant-in-Aid and Lottery distribution accounts directions are available from the Accounting Officer, Arts Council England, 21 Bloomsbury, London, WC1B 3HF.

**Darren Henley OBE**  
**Chief Executive**

DATE: 2 JULY 2018

**Sir Nicholas Serota CH**  
**Chair**

DATE: 2 JULY 2018

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# Grant-in-Aid accounts



# 08.



## THE AUDIT REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE TRUSTEES OF ARTS COUNCIL ENGLAND

### OPINION ON FINANCIAL STATEMENTS

I have audited the financial statements of Arts Council England, Grant-in-Aid for the year ended 31 March 2018 under the Royal Charter and the Secretary of State Directions thereunder. The financial statements comprise: the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of Arts Council England's Grant-in-Aid affairs as at 31 March 2018 and of its net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Royal Charter and Secretary of State directions issued thereunder.

### OPINION ON REGULARITY

In my opinion, in all material respects the income and expenditure 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.

### BASIS OF OPINIONS

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my

report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of Arts Council England in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### RESPONSIBILITIES OF THE TRUSTEES AND ACCOUNTING OFFICER

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

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

My responsibility is to audit the financial statements in accordance with the Royal Charter and Secretary of State directions issued thereunder.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

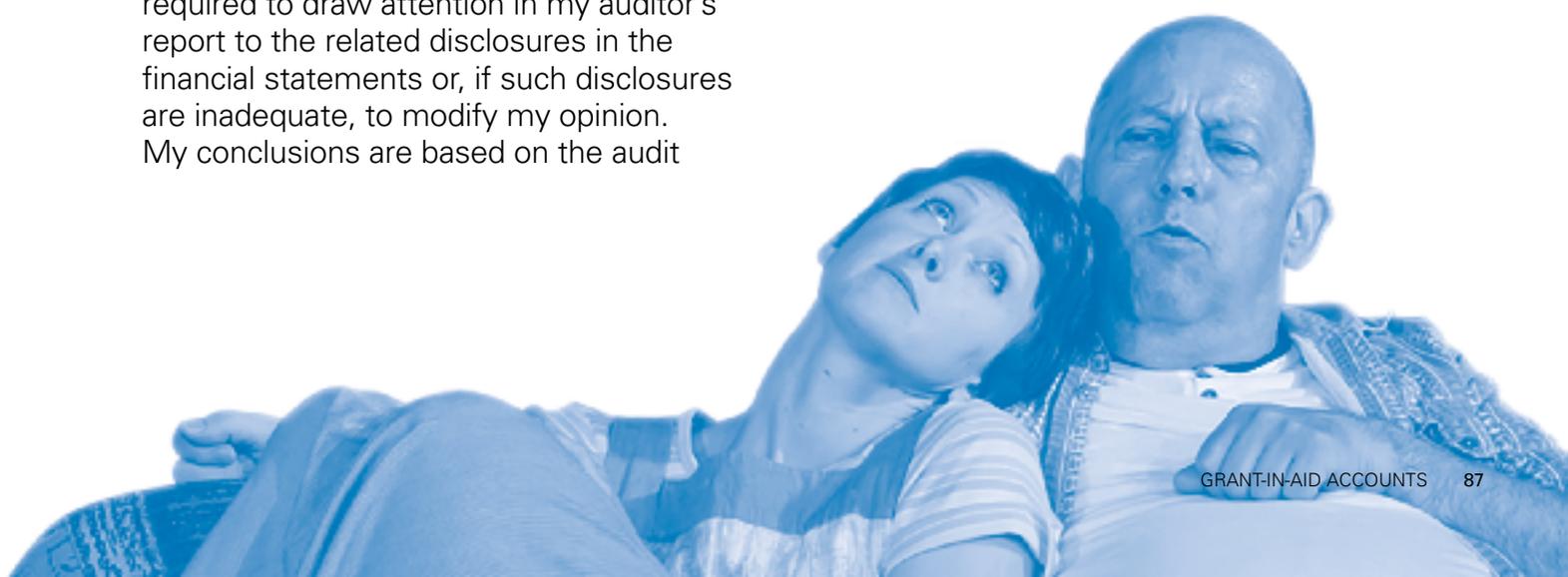
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Arts Council England's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Arts Council England's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit

evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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



## OTHER INFORMATION

The Trustees and the Accounting Officer are responsible for the other information. The other information comprises information included in the Annual Report, other than the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## OPINION ON OTHER MATTERS

In my opinion:

- the parts of the Remuneration Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Royal Charter;
- in light of the knowledge and understanding of Arts Council England and its environment obtained in the course of the audit, I have not identified any material misstatements in the Annual Report; and
- the information given in the Trustees' Report and 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

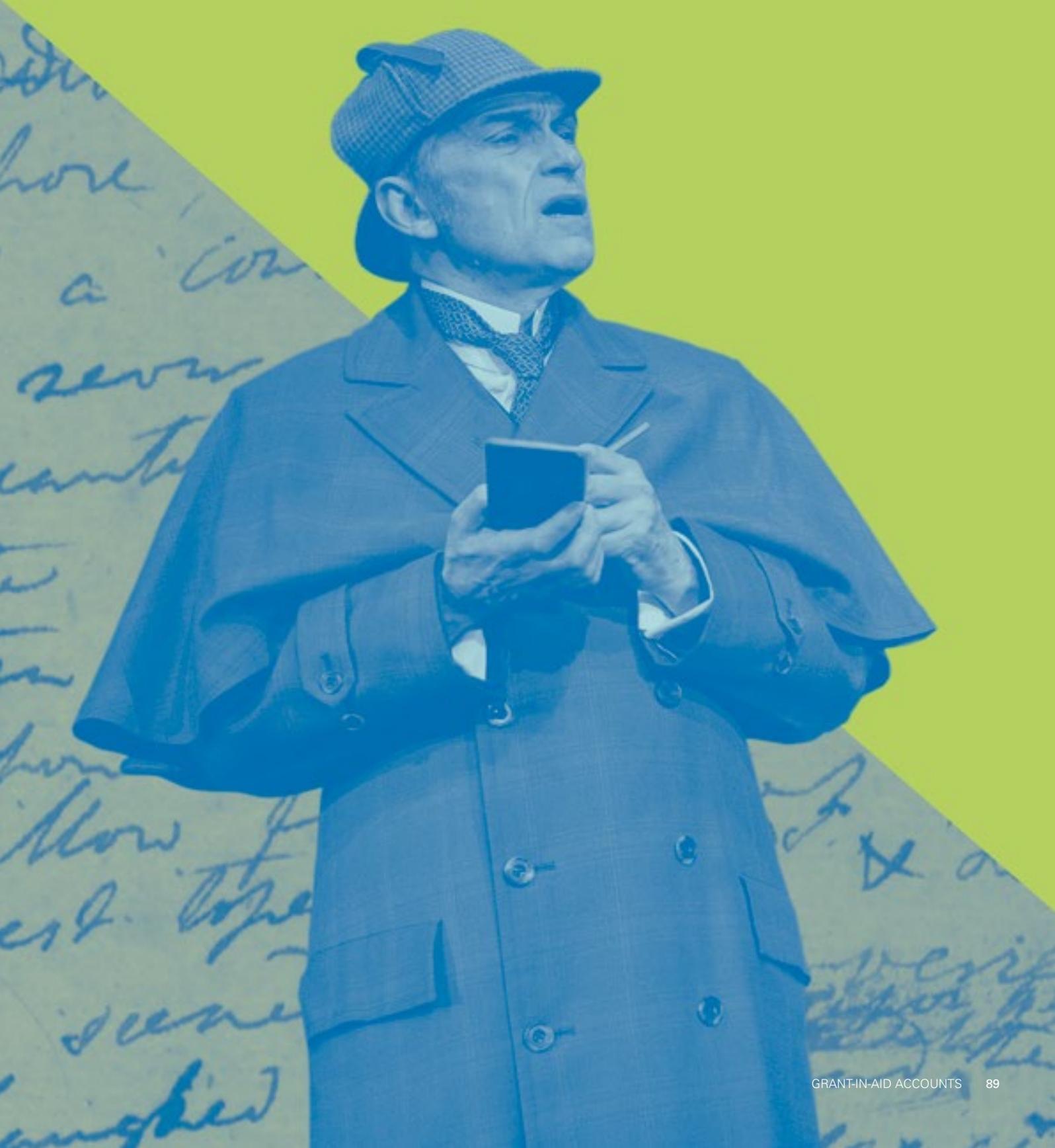
I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- 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 Trustees' Report 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.

**Sir Amyas C E Morse**  
**Comptroller and Auditor General**

DATE: 6 JULY 2018

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



## STATEMENT OF FINANCIAL ACTIVITIES FOR THE PERIOD ENDING 31 MARCH 2018

	NOTE	UNRESTRICTED FUNDS £000s	RESTRICTED FUNDS £000s	ENDOWMENT FUNDS £000s	TOTAL 2017/18 £000s	TOTAL 2016/17 £000s
<b>INCOME AND ENDOWMENTS FROM:</b>						
Donations and legacies	2a	<b>351,149</b>	<b>145,897</b>	–	<b>497,046</b>	494,288
Investments	2b	<b>21</b>	<b>39</b>	<b>13</b>	<b>73</b>	50
Charitable activities	3	<b>191</b>	<b>309</b>	–	<b>500</b>	693
Other: Lottery distribution accounts	4b	<b>16,697</b>	–	–	<b>16,697</b>	18,314
<b>Total income and endowments</b>		<b>368,058</b>	<b>146,245</b>	<b>13</b>	<b>514,316</b>	513,345
<b>EXPENDITURE ON:</b>						
Charitable activities	4a	<b>349,871</b>	<b>146,195</b>	–	<b>496,066</b>	489,709
Other: Support costs attributable to Lottery distribution accounts	4b	<b>16,697</b>	–	–	<b>16,697</b>	18,314
<b>Total expenditure</b>		<b>366,568</b>	<b>146,195</b>	–	<b>512,763</b>	508,023
Net gains/(losses) on investments	9	–	–	<b>(5)</b>	<b>(5)</b>	60
<b>Total income</b>		<b>1,490</b>	<b>50</b>	<b>8</b>	<b>1,548</b>	5,382
<b>Net income</b>	8	<b>1,490</b>	<b>50</b>	<b>8</b>	<b>1,548</b>	5,382
<b>TRANSFERS</b>						
Gross transfers between funds		–	–	–	–	–
<b>Net income/before other recognised gains and losses</b>		<b>1,490</b>	<b>50</b>	<b>8</b>	<b>1,548</b>	5,382
<b>OTHER RECOGNISED GAINS/LOSSES</b>						
Gain on revaluation of heritage assets	10	<b>5,179</b>	<b>196</b>	–	<b>5,375</b>	6,438
Actuarial gains/(losses) on defined benefit pension schemes	7	<b>765</b>	–	–	<b>765</b>	(495)
<b>Net movement in funds</b>	31	<b>7,434</b>	<b>246</b>	<b>8</b>	<b>7,688</b>	11,325
<b>RECONCILIATION OF FUNDS</b>						
Balance brought forward at 1 April		<b>170,046</b>	<b>5,223</b>	<b>434</b>	<b>175,703</b>	164,378
<b>Total funds carried forward at 31 March</b>	17	<b>177,480</b>	<b>5,469</b>	<b>442</b>	<b>183,391</b>	175,703

ALL AMOUNTS STATED IN THE STATEMENT OF FINANCIAL ACTIVITIES RELATE TO CONTINUING ACTIVITIES. THE NOTES ON PAGES 93 TO 129 FORM PART OF THESE ACCOUNTS.

## BALANCE SHEET AS AT 31 MARCH 2018

	NOTE	UNRESTRICTED FUNDS £000s	RESTRICTED FUNDS £000s	ENDOWMENT FUNDS £000s	TOTAL 31 MARCH 2018 £000s	TOTAL 31 MARCH 2017 £000s
<b>FIXED ASSETS</b>						
Tangible assets	10	3,342	–	–	3,342	3,952
Heritage assets – works of art	10	164,128	4,993	–	169,121	163,388
Investments	9	–	–	442	442	434
<b>Total fixed assets</b>		<b>167,470</b>	<b>4,993</b>	<b>442</b>	<b>172,905</b>	<b>167,774</b>
<b>CURRENT ASSETS</b>						
Debtors	12	24,706	40,479	–	65,185	30,512
Due from Arts Council Lottery accounts		–	2,068	–	2,068	3,326
Grants paid in advance	13	–	400	–	400	607
Cash and cash equivalents		6,059	43,874	–	49,933	50,012
<b>Total current assets</b>		<b>30,765</b>	<b>86,821</b>	<b>–</b>	<b>117,586</b>	<b>84,457</b>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>						
Grants outstanding		13,207	85,527	–	98,734	66,602
Creditors	15	4,003	818	–	4,821	3,987
<b>Total creditors: amounts falling within one year</b>		<b>17,210</b>	<b>86,345</b>	<b>–</b>	<b>103,555</b>	<b>70,589</b>
<b>Net current assets</b>		<b>13,555</b>	<b>476</b>	<b>–</b>	<b>14,031</b>	<b>13,868</b>
<b>Total assets less current liabilities</b>		<b>181,025</b>	<b>5,469</b>	<b>442</b>	<b>186,936</b>	<b>181,642</b>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>						
Provisions for liabilities and charges	16	815	–	–	815	802
<b>Net assets excluding pension liability</b>		<b>180,210</b>	<b>5,469</b>	<b>442</b>	<b>186,121</b>	<b>180,840</b>
Defined benefit pension scheme liability	7	2,730	–	–	2,730	5,137
<b>Net assets including pension liability</b>	32	<b>177,480</b>	<b>5,469</b>	<b>442</b>	<b>183,391</b>	<b>175,709</b>
<b>THE FUNDS OF THE CHARITY</b>						
Represented by income funds	17					
Unrestricted funds		12,738	–	–	12,738	12,639
Restricted funds		–	476	–	476	426
Represented by capital funds	17					
Endowment funds		–	–	442	442	434
Designated funds		164,130	–	–	164,130	158,592
Donated asset reserve		–	4,993	–	4,993	4,797
Capital reserve		3,342	–	–	3,342	3,952
Pension reserve	7	(2,370)	–	–	(2,370)	(5,137)
<b>Total charity funds</b>	32	<b>177,480</b>	<b>5,469</b>	<b>442</b>	<b>183,391</b>	<b>175,703</b>

THE NOTES ON PAGES 93 TO 129 FORM PART OF THESE ACCOUNTS.

**Darren Henley OBE**  
Chief Executive

2 JULY 2018

**Sir Nicholas Serota CH**  
Chair

2 JULY 2018

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2018

	NOTE	2017/18 £000s	2016/17 £000s
<b>CASH FLOWS FROM OPERATING ACTIVITIES :</b>			
Funds received from the Department for Digital, Culture, Media and Sport		<b>462,427</b>	460,527
Other cash receipts		<b>18,403</b>	22,964
Grants paid to arts organisations and other bodies		<b>(445,603)</b>	(433,540)
Cash paid to and on behalf of employees		<b>(22,748)</b>	(20,962)
Other cash payments		<b>(11,983)</b>	(20,977)
<b>Net cash provided by/(used in) operating activities</b>	18	<b>496</b>	8,012
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest received on short-term cash deposits	2a	<b>60</b>	40
Dividends received	2b	<b>13</b>	10
Purchase of tangible fixed assets	10	<b>(635)</b>	(1,454)
Sale of tangible fixed assets		<b>0</b>	0
<b>Net cash provided by/(used in) investing activities</b>		<b>(562)</b>	(1,404)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Endowment income/(investments)	9	<b>(13)</b>	121
<b>Net cash provided by/(used in) financing activities</b>		<b>(13)</b>	121
<b>Change in cash and cash equivalents in the reporting period</b>	19/20	<b>(79)</b>	6,729
Cash and cash equivalents at the beginning of the reporting period		<b>50,012</b>	43,283
Cash and cash equivalents at the end of the reporting period		<b>49,933</b>	50,012

THE NOTES ON PAGES 93 TO 129 FORM PART OF THESE ACCOUNTS.

## NOTES TO THE GRANT-IN-AID ACCOUNTS

### 1. ACCOUNTING POLICIES

#### 1a. BASIS OF ACCOUNTS

We have prepared these accounts in accordance with the Accounts Direction issued by the Secretary of State for Digital, Culture, 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 Charities SORP 2015 issued by the Charity Commission in 2014.

The accounts are prepared on a going concern basis and 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 2017/18, 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.

Arts Council England no longer owns any freehold land and buildings. All of our offices are leased. The lease commitments are disclosed within note 21 of the Grant-in-Aid accounts.

Separate accounts have been prepared for Arts Council England's Lottery distribution accounts, in accordance with the directions issued by the Secretary of State, which follow different accounting policies. Due to the different accounting policies used in the preparation of Grant-in-Aid and Lottery accounts, 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 Arts Council England's resources. In this respect, we have not been able to comply with paragraph 24.5 of the SORP issued by the Charity Commission in 2014. However, we have included a summary of the consolidated figures for our combined activities in the management commentary on page 79.

#### 1b. INCOME

Grant-in-Aid from the Department for Digital, Culture, Media and Sport is taken to the statement of financial activities in the year to which it relates. All other income is accounted for on a receivable basis.

#### 1c. EXPENDITURE

Grant expenditure is charged to the statement of financial activities in the year in which the grant is offered and in which funding for the grant is received from DCMS. In most circumstances this will be the same as the year in which the funded activities take place. However, in some cases grant expenditure is recognised in the accounts where the funded activity is due to take place in future years. 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 14 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. In this respect, we have not been able to comply with paragraph 7.19 of the SORP issued by the Charity Commission in 2014. The Trustees do not believe this would provide a true and fair view of Arts Council England's resources. 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.

## 1d. DEPRECIATION AND FIXED ASSETS

### Tangible fixed assets excluding heritage assets

Depreciation is provided on all tangible fixed assets (excluding freehold land) 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

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.

### Heritage assets

Arts Council England is guardian and trustee over one collection of heritage assets which is held in furtherance of our mission to champion, develop and invest in artistic and cultural experiences that enrich people's lives. The collection is accounted for as follows:

### Works of art

The Works of Art Collection is revalued at market value on a rolling basis, with the highest value items revalued once every five years. 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.

## 1e. 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. Lease incentives (eg rent free periods) are recognised as an integral part of the total lease expense, over the term of the lease.

## 1f. TAXATION

Arts Council England, as a registered charity (1036733), is considered to pass the tests set out in paragraph 1, schedule 6 of the 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.

## 1g. 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. The Arts Council Retirement Plan is a multi-employer scheme and we cannot identify our share of the underlying assets and liabilities. We have therefore accounted for this scheme as if it were a defined contribution scheme, in accordance with Charities SORP (FRS102), with the costs of the scheme charged to the statement of financial activities. Arts Council England has agreed a deficit repayment plan with the Arts Council Retirement Plan and the cost of this is included as a provision within the accounts. The West Yorkshire Pension Fund is also a multi-employer scheme, but, as a local government pension scheme, we are able to identify our share of the underlying assets and liabilities and have therefore accounted for this scheme in line with Charities SORP (FRS102).

All employers are legally required to enrol their staff onto a workplace pension scheme. As such we now also provide a defined contribution scheme for staff who

are automatically enrolled (via the People's Pension) if they choose not to join the Arts Council Retirement Plan.

#### 1h. APPORTIONED COSTS

Arts Council England incurs administration costs that relate to activities funded from Grant-in-Aid and the National Lottery Distribution Fund. We are required to apportion these costs between the two areas on a full cost basis in accordance with good accounting practice.

In accordance with the Charities SORP we have apportioned administration costs between our different activities. We have recharged both pay and non-pay expenditure using staff time as a basis for calculating the apportionment. The notes to the statement of financial activities will show the costs apportioned to Arts Council England Lottery distribution accounts where appropriate.

#### 1i. CHANGE IN ACCOUNTING POLICY

There were no changes in accounting policy during 2017/18.

Two new accounting standards have been issued but are not yet effective. These are

- (i) IFRS9 *Financial Instruments*
- (ii) IFRS15 *Revenue from contracts with customers*

These standards will not have a material impact on our accounts.

#### 1j. FINANCIAL INSTRUMENTS

We have adopted Charities SORP (FRS102) on financial instruments. There has been no impact on the accounts. Further information on our financial instruments is disclosed within Note 26.

#### 1k. SECURITY FOR CAPITAL GRANTS

Since November 2015, the standard conditions for Grant-in-Aid capital grants for building projects of between £500,000 and £5 million give the Arts Council the option to apply for Restriction on Title. This prevents the asset being sold, mortgaged or put to an alternative use without the Arts Council's consent. For grants over £5 million Arts Council England would register a legal charge over the asset

## 2a. VOLUNTARY INCOME

	UNRESTRICTED FUNDS £000s	RESTRICTED FUNDS £000s	ENDOWMENT FUNDS £000s	TOTAL 2017/18 £000s	TOTAL 2016/17 £000s
<b>GRANT-IN-AID DONATIONS AND LEGACIES</b>					
<b>CASH GRANT-IN-AID VOTED BY PARLIAMENT AND PAID IN FULL</b>					
Core funding – revenue	<b>335,858</b>	<b>0</b>	<b>0</b>	<b>335,858</b>	339,396
Administration	<b>14,641</b>	<b>680</b>	<b>0</b>	<b>15,321</b>	15,227
Core capital	<b>635</b>	<b>0</b>	<b>0</b>	<b>635</b>	1,270
Ring-fenced funds	<b>0</b>	<b>145,217</b>	<b>0</b>	<b>145,217</b>	138,268
	<b>351,134</b>	<b>145,897</b>	<b>0</b>	<b>497,031</b>	494,161
<b>OTHER DONATIONS AND LEGACIES</b>					
Donations/Bequests	<b>15</b>	<b>0</b>	<b>0</b>	<b>15</b>	127
<b>Donations and Legacies income</b>	<b>351,149</b>	<b>145,897</b>	<b>0</b>	<b>497,046</b>	494,288

## 2b. INVESTMENT INCOME

	UNRESTRICTED FUNDS £000s	RESTRICTED FUNDS £000s	ENDOWMENT FUNDS £000s	TOTAL 2017/18 £000s	TOTAL 2016/17 £000s
<b>INVESTMENT INCOME</b>					
Bank interest received	<b>21</b>	<b>39</b>	<b>0</b>	<b>60</b>	40
Dividend income	<b>0</b>	<b>0</b>	<b>13</b>	<b>13</b>	10
<b>Investment income</b>	<b>21</b>	<b>39</b>	<b>13</b>	<b>73</b>	50

## 3. INCOME FROM CHARITABLE ACTIVITIES

	UNRESTRICTED FUNDS £000s	RESTRICTED FUNDS £000s	TOTAL 2017/18 £000s	TOTAL 2016/17 £000s
<b>GRANTS, SPONSORSHIP AND DONATIONS RECEIVED</b>				
Local Authorities	<b>20</b>	<b>171</b>	<b>191</b>	400
Other central Government bodies	<b>65</b>	<b>138</b>	<b>203</b>	154
Other grants, sponsorship and donations	<b>60</b>	<b>0</b>	<b>60</b>	0
Sundry	<b>46</b>	<b>0</b>	<b>46</b>	139
<b>Charitable activities income</b>	<b>192</b>	<b>309</b>	<b>500</b>	693



## 4a. EXPENDITURE ON CHARITABLE ACTIVITIES

	ACTIVITIES UNDERTAKEN DIRECTLY £000s	GRANT FUNDING OF ACTIVITIES £000s	NET SUPPORT COSTS £000s	TOTAL 2017/18 £000s	TOTAL 2016/17 £000s
National Portfolio Organisations and Major Partner Museums	–	278,423	4,959	<b>283,382</b>	282,759
Grants for the Arts	–	6,849	656	<b>7,505</b>	6,053
Strategic development, communications & advocacy	3,269	47,368	7,059	<b>57,696</b>	61,730
Music Education Hubs	530	75,000	408	<b>75,938</b>	75,664
Restricted – other	290	74,703	955	<b>75,948</b>	64,543
Lapsed and revoked commitments	–	(4,403)	–	<b>(4,403)</b>	(1,040)
	<b>4,089</b>	<b>477,940</b>	<b>14,037</b>	<b>496,066</b>	489,709

National Portfolio 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.

Grants for the Arts is our open access funding programme for individuals, art organisations and other people who use the arts in their work. We offer awards from £1,000 to £100,000 to support a wide variety of arts-related activities, from dance to visual arts, literature to theatre, music to combined arts.

Music Education Hubs are groups of organisations – such as local authorities, schools, other hubs, art organisations, community or voluntary organisations – working together to create joined-up music education provision, respond to local need and fulfil the objectives of the hub. Hubs are coordinated by the hub lead organisation, which takes on responsibility for the funding and governance of the hub. The total amount of funding from the Department for Education in 2017/18 was £75.53 million (2016/17: £75.53 million).

Other restricted funds are those specific projects delivered through funds provided by partners as detailed in notes 2a and 3.

#### 4b. ANALYSIS OF SUPPORT COSTS

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.

	UNRESTRICTED £000s	LESS CHARGED TO LOTTERY £000s	TOTAL 2017/18 £000s	TOTAL 2016/17 £000s
Staff costs	19,299	(11,121)	<b>8,178</b>	5,471
Indirect staff costs	672	(350)	<b>322</b>	248
Premises	2,287	(1,161)	<b>1,126</b>	978
Supplies & Services	3,146	(1,649)	<b>1,497</b>	1,263
Travel & Subsistence	1,499	(789)	<b>710</b>	643
Professional Fees	1,639	(691)	<b>948</b>	767
Central Costs	482	(121)	<b>361</b>	402
Depreciation	887	–	<b>887</b>	1,113
Other recharges	–	(379)	<b>(379)</b>	(512)
IT project costs	823	(436)	<b>387</b>	384
	<b>30,734</b>	<b>(16,697)</b>	<b>14,037</b>	10,757
Corporate Governance costs included above			<b>498</b>	421



## 4c. ANALYSIS OF GRANTS BY RECIPIENT

	GRANTS TO INSTITUTIONS £000s	GRANTS TO INDIVIDUALS £000s	TOTAL 2017/18 £000s	TOTAL 2016/17 £000s
National Portfolio Organisations and Major Partner Museums	278,423		<b>278,423</b>	278,731
Grants for the Arts	3,644	3,205	<b>6,849</b>	5,445
Strategic development, communications & advocacy	47,354	14	<b>47,368</b>	53,116
Music Education Hubs	75,000		<b>75,000</b>	75,000
Restricted – other	74,703		<b>74,703</b>	63,912
Lapsed and revoked commitments	(4,403)		<b>(4,403)</b>	(1,040)
	<b>474,721</b>	<b>3,219</b>	<b>477,940</b>	475,164

A detailed breakdown of all grant commitments can be found at:  
**[www.artscouncil.org.uk/governance/spending](http://www.artscouncil.org.uk/governance/spending)**

## 5a. STAFF COSTS

Staff costs show a significant increase when compared with last year. This is due to a reduction in the amount of costs recharged to the Lottery.

	TOTAL £000s	RESTRICTED £000s	LESS CHARGED TO LOTTERY £000s	TOTAL 2017/18 £000s	TOTAL 2016/17 £000s
<b>STAFF COSTS COMPRISE</b>					
Salaries and Wages	17,085	455	(8,254)	<b>8,376</b>	4,173
Employer's National Insurance	1,755	45	(844)	<b>866</b>	781
Employer's pension contributions	1,459	89	(1,598)	<b>(228)</b>	1,164
Redundancy costs	235	–	(115)	<b>120</b>	20
Agency staff	573	–	(310)	<b>263</b>	428
	<b>21,107</b>	<b>589</b>	<b>(11,121)</b>	<b>9,397</b>	6,566

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

	PERMANENT STAFF	AGENCY STAFF	2017/18	2016/17
Direct delivery of programmes	21	0	<b>21</b>	22
Support & corporate governance	457	14	<b>471</b>	466
	<b>478</b>	<b>14</b>	<b>492</b>	488

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

	PERMANENT STAFF	AGENCY STAFF	2017/18	2016/17
Direct delivery of programmes	23	1	<b>24</b>	23
Support & corporate governance	493	21	<b>514</b>	508
	<b>516</b>	<b>22</b>	<b>538</b>	531

#### 5b. EMOLUMENTS BY BANDS

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

EMOLUMENTS FOR THE YEAR	PENSION SCHEME			TOTAL 2017/18	TOTAL 2016/17
	DEFINED BENEFIT	DEFINED CONTRIBUTION	NO PENSION		
£60,000–£69,999	<b>8</b>	<b>0</b>	<b>0</b>	<b>8</b>	5
£70,000–£79,999	<b>6</b>	<b>0</b>	<b>0</b>	<b>6</b>	7
£80,000–£89,999	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>	0
£90,000–£99,999	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	0
£130,000–£139,999	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>	0
£190,000–£199,999	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>	0
				<b>17</b>	<b>12</b>

## 6. COUNCIL MEMBERS' EXPENSES

It is part of council members' duties to assess artistic work. The cost of their tickets for attendance at performances and events is met by the Arts Council. In 2017/18, the total cost of tickets purchased for this purpose was £2,347 (2016/17: £2,348). All our council members are entitled to claim back their travel and subsistence costs. The total amount reimbursed for travel and subsistence in the year is shown in note 8.

## 7. PENSIONS

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

All transactions generated as a result of the FRS102 report are charged initially to the Grant-in-Aid accounts. The costs are then recharged across to the Lottery accounts in the same ratio as other salary costs. This ensures that both Grant-in-Aid and Lottery are correctly charged with their proportion of the overall pension charges. However the assets and liabilities of the West Yorkshire Pension Fund are shown only in the Grant-in-Aid accounts.

### WEST YORKSHIRE PENSION FUND

We are an admitted member of the West Yorkshire Pension Fund. This fund provides pensions to over 268,000 members in 383 mainly local government organisations. The actuaries of the fund are Aon Hewitt. In the year ending 31 March 2018, nine Arts Council staff participated in the scheme. The scheme is a defined benefit scheme and is accounted for in accordance with Charities SORP (FRS102).

The disclosures below relate to the funded liabilities within the West Yorkshire Pension Fund (the 'Fund') which is part of the Local Government Pension Scheme (the 'LGPS'). The funded nature of the LGPS requires The Arts Council of England and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension's liabilities with investment assets.

## Assumptions

The latest actuarial valuation of The Arts Council of England's liabilities took place as at 31 March 2018. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the roll-forward approach. The principal assumptions used by the actuary in updating the latest valuation of the Fund for FRS 102 purposes were:

## PRINCIPAL FINANCIAL ASSUMPTIONS

	31 MARCH 2018	31 MARCH 2017	31 MARCH 2016
Discount rate	<b>2.6%</b>	<b>2.5%</b>	3.4%
RPI inflation	<b>3.2%</b>	<b>3.1%</b>	2.9%
CPI inflation	<b>2.1%</b>	<b>2.0%</b>	1.8%
Rate of increase to pensions in payment	<b>2.1%</b>	<b>2.0%</b>	1.8%
Rate of increase to deferred pensions	<b>2.1%</b>	<b>2.0%</b>	1.8%
Rate of general increase in salaries	<b>3.35%</b>	<b>3.25%</b>	3.3%

## ASSET ALLOCATION

	VALUE AT 31 MARCH 2018 %	VALUE AT 31 MARCH 2017 %
Equities	<b>77.3%</b>	77.2%
Property	<b>4.5%</b>	4.3%
Government bonds	<b>9.4%</b>	10.1%
Corporate bonds	<b>3.7%</b>	3.9%
Cash	<b>1.8%</b>	1.2%
Other	<b>3.3%</b>	3.3%
<b>Total</b>	<b>100%</b>	100%

## RECONCILIATION OF FUNDED STATUS TO BALANCE SHEET

	VALUE AS AT 31 MARCH 2018 £millions	VALUE AS AT 31 MARCH 2017 £millions	VALUE AS AT 31 MARCH 2016 £millions
Fair value of assets	<b>38.801</b>	36.000	30.126
Present value of funded liabilities	<b>41.531</b>	41.137	35.740
<b>Pension liability recognised on the balance sheet</b>	<b>(2.730)</b>	(5.137)	(5.614)

## AMOUNTS RECOGNISED IN INCOME STATEMENT

	PERIOD ENDING 31 MARCH 2018 £millions	PERIOD ENDING 31 MARCH 2017 £millions
<b>OPERATING COST:</b>		
Current service cost	<b>0.112</b>	0.095
<b>FINANCING COST:</b>		
Interest on net defined benefit liability/(asset)	<b>0.127</b>	0.185
<b>Pension expense recognised in other comprehensive income</b>	<b>0.239</b>	0.280

## AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME

	PERIOD ENDING 31 MARCH 2018 £millions	PERIOD ENDING 31 MARCH 2017 £millions
Asset gains/(losses) arising during the period	<b>1.093</b>	4.586
Liability gains/(losses) arising during the period	<b>(0.328)</b>	(5.081)
<b>Total amount recognised in other comprehensive income</b>	<b>0.765</b>	(0.495)

## CHANGES TO THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION DURING THE ACCOUNTING PERIOD

	PERIOD ENDING 31 MARCH 2018 £millions	PERIOD ENDING 31 MARCH 2017 £millions
Opening defined benefit obligation	<b>41.137</b>	35.740
Current service cost	<b>0.112</b>	0.095
Interest expense on defined benefit obligation	<b>1.015</b>	1.199
Contributions by participants	<b>0.025</b>	0.029
Actuarial (gains)/losses on liabilities	<b>0.328</b>	5.081
Net benefits paid out	<b>(1.086)</b>	(1.007)
<b>Closing defined benefit obligation</b>	<b>41.531</b>	41.137

## CHANGES TO THE FAIR VALUE OF ASSETS DURING THE ACCOUNTING PERIOD

	PERIOD ENDING 31 MARCH 2018 £millions	PERIOD ENDING 31 MARCH 2017 £millions
Opening fair value of assets	<b>36.000</b>	30.126
Interest income on assets	<b>0.888</b>	1.014
Remeasurement gains/(losses) on assets	<b>1.093</b>	4.586
Contributions by the employer	<b>0.098</b>	1.252
Contributions by participants	<b>0.025</b>	0.029
Net benefits paid out*	<b>(1.086)</b>	(1.007)
Net increase in assets from disposals/acquisitions**	<b>1.783</b>	
<b>Closing fair value of assets</b>	<b>38.801</b>	36.000

\* CONSISTS OF NET BENEFITS CASH-FLOW OUT OF THE FUND IN RESPECT OF THE EMPLOYER, INCLUDING AN APPROXIMATE ALLOWANCE FOR THE EXPECTED COST OF DEATH IN SERVICE LUMP SUMS.

\*\* CONSISTS OF PAYMENT OF £1.783 MILLION FROM GREATER MANCHESTER PENSION FUND IN RESPECT OF THE BULK TRANSFER OF STAFF FROM THE FORMER REGIONAL ARTS BOARDS.

## ACTUAL RETURN ON ASSETS

	PERIOD ENDING 31 MARCH 2018 £millions	PERIOD ENDING 31 MARCH 2017 £millions
Interest income of assets	<b>0.888</b>	1.014
Gain/(loss) on assets	<b>1.093</b>	4.586
<b>Total amount recognised in other comprehensive income</b>	<b>1.981</b>	5.600

The 2016 valuation results included the transferred liabilities for 49 active members who transferred from the former Arts Boards but made no allowance for any bulk transfer payments to or from Surrey (11 members) or Staffordshire (13 members) Pension Funds. With respect to the 25 members who transferred from Greater Manchester, an interim payment of £1,000,000 was paid by Greater Manchester Pension Fund to West Yorkshire Pension Fund in October 2014 and a final payment of £1,783,000 was received on 28 March 2018. These payments have been included in the above calculations.

How the transfer payments should be calculated is still under discussion between those funds where payments are still outstanding: the West Yorkshire Pension Fund and Arts Council England. The actuary has made no allowance for any transfer payments in our disclosures. We have, however, made allowance for the bulk transfers in relation to the other 131 members who transferred from the former Arts Boards at the same time.

Amounts due to the fund at 31 March 2018 were £nil (31 March 2017: £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, the deferred and pensioner members remained with their legacy pension provider as detailed below:

East England Arts	Cambridgeshire Council
East Midlands Arts	Nottingham Council
Northern Arts	Tyne & Wear 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 did not believe it was responsible for meeting any further liabilities relating to Regional Arts Board employees in respect of these funds following lump sum payments to four schemes. However, two funds have indicated previously that liabilities exist in respect of the deferred pensioner members that they retained within their respective funds. No provision has been made in these accounts.

**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, Tŷ Cerdd – Music Centre Wales 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 Charities SORP (FRS102). The actuaries of the fund are Hymans Robertson.

The scheme is financed by payments made by Arts Council England and employees, together with those by the other employers and their employees, into a trustee-administered fund independent of Arts Council England's finances. These contributions are invested by leading fund management companies. The net market value of the scheme's assets at 31 March 2018 was £165 million (2017: £158.5 million).

An actuarial valuation of the pension fund takes place at least every three years. At the last valuation on 31 March 2016, the actuarial value of the assets using the projected unit method was sufficient to cover 84 per cent of the value accrued to members, a deficit of £25,500,000. On the advice of the actuary, with effect from 1 April 2017, we are paying employer's contributions of 21.8 per cent of pensionable salary for Arts Council England employees and 26.4 per cent of pensionable salary for employees who transferred to Arts Council England from Museums, Libraries and Archives. No further contributions are due from Arts Council England in respect of its share of the funding deficit.

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

Consumer prices inflation rate	Bank of England RPI curve, less 1.0% pa
Long term rate of pay increases	Bank of England RPI curve
Short term rate of pay increases	1.5% pa
Rate of pension increases	In line with consumer prices inflation
Discount rate	Bank of England gilt yield curve, plus 1.2% pa

Charities SORP (FRS102) requires that any agreed pension deficit repayment plan be recognised as a liability within the accounts. Arts Council England made two lump sum payments as part of the 31 March 2016 valuation which were sufficient to reduce its future share of deficit payments under the agreed recovery plan to zero. As such there is no outstanding liability to recognise.

Arts Council England is a participating employer in the Arts Council Retirement Plan (1994) together with five other separate organisations. There is no legal separation of the plan's assets or liabilities and as such there is a certain amount of inevitable cross subsidy between participating employers depending on the experience of their own members. Under the plan's rules there is also no requirement or discretion to segregate the

assets of the scheme in event of the cessation of a participating employer. As such it is a 'last man standing' arrangement and the remaining employers would become liable for meeting the pension obligations of other participating employers who cease participation.

Amounts due to the fund at 31 March 2018 were £nil (31 March 2017: £281,124).

The Arts Council Retirement Plan and The People's Pension are both treated as defined contribution schemes for the purposes of the accounts. Payments to both schemes are charged to the I&E account as and when they fall due. Employers contributions into the Arts Council Retirement Plan during 2017/18 were £3,169,016 (2016/17: £2,321,916) and employer contributions to The People's Pension were £70,816 (2016/17: £63,909).

## 8. NET INCOME FOR THE YEAR

Net income of £1,547,622 (2016/17: £5,381,854) is stated after charging:

	TOTAL 2017/18 £000s	TOTAL 2016/17 £000s
Auditor's remuneration	<b>70</b>	70
Operating leases	<b>1,235</b>	1,168
Council members' travel, subsistence and hospitality for the 15 serving members during the year	<b>25</b>	20
Insurance: trustees' and senior officers' indemnity	<b>2</b>	2
Depreciation	<b>887</b>	1,113

NO FEES WERE PAID TO OUR AUDITORS FOR NON-AUDIT SERVICES.

## 9. LEGACY BEQUESTS

Arts Council England is the beneficiary of two legacies: the Compton Poetry Fund and the Thornton Fund. The Compton Poetry Fund bequest was made in 1964 and the Thornton Fund bequest was made in 1950. Both legacies consist of a mixture of stocks/shares and cash; the Compton Poetry Fund consists of £297,000

in shares and £24,000 cash, and the Thornton fund consists of £70,000 in shares and £50,000 cash. Both legacies were incorporated into Arts Council England's accounts during 2013/14; the values of the stocks and cash are disclosed on the balance sheet and the dividends received during the year disclosed within Note 2b (investment income).

	COMPTON POETRY FUND £000s	THORNTON FUND £000s	TOTAL £000s
Opening balance – 1 April 2017	317	117	<b>434</b>
Income received in-year	10	3	<b>13</b>
Losses on investments	(4)	(1)	<b>(5)</b>
Expenditure	0	0	<b>0</b>
<b>Closing balance – 31 March 2018</b>	<b>323</b>	<b>119</b>	<b>442</b>

## 10. HERITAGE ASSETS AND TANGIBLE FIXED ASSETS

	LEASEHOLD IMPROVEMENTS £000s	EQUIPMENT, FIXTURES AND FITTINGS £000s	TOTAL TANGIBLE ASSETS £000s	HERITAGE ASSETS: WORKS OF ART £000s	TOTAL FIXED ASSETS £000s
Cost or valuation at 1 April 2017	8,450	3,491	<b>11,941</b>	163,388	<b>175,329</b>
Additions	103	174	<b>277</b>	358	<b>635</b>
Revaluations	0	0	<b>0</b>	5,375	<b>5,375</b>
Less: disposals	(181)	0	<b>(181)</b>	0	<b>(181)</b>
<b>Cost or valuation at 31 March 2018</b>	<b>8,372</b>	<b>3,665</b>	<b>12,037</b>	169,121	<b>181,158</b>
Depreciation at 1 April 2017	5,076	2,913	<b>7,989</b>	0	<b>7,989</b>
Less depreciation on disposals	(181)	0	<b>(181)</b>	(181)	<b>(181)</b>
Provided for 2017/18	675	212	<b>887</b>	0	<b>887</b>
<b>Depreciation at 31 March 2018</b>	<b>5,570</b>	<b>3,125</b>	<b>8,695</b>	0	<b>8,695</b>
<b>Net book value at 31 March 2018</b>	<b>2,802</b>	<b>540</b>	<b>3,342</b>	169,121	<b>172,463</b>
<b>Net book value at 31 March 2017</b>	<b>3,374</b>	<b>578</b>	<b>3,952</b>	163,388	<b>167,340</b>

## WORKS OF ART – ARTS COUNCIL COLLECTION

Unlike our other fixed assets there is no *de minimis* capitalisation threshold for Works of Art. All Works of Art are capitalised, even if they are valued at under £2,000.

The Works of Art Collection has been built up since 1946 and consists of 7,890 items at 31 March 2018. 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 Director of the Collection at £169,121,185 at 31 March 2018 (31 March 2017: £163,388,213). Valuation of the Collection is undertaken on a rolling programme using current knowledge of prices, the market and, where necessary, the Director seeks the advice of other experts. The policy is that the top 100 most valuable items are valued on an annual basis as are any items that are out on long-term loan and works required for exhibitions. Any works selected for exhibition or loan or for the Arts Council's touring exhibitions are valued when they go out on loan as this provides the valuation for insurance requirements. A register of works is maintained by the 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 Director of the Arts Council Collection, Director of Visual Arts, Arts Council England, Director of the Hayward Gallery, plus external advisers who are usually an artist, a writer and a curator. The committee is currently chaired by a member of the Arts Council's National Council. The external advisors to the committee are appointed for a fixed two-year tenure. Additionally, a representative from each of the Collection's National Partner Galleries sits for one year on a rotating basis. Artists may apply to have their work considered for acquisition. Otherwise works are acquired through the recommendations of the committee members. 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. 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 Director of the Arts Council Collection to report details to the Director of the Hayward Gallery (in cases of vandalism or theft), and Director, Visual Arts, of the Arts Council who then seeks approval from the Arts Council England National Council to write off the item. The write-off in accounting records is implemented by the Director of 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 Winchester House and Longside (for sculpture) and copies of the latest version are made when loans go out. Normally required restoration is carried out by fully accredited conservators, either at their studios or at Longside or Winchester House. Any unfitting of frames or restoration carried out away from Winchester House or Longside must be authorised by the Director of the Collection, Senior Curator or an appropriate curator. Artists are consulted and involved in restoration when possible and practical. Each year a number of works on paper, photographs, paintings and sculpture are conserved as a matter of course. All conservation is reported annually to the Arts Council England National Council in the form of the Collection's annual report on activities.

## Collection management

The Director of the Arts Council Collection reports to the Director of the Hayward Gallery on day-to-day matters and is responsible to the Director, Visual Arts, at Arts Council England on policy. Arts Council Collection staff salaries 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 covers the operational costs of the Collection's activities.

## Access

Public access to the works of art is achieved through items being part of the extensive Arts Council Collection touring exhibitions, the National Partners Select Programme and by being loaned to other institutions and galleries both at home and abroad. It also lends work to public institutions such as universities, libraries and hospitals. The Collection also aims to increase the diversity of its audience through digital engagement on its website and via social media.

## PARTNERSHIPS

The National Partners Programme (NPP) launched in 2016 is a three-year programme which allows four galleries in England to curate exhibitions drawn directly from the Arts Council Collection. Some of these exhibitions will tour amongst the partners to encourage collaborative working and sharing of resources. The NPP is supported by outreach and digital activities with the specific aims of engaging children and young people, Black and minority ethnic people, people from low socio-economic backgrounds and the over 75s. The four regional partners are Birmingham Museums Trust, The Towner Eastbourne, Walker Art Gallery Liverpool, and existing partner Yorkshire Sculpture Park.

Priority is given to national needs. The project to digitise the Collection has progressed with only 365 sculptures remaining to be photographed. Following the appointment of a Digital Manager and an Outreach Manager in 2016 the collection website was relaunched in July 2017, with the aim of improving accessibility to the collection with more engaging content on artists, exhibitions, outreach and learning projects as well as the activities of our national partners. This is supported by the use of social media such as Twitter, Instagram and Facebook to highlight Arts Council Collection events and activities across the country.

The Arts Council Works of Art Collection heritage assets are reported at valuation in the table below:

	2017/18 £000s	2016/17 £000s	2015/16 £000s	2014/15 £000s	2013/14 £000s
Cost or valuation at 1 April	<b>163,388</b>	156,195	137,520	134,287	118,559
Additions	<b>358</b>	628	682	238	180
Donations	<b>0</b>	127	35	6	161
Revaluations	<b>5,375</b>	6,438	17,958	2,989	15,387
Less: impairment	<b>0</b>	0	0	0	0
Less: disposal	<b>0</b>	0	0	0	0
<b>Cost or valuation at 31 March</b>	<b>169,121</b>	163,388	156,195	137,520	134,287

## 11. 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. We have recharged both pay and non-pay expenditure between Grant-in-Aid and Lottery using staff time as a basis for calculating the apportionment.

## 12. DEBTORS

	31 MARCH 2018 £000s	31 MARCH 2017 £000s
Trade debtors	<b>147</b>	45
DCMS debtors	<b>63,861</b>	29,242
Other debtors	<b>253</b>	152
Prepayments and accrued income	<b>924</b>	1,073
	<b>65,185</b>	30,512

### 13. 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. A payment of £400,000 was made during 2017/18 (2016/17: £607,009).

### 14. GRANT OFFERS – FUTURE YEARS

The Arts Council has entered into four-year funding agreements with 829 National Portfolio Organisations commencing in 2018/19. Commitments are recognised for each year, with the funding agreements making clear that continued funding is dependent on Grant-in-Aid being available to Arts Council England in those future years and that the organisation continues to deliver its agreed programme of activity as set out in the funding agreement. Forward funding at 31 March 2018 mainly represents allocations for National Portfolio Organisations and Music Education Hubs and the figures disclosed are the cash value; they have not been discounted to present value.

FORWARD FUNDING:	31 MARCH 2018 £000s	31 MARCH 2017 £000s
2017/18		437,284
2018/19	<b>433,039</b>	21,646
2019/20	<b>412,446</b>	390
2020/21	<b>337,402</b>	0
2021/22	<b>337,500</b>	0
	<b>1,520,387</b>	459,320

### 15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

FORWARD FUNDING:	31 MARCH 2018 £000s	31 MARCH 2017 £000s
Trade creditors	<b>1,981</b>	1,042
Other creditors including taxes and social security	<b>64</b>	305
Accruals	<b>2,019</b>	2,006
Deferred income	<b>757</b>	634
	<b>4,821</b>	3,987

## 16. PROVISIONS FOR LIABILITIES AND CHARGES

	DILAPIDATIONS £000s	TAX £000s	TOTAL £000s
At 31 March 2017	796	6	<b>802</b>
Arising during the year	90	2	<b>92</b>
Used during the year	0	(4)	<b>(4)</b>
Reversed unused	(75)	0	<b>(75)</b>
<b>At 31 March 2018</b>	<b>811</b>	<b>4</b>	<b>815</b>
<b>EXPECTED TIMING OF CASH FLOWS</b>			
Provisions due within one year	96	4	<b>100</b>
Provisions due in more than one year	715	0	<b>715</b>

## DESCRIPTION OF PROVISIONS

**a) Dilapidations**

Provision for dilapidations of premises (to cover the costs of any necessary reinstatement and repairs to the property at the termination of the lease).

**b) Tax**

Provision for payroll taxes on expenses and benefits identified by an internal review.

## 17. RECONCILIATION OF MOVEMENT IN FUNDS

	AT 31 MARCH 2017 £000s	INCOME £000s	EXPENDITURE £000s	GAINS AND LOSSES £000s	TRANSFERS £000s	AT 31 MARCH 2018 £000s
<b>Endowment funds</b>	434	13	-	(5)	-	442
<b>Restricted funds</b>	426	146,245	(146,195)	-	-	476
<b>Unrestricted income funds</b>	12,639	367,423	(366,291)	(1,643)	610	12,738
<b>CAPITAL FUNDS</b>						
Designated funds	7,821	-	358	-	-	7,639
Revaluation reserve	151,311	-	-	5,180	-	156,491
Donated asset reserve	4,797	-	-	196	-	4,993
Capital reserve	3,952	635	(635)	-	(610)	3,342
<b>Pension reserve</b>	(5,137)	-	-	2,407	-	(2,730)
	175,703	514,316	(512,763)	6,135	-	183,391

## DESCRIPTION OF FUNDS

**Endowment funds**

Arts Council England is the beneficiary of two legacies: the Compton Poetry Fund and the Thornton Fund.

**Restricted funds**

The Arts Council receives specific ring-fenced Grant-in-Aid as well as grants, sponsorship and donations from various other sources for specific activities. Any such income and associated expenditure is identified separately.

**Unrestricted income funds**

Grant-in-Aid is received from the Department for Digital, 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 restricted by the Government's budgetary controls.

**Capital funds****a) Designated funds**

This fund relates to capital expenditure on works of art allocated from the unrestricted fund.

**b) Revaluation reserve**

This fund shows the difference between the original cost and the current market value of the Arts Council Collection.

**c) Donated asset reserve**

This fund relates mainly to donations received by the Arts Council for obtaining Works of Art for our Collection.

**d) Capital reserve**

The capital reserve represents the balance of tangible assets.

**e) Pension reserve**

The pension reserve reflects the movements in the West Yorkshire Pension Fund defined benefit scheme.

## 18. CASH FLOW RECONCILIATION

RECONCILIATION OF NET INCOME TO NET CASH INFLOW FROM OPERATING ACTIVITIES	2017/2018 £000s	2016/2017 £000s
Net income	<b>1,548</b>	5,382
Interest received	<b>(60)</b>	(40)
(Profit)/Loss on disposal of Fixed Assets	<b>0</b>	0
Dividends received	<b>(13)</b>	(10)
Depreciation and impairment charges	<b>887</b>	1,113
Revaluation of (gains)/losses on fixed assets	<b>0</b>	0
Actuarial (gains)/losses on defined benefit pension schemes	<b>0</b>	0
(Gains)/losses on investments	<b>5</b>	(60)
Decrease/(increase) in debtors and prepayments	<b>(33,415)</b>	(29,809)
Decrease/(increase) in grants paid in advance	<b>207</b>	(238)
Increase/(decrease) in grants outstanding	<b>32,132</b>	41,864
(Decrease)/increase in creditors	<b>834</b>	(5,356)
(Decrease)/increase in provisions	<b>13</b>	(3,862)
(Decrease)/increase in defined benefit liability	<b>(1,642)</b>	(972)
<b>Net cash provided by operating activities</b>	<b>496</b>	8,012

## 19. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN CASH

	2017/2018 £000s	2016/2017 £000s
(Decrease)/increase in cash and cash equivalents in the year	<b>(79)</b>	6,729
Cash at 1 April	<b>50,012</b>	43,283
<b>Cash at 31 March</b>	<b>49,933</b>	50,012

## 20. ANALYSIS OF NET CASH

	1 APRIL 2017 £000s	CASH FLOW £000s	31 MARCH 2018 £000s
Cash in hand	50,012	(79)	<b>49,933</b>

## 21. LEASES

At 31 March 2018 the Arts Council had annual commitments under non-cancellable operating leases as set out below.

LAND AND BUILDINGS OPERATING LEASES WHICH EXPIRE:	31 MARCH 2018 £000s	31 MARCH 2017 £000s
within one year	<b>175</b>	277
within two and five years inclusive	<b>1,600</b>	807
over five years	<b>0</b>	786
	<b>1,775</b>	1,870

## 22. 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.

## 23. 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.

## 24. CAPITAL COMMITMENTS

As at 31 March 2018 the total value of capital commitments was £nil (2016/17: £nil).

## 25. SPECIAL PAYMENTS

Special payments are payments which would not normally be made in the course of business. Examples of such payments are lease exit payments, compensations payments or ex-gratia payments. The number and value of special payments made during 2017/18 were as follows:

	2017/2018 £000s	2016/2017 £000s
Total value of special payments	3	31
Total number of special payments	1	1

## 26. FINANCIAL INSTRUMENTS

FRS 102 has a concept of basic financial instruments (such as cash, trade debtors and trade creditors) and other financial instruments (such as interest rate swaps and forward foreign currency contracts). All Arts Council England's financial instruments are categorised as basic.

As the cash requirements of the Arts Council are met largely through Grant-in-Aid received from the Department for Digital, Culture, Media and Sport (99.88 per cent) (2016/17: 99.85 per cent), 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 usages requirements, or the issue of grants (96.74 per cent) (2016/17: 96.4 per cent). This means the Arts Council is exposed to little credit, liquidity or market risk.

Arts Council England is the beneficiary of two legacies: the Compton Poetry Fund and the Thornton Fund. The total value of both legacies is £442,000 and is held in a mixture of cash and stock market investments managed by Investec Wealth & Investment Ltd. Details of both legacies are disclosed in note 9.

### 26a. LIQUIDITY RISK

The Arts Council's previous management agreement with the Department for Digital, Culture, Media and Sport expired on 31 March 2015. A new management agreement is currently being negotiated. On 27 March 2015 a letter was issued by DCMS formally extending the previous management agreement until a new one is put in place.

In the past 12 months, 0.11 per cent of funding was received from sources other than DCMS and 0.01 per cent was generated from cash balances. This means that 99.88 per cent of funding is sourced through cash drawn down and agreed monthly with the DCMS, based on the predicted need for the month ahead.

### 26b. INTEREST RATE RISK

The cash balance of £49,933,000 at 31 March 2018 was held in instant access variable rate bank accounts with the Co-Operative Bank, which carried an average interest rate of 0.22 per cent below base rate. The Arts Council does not place money on deposit with any other bank, financial institution or investment product.

### 26c. FOREIGN CURRENCY RISK

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

## 26d. FINANCIAL ASSETS BY CATEGORY

	31 MARCH 2018 £000s	31 MARCH 2017 £000s
DCMS debtor	<b>63,861</b>	29,242
Trade debtors	<b>147</b>	45
Other debtors	<b>253</b>	152
Accrued income	<b>924</b>	1,073
Due from Arts Council Lottery accounts	<b>2,068</b>	3,326
Cash at bank and in hand	<b>49,933</b>	50,012
	<b>117,186</b>	83,850

In our view the book value of the assets is the same as the fair value.

## 26e. FINANCIAL LIABILITIES BY CATEGORY

	31 MARCH 2018 £000s	31 MARCH 2017 £000s
Grants outstanding	<b>98,734</b>	66,602
Trade creditors	<b>1,981</b>	1,042
Other creditors including taxes and social security	<b>64</b>	305
Accruals	<b>2,019</b>	2,006
Deferred income	<b>757</b>	634
	<b>103,555</b>	70,589

INCLUDED WITHIN THE FINANCIAL LIABILITIES ARE AMOUNTS SUCH AS GRANTS OUTSTANDING, TAX AND NATIONAL INSURANCE, AND DEFERRED INCOME. WHILE THESE LIABILITIES ARE NOT CONTRACTUAL THEY HAVE BEEN DISCLOSED ABOVE IN THE INTERESTS OF COMPLETENESS.

## 27. RELATED PARTIES

## 27a. 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 along with amounts awarded for the year ended 31 March 2018 are detailed below.

COUNCIL MEMBER	GRANT FOR THE YEAR ENDED 31 MARCH 2018 £000s	BALANCE UNPAID AS AT 31 MARCH 2018 £000s	ORGANISATION	RELATIONSHIP TYPE
Sir Nicholas Serota CH	399	0	Britten Sinfonia	Partner is a member of Advisory Council
	500	343	Cornubian Arts and Science Trust	Partner is a Chair
	0	6	BBC	Board Member
Maria Balshaw CBE	2,084	0	Hallé Concerts Society	Board Member (until 28 April 2017)
	34,816	51,302	Manchester City Council	Director of Culture, Manchester Council (until 31 May 2017)
	2,143	37	Manchester City Galleries	Director of Manchester City Galleries, linked to MMC (until 31 May 2017)
	992	9	Horniman Museum and Gardens	Husband is a Director
	33	3	Tate Gallery	Director
	57	57	The Whitworth Art Gallery	Director (until 31 May 2017)
Dame Rosemary Squire	2,376	1,221	The Hall for Cornwall Trust	Director and Co-Chair of both the main Trust, and the Property Trust.
Veronica Wadley	322	0	Film London	Employed by GLA until 5 May 2016, which co-funds Film London
	1,452	19	Museum of London	Employed by GLA until 5 May 2016, which co-funds Museum of London
	150	0	Thames Festival Trust	Employed by GLA until 5 May 2016, which co-funds Thames Festival Trust
	75	0	The London Design Festival Ltd	Employed by GLA until 5 May 2016, which co-funds LDF Ltd
Andrew Miller (from 15 November 2017)	141	0	Corby Cube Theatre Trust	Executive Associate (until 1 December 2017)
	766	0	Northampton Theatres Trust	Executive Associate (until 1 December 2017)
	10	1	TheSpace CIC	Board Member

COUNCIL MEMBER	GRANT FOR THE YEAR ENDED 31 MARCH 2018 £000s	BALANCE UNPAID AS AT 31 MARCH 2018 £000s	ORGANISATION	RELATIONSHIP TYPE
Elizabeth Murdoch (from 15 November 2017)	750	0	Arnolfini Gallery Ltd	Chair of Freelands Foundation, who funded this organisation
	3,158	5	Baltic Centre for Contemporary Arts	Chair of Freelands Foundation, who funded this organisation
	920	0	Camden Arts Centre	Chair of Freelands Foundation, who funds this organisation
	1,010	0	Ikon Gallery Limited	Chair of Freelands Foundation, who funded this organisation
	1,160	36	Nottingham Contemporary	Chair of Freelands Foundation, who funds this organisation
	1,111	30	South London Gallery	Chair of Freelands Foundation, who funded this organisation
	982	13	The Hepworth, Wakefield	Chair of Freelands Foundation, who funds this organisation
	57	57	The Whitworth Art Gallery	Chair of Freelands Foundation, who funded this organisation
	33	3	Tate Gallery	Chair of Freelands Foundation, who funded this organisation
	500	343	Cornubian Arts and Science Trust	Chair of Freelands Foundation, who funded this organisation
	575	0	Turner Contemporary	Chair of Freelands Foundation, who funded this organisation
	511	0	mima	Chair of Freelands Foundation, who funds this organisation
	1	0	Nottingham Contemporary	Chair of Freelands Foundation, who funds this organisation
2	0	The Hepworth Wakefield	Chair of Freelands Foundation, who funds this organisation	

COUNCIL MEMBER	GRANT FOR THE YEAR ENDED 31 MARCH 2018 £000s	BALANCE UNPAID AS AT 31 MARCH 2018 £000s	ORGANISATION	RELATIONSHIP TYPE
<b>Kate Willard</b> (from 15 November 2017)	1,650	0	Liverpool Everyman and Playhouse	Deputy Chair
<b>Paul Roberts OBE</b> (from 15 November 2017)	1,160	36	Nottingham Contemporary	Board Member
	588	1	Nottingham Music Service	Board Member (until 31 December 2017)
	12	0	Innovation Unit	Chair
	1	0	Nottingham Contemporary	Board Member
<b>Professor Roni Brown</b> (from 15 November 2017)	155	10	Artswork Limited	Board Member (until 31 January 2018)
	786	0	Farnham Maltings Association Limited	Deputy VC of the University for the Creative Arts which has a service agreement with this organisation, and partner is Director/CEO
	575	0	Turner Contemporary	Deputy VC of the University for the Creative Arts which has a service agreement with this organisation
	4	0	Artswork Ltd	Board Member to (31 January 2018)
	1	0	Creative Foundation	Deputy VC of the University for the Creative Arts which has a service agreement with this organisation
<b>Sukhy Johal MBE</b> (from 15 November 2017)	503	0	The New Art Exchange Ltd	Chair/Trustee (until 30 March 2018)
	20	2	Centre for Culture and Creativity	Director
	80	20	Threshold Studios Ltd	Partner is a Director
<b>Alistair Spalding CBE</b> (to 30 September 2107)	2,906	13	Sadlers Wells Trust Ltd	Chief Executive

COUNCIL MEMBER	GRANT FOR THE YEAR ENDED 31 MARCH 2018 £000s	BALANCE UNPAID AS AT 31 MARCH 2018 £000s	ORGANISATION	RELATIONSHIP TYPE
<b>Sir Nicholas Kenyon</b> (to 15 November 2017)	468	0	Artichoke Trust Ltd	Partner is a Board Member
	480	0	Barbican Centre	Managing Director
	3,680	3	North MusicTrust Ltd	Board Member (to 8 December 2016)
<b>Sheila Healey</b> (to 30 September 2017)	443	56	The Audience Agency	Chair
	85	0	Situations	Board Member)
<b>David Bryan</b> (to 30 September 2017)	23	2	Artistic Directors of the Future	Board Member
	476	7	Oval House	Chair
	466	5	Writers Centre Norwich	Board Member
<b>Tessa Ross</b> (from 15 November 2017)	6	0	Creative Industries Foundation	Board Member (to 31 December 2107)

The declared interests in grant recipients along with amounts awarded for the year ended 31 March 2017 were as follows:

COUNCIL MEMBER	GRANT FOR THE YEAR ENDED 31 MARCH 2017 £000s	BALANCE UNPAID AS AT 31 MARCH 2017 £000s	ORGANISATION	RELATIONSHIP TYPE
Sir Nicholas Serota CH (from 1st February 2017)	121	9	Tate Gallery	Director
	1,036	5	Nottingham Contemporary	Partner with Chair
	0	6	BBC	Board Member
Maria Balshaw CBE	2,084	8	Hallé Concerts Society	Board Member
	20,100	20,100	Manchester City Council	Director
	2,122	26	Manchester City Galleries	Director
	121	9	Tate Gallery	Director Designate
	5,000	5,000	The Manchester Museum	Partner & Director
	69	0	The Whitworth Art Gallery	Director
Matthew Bowcock CBE	41	4	Watts Gallery	Board Member
David Bryan	466	11	Writers' Centre Norwich	Board Member
Sheila Healy	116	0	Situations	Board Member
	420	2	The Audience Agency	Chair
Sir Nicholas Kenyon	1,468	0	Artichoke Trust Ltd	Partner is a Board Member
	1,623	0	Barbican Centre	Managing Director
	14	1	Barbican Centre Trust Ltd	Trustee
	3,662	-293	North Music Trust	Board Member

COUNCIL MEMBER	GRANT FOR THE YEAR ENDED 31 MARCH 2017 £000s	BALANCE UNPAID AS AT 31 MARCH 2017 £000s	ORGANISATION	RELATIONSHIP TYPE
Alistair Spalding CBE	2,951	50	Sadler's Wells Trust Ltd	Chief Executive
Rosemary Squire CBE	376	0	The Hall for Cornwall Trust	Trustee
Veronica Wadley	322	0	Film London	Employed by GLA which co-funds Film London
	23	2	Greater London Authority	Senior Advisor to the Mayor
	1,453	0	Museum of London	Employed by GLA which co-funds Museum of London
	150	0	Thames Festival Trust	Employed by GLA which co-funds Thames Festival Trust
	75	0	The London Design Festival Ltd	Employed by GLA which co-funds LDF Ltd

### 27b. 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 declared interests in grant recipients along with amounts awarded for the year ended 31 March 2018 are detailed below.

DIRECTOR OR SENIOR MANAGER	GRANT FOR THE YEAR ENDED 31 MARCH 2018 £000s	BALANCE UNPAID AS AT 31 MARCH 2018 £000s	ORGANISATION	RELATIONSHIP TYPE
Peter Knott	650	0	Dance UK	Partner is a Chair of Young People's panel
	1,914	0	Leicester Theatre Trust Ltd	Partner is Head of Learning
Phil Gibby	107	0	Theatre Bristol Ltd	Partner is a Director of Business Development
Simon Mellor	34,000	51,302	Manchester City Council	Was seconded to Project Director of 'The Factory' at MCC until 30 April 2016
	729	46	Manchester International Festival	MIF was awarded the contract to run 'The Factory' of which was Project Director from 1 September 2015 to 30 April 2016

The declared interests in grant recipients along with amounts awarded for the year ended 31 March 2017 were as follows:

DIRECTOR OR SENIOR MANAGER	GRANT FOR THE YEAR ENDED 31 MARCH 2017 £000s	BALANCE UNPAID AS AT 31 MARCH 2017 £000s	ORGANISATION	RELATIONSHIP TYPE
Mark Ball (left 30 April 2016)	1,855	3	Birmingham Repertory Theatre Limited	Brother (Steve Ball) is an Associate Director
	453	0	London International Festival of Theatre	CEO and Artistic Director
	221	0	Frantic Theatre Company Ltd	Board Member
	50	10	The British Library	Brother is Director of Collections Management
	302	0	artsdepot	Chair
Phil Gibby	108	0	Theatre Bristol Ltd	Partner is a Director of Business Development
Darren Henley OBE	23	2	Greater London Authority	Former committee Chair
	45	45	Associated Board of the Royal School of Music	Former Trustee
	144	0	Canterbury Festival	Former Board Member
Peter Knott	650	0	Dance UK	Partner is a Chair of Young People's Panel
	1,953	4	Leicester Theatre Trust Ltd	Partner is Head of Learning
Simon Mellor	20,100	20,100	Manchester City Council	Seconded to 'The Factory' Project Director at MCC (until April 2016)

**27c. OTHER GOVERNMENT BODIES**

The Department for Digital, 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 2018 £000s	DEBTOR 31 MARCH 2018 £000s	CREDITOR 31 MARCH 2017 £000s	DEBTOR 31 MARCH 2017 £000s
Balances with other DCMS government bodies	<b>996</b>	<b>63,912</b>	1,485	32,628
Balances with other central government bodies	<b>0</b>	<b>0</b>	0	0
Balances with academies	<b>0</b>	<b>14</b>	0	95
Balances with local authorities	<b>62,469</b>	<b>39</b>	38,284	28
Balances with public corporations and trading funds	<b>11</b>	<b>0</b>	11	0

During 2017/18 Arts Council England had the following transactions with other government bodies:

	EXPENDITURE Y/E 31 MARCH 2018 £000s	INCOME Y/E 31 MARCH 2018 £000s	EXPENDITURE Y/E 31 MARCH 2017 £000s	INCOME Y/E 31 MARCH 2017 £000s
Transactions with other DCMS government bodies	<b>2,308</b>	<b>497,087</b>	3,833	494,231
Transactions with other central government bodies	<b>6,343</b>	<b>9</b>	1,503	5
Transactions with academies	<b>0</b>	<b>138</b>	0	430
Transactions with local authorities	<b>85,740</b>	<b>182</b>	127,097	50
Transactions with NHS Trusts	<b>0</b>	<b>0</b>	0	0
Transactions with public corporations and trading funds	<b>0</b>	<b>0</b>	0	0

**28. RECONCILIATION OF OPERATING SURPLUS TO DEPARTMENTAL EXPENDITURE LIMIT**

The government budget that is allocated to and spent by government departments is known as the departmental expenditure limit, or DEL. The Arts Council is not allowed to exceed its annual DEL budget. Due to differing accounting

treatments there are certain transactions which are included in these accounts but do not have an impact on our DEL budget. The Arts Council has a reported surplus of £7,688,000 but our overall DEL underspend for the year was £185,000 and the table below shows a reconciliation of the two amounts.

	£000s AT 31 MARCH 2018
Underspend as per SOFA	(7,688)
<b>EXCLUDE NON-DEL TRANSACTIONS</b>	
Revaluation on Heritage Assets	5,375
FRS17 surplus	2,407
Gain on investments	(5)
Depreciation	(887)
Capital expenditure	620
Provisions adjustments	(20)
Legacy income	13
Donations	0
Legacy expenditure	0
<b>DEL underspend</b>	<b>(185)</b>
<b>REPRESENTED BY :</b>	
RDEL underspend	(167)
CDEL underspend	(18)
	<b>(185)</b>

## 29. CONTINGENT LIABILITIES

As at 31 March 2018, Arts Council England had the following contingent liabilities:

(a) A judicial review is currently taking place. In 2015, the claimant sought an export licence from Arts Council England to export a painting to Switzerland from the UK. The Arts Council (in consultation with DCMS) refused to grant the licence on the basis that it was not the authority for the purposes of the relevant EU legislation competent to grant the claimant a licence, and it was not satisfied that the painting was in the UK following 'lawful and definitive dispatch from another Member State'. The claimant challenged this decision by way of judicial review. The potential liability is not quantifiable.

(b) A former employee has lodged an employment tribunal claim against Arts Council England. The potential liability is not quantifiable.

## 30. POST BALANCE SHEET EVENTS

In accordance with the requirements of Charities SORP (FRS102), 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.

## 31 STATEMENT OF FINANCIAL ACTIVITIES – PRIOR YEAR COMPARATORS

	UNRESTRICTED FUNDS £000s	RESTRICTED FUNDS £000s	ENDOWMENT FUNDS £000s	TOTAL 2017/18 £000s	UNRESTRICTED FUNDS £000s	RESTRICTED FUNDS £000s	ENDOWMENT FUNDS £000s	TOTAL 2016/17 £000s
<b>INCOME AND ENDOWMENTS FROM:</b>								
Donations and legacies	351,149	145,897	0	497,046	355,213	139,075	0	494,288
Investments	21	39	13	73	25	15	10	50
Charitable activities	191	309	0	500	125	568	0	693
Other: Lottery distribution accounts	16,697	0	0	16,697	18,314	0	0	18,314
<b>Total income and endowments</b>	<b>368,058</b>	<b>146,245</b>	<b>13</b>	<b>514,316</b>	<b>373,677</b>	<b>139,658</b>	<b>10</b>	<b>513,345</b>
<b>EXPENDITURE ON:</b>								
Charitable activities (including Governance costs)	349,871	146,195	0	496,066	350,152	139,557	0	489,709
Other: Support costs attributable to Lottery distributions accounts	16,697	0	0	16,697	18,314	0	0	18,314
<b>Total expenditure</b>	<b>366,568</b>	<b>146,195</b>	<b>0</b>	<b>512,763</b>	<b>368,466</b>	<b>139,557</b>	<b>0</b>	<b>508,023</b>
Net gains/(losses) on investments	0	0	(5)	(5)	0	0	60	60
<b>Total income/ (expenditure) before exceptional items</b>	<b>1,490</b>	<b>50</b>	<b>8</b>	<b>1,548</b>	<b>5,211</b>	<b>101</b>	<b>70</b>	<b>5,382</b>
<b>EXCEPTIONAL ITEMS</b>								
Cost of fundamental reorganisation	0	0	0	0	0	0	0	0
<b>Net income/ (expenditure)</b>	<b>1,490</b>	<b>50</b>	<b>8</b>	<b>1,548</b>	<b>5,211</b>	<b>101</b>	<b>70</b>	<b>5,382</b>
<b>TRANSFERS</b>								
Gross transfers between funds	0	0	0	0	0	131	(131)	0
<b>Total income/ (expenditure) before other recognised gains and losses</b>	<b>1,490</b>	<b>50</b>	<b>8</b>	<b>1,548</b>	<b>5,211</b>	<b>232</b>	<b>(61)</b>	<b>5,382</b>
<b>OTHER RECOGNISED GAINS/LOSSES</b>								
Gain on revaluation of heritage assets	5,179	196	0	5,375	6,314	124	0	6,438
Actuarial gains/(losses) on defined benefit pension schemes	765	0	0	765	(495)	0	0	(495)
<b>Net movement in funds</b>	<b>7,434</b>	<b>246</b>	<b>8</b>	<b>7,688</b>	<b>11,030</b>	<b>356</b>	<b>(61)</b>	<b>11,325</b>
<b>RECONCILIATION OF FUNDS:</b>								
Balance brought forward at 1 April	170,046	5,223	434	175,703	159,016	4,867	495	164,378
<b>Total funds carried forward at 31 March</b>	<b>177,480</b>	<b>5,489</b>	<b>442</b>	<b>183,390</b>	<b>170,046</b>	<b>5,223</b>	<b>434</b>	<b>175,703</b>

## 32. BALANCE SHEET – PRIOR YEAR COMPARATORS

	UNRESTRICTED FUNDS £000s	RESTRICTED FUNDS £000s	ENDOWMENT FUNDS £000s	TOTAL 31 MARCH 2018 £000s	UNRESTRICTED FUNDS £000s	RESTRICTED FUNDS £000s	ENDOWMENT FUNDS £000s	TOTAL 31 MARCH 2017 £000s
<b>FIXED ASSETS:</b>								
Tangible assets	3,342	0	0	3,342	3,952	139,075	0	3,952
Heritage assets – works of art	164,128	4,993	0	169,121	158,591	4,797	0	163,388
Investments	0	0	442	442	0	0	434	434
<b>Total fixed assets</b>	<b>167,470</b>	<b>4,993</b>	<b>442</b>	<b>172,905</b>	<b>162,543</b>	<b>4,797</b>	<b>434</b>	<b>167,774</b>
<b>CURRENT ASSETS</b>								
Debtors	24,706	40,479	0	65,185	24,756	5,756	0	30,512
Due from Arts Council Lottery accounts	0	2,068	0	2,068	3,326	0	0	3,326
Grants paid in advance	0	400	0	400	607	0	0	607
Cash and cash equivalents	6,059	43,874	0	49,933	5,111	44,901	0	50,012
<b>Total current assets</b>	<b>30,765</b>	<b>86,821</b>	<b>0</b>	<b>117,586</b>	<b>33,800</b>	<b>50,657</b>	<b>0</b>	<b>84,457</b>
<b>LIABILITIES</b>								
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>								
Grants outstanding	13,207	85,527	0	98,734	17,049	49,553	0	66,602
Due to Arts Council Lottery accounts	0	0	0	0	0	0	0	0
Creditors	4,003	818	0	4,821	3,309	678	0	3,987
<b>Total creditors: amounts falling due within one year</b>	<b>17,210</b>	<b>86,345</b>	<b>0</b>	<b>103,555</b>	<b>20,358</b>	<b>50,231</b>	<b>0</b>	<b>70,589</b>
<b>Net current assets</b>	<b>13,555</b>	<b>476</b>	<b>0</b>	<b>14,031</b>	<b>13,442</b>	<b>426</b>	<b>0</b>	<b>13,868</b>
<b>Total assets less current liabilities</b>	<b>181,025</b>	<b>5,469</b>	<b>442</b>	<b>186,936</b>	<b>175,985</b>	<b>5,223</b>	<b>434</b>	<b>181,842</b>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>								
Provisions for liabilities and charges	815	0	0	815	802	0	0	802
<b>Net assets excluding pension liability</b>	<b>180,210</b>	<b>5,469</b>	<b>442</b>	<b>186,121</b>	<b>175,183</b>	<b>5,223</b>	<b>434</b>	<b>180,840</b>
Defined benefit pension scheme liability	2,730	0	0	2,730	5,137	0	0	5,137
<b>Net assets including pension liability</b>	<b>177,480</b>	<b>5,469</b>	<b>442</b>	<b>183,391</b>	<b>170,046</b>	<b>5,223</b>	<b>434</b>	<b>175,703</b>
<b>THE FUNDS OF THE CHARITY:</b>								
<b>REPRESENTED BY INCOME FUNDS</b>								
Unrestricted fund	12,738	0	0	12,738	12,639	0	0	12,639
Restricted fund	0	476	0	476	0	426	0	426
<b>REPRESENTED BY CAPITAL FUNDS</b>								
Endowment funds	0	0	442	442	0	0	434	434
Designated fund	164,130	0	0	164,130	158,592	0	0	158,592
Donated asset reserve	0	4,993	0	4,993	0	4,797	0	4,797
Capital reserve	3,342	0	0	3,342	3,952	0	0	3,952
Pension reserve	(2,730)	0	0	(2,730)	(5,137)	0	0	(5,137)
<b>Total charity funds</b>	<b>177,480</b>	<b>5,469</b>	<b>442</b>	<b>183,391</b>	<b>170,046</b>	<b>5,223</b>	<b>434</b>	<b>175,703</b>

CHARITIES SORP (FRS102) REQUIRES PRIOR COMPARATIVE FIGURES TO BE SHOWN FOR EACH TYPE OF FUND FOR THE BALANCE SHEET AS WELL AS THE STATEMENT OF FINANCIAL ACTIVITIES. THIS NOTE DISCLOSES THE PRIOR YEAR COMPARATIVE FIGURES FOR ALL THREE TYPES OF FUNDS.

01. CHAIR'S REPORT	02	07. STRATEGIC REPORT	74
02. CHIEF EXECUTIVE'S REPORT	06	08. GRANT-IN-AID ACCOUNTS	84
03. ACHIEVING GREAT ART AND CULTURE	10	<b>09. LOTTERY DISTRIBUTION ACCOUNTS</b>	<b>130</b>
04. REMUNERATION REPORT	36	10. NATIONAL LOTTERY REPORT	164
05. SUSTAINABILITY REPORT	44	11. IMAGE CREDITS	178
06. TRUSTEES' REPORT & MANAGEMENT COMMENTARY	50		

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# Lottery distribution accounts



# 09.



## THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

### OPINION ON FINANCIAL STATEMENTS

I certify that I have audited the financial statements of Arts Council England's Lottery Distribution for the year ended 31 March 2018 under the National Lottery etc. Act 1993. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, 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.

In my opinion:

- the financial statements give a true and fair view of the state of Arts Council England's Lottery Distribution affairs as at 31 March 2018 and of the total comprehensive expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Lottery etc. Act 1993 and Secretary of State directions issued thereunder.

### OPINION ON REGULARITY

In my opinion, in all material respects the income and expenditure 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.

### BASIS OF OPINIONS

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Arts Council England in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### RESPONSIBILITIES OF THE BOARD AND ACCOUNTING OFFICER FOR THE FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

My responsibility is to audit, certify and report on the financial statements in accordance with the National Lottery etc. Act 1993.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Arts Council England's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Arts Council England's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

## OTHER INFORMATION

The Board and the Accounting Officer are responsible for the other information. The other information comprises information included in the Annual Report, other than the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## OPINION ON OTHER MATTERS

In my opinion:

- the parts of the Remuneration Report to be audited have been properly prepared in accordance with Secretary of State directions made under the National Lottery etc. Act 1993;
- in the light of the knowledge and understanding of Arts Council England and its environment obtained in the course of the audit, I have not identified any material misstatements in the Annual Report; and
- the information given in the Trustees' Report and 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 parts 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.

**Sir Amyas C E Morse,  
Comptroller and Auditor General**

DATE: 6 JULY 2018

**National Audit Office**

157–197 Buckingham Palace Road  
Victoria  
London SW1W 9SP



## STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2018

	NOTE	2017/18 £000s	2016/17 £000s
<b>INCOME</b>			
Share of proceeds from the National Lottery Distribution Fund	2	<b>228,192</b>	227,475
Investment returns on the Distribution Fund	2	<b>660</b>	741
		<b>228,852</b>	228,216
Other income	3	<b>1,007</b>	968
<b>Total income</b>		<b>229,859</b>	229,184
<b>EXPENDITURE</b>			
<b>Grant expenditure:</b>			
Grant commitments made in the year	10	<b>464,805</b>	195,938
Less: lapsed and revoked commitments	10	<b>(3,883)</b>	(8,493)
Net grant commitments		460,922	187,445
<b>Other expenditure:</b>			
Costs apportioned from Grant-in-Aid accounts	6	<b>16,697</b>	18,314
<b>Total expenditure</b>		<b>477,619</b>	205,759
<b>Net (expenditure)/income</b>	7	<b>(247,760)</b>	23,425
Interest receivable		<b>8</b>	9
<b>Net (expenditure)/income after interest</b>		<b>(247,752)</b>	23,434
<b>Total comprehensive (expenditure)/income for the year ended 31 March</b>		<b>(247,752)</b>	23,434

ALL INCOME AND EXPENDITURE DISCLOSED ABOVE RELATES TO CONTINUING ACTIVITIES. THE NOTES ON PAGES 139 TO 162 FORM PART OF THESE ACCOUNTS.

## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

	NOTE	31 MARCH 2018 £000s	31 MARCH 2017 £000s
<b>CURRENT ASSETS</b>			
Trade and other receivables	9	<b>12</b>	214
Investments: balance in the National Lottery Distribution Fund	2	<b>298,105</b>	314,514
Cash and cash equivalents	14	<b>6,671</b>	2,630
<b>Total current assets</b>		<b>304,788</b>	317,358
<b>Current liabilities</b>			
Grant liabilities due within one year	10	<b>232,869</b>	215,646
Trade and other payables	11	<b>101</b>	123
Due to Grant-in-Aid accounts		<b>2,068</b>	3,326
<b>Total current liabilities</b>		<b>235,038</b>	219,095
<b>Net current assets</b>		<b>69,750</b>	98,263
<b>Non-current liabilities</b>			
Grant liabilities due in more than one year	10	<b>283,557</b>	64,318
<b>Net (liabilities)/assets</b>		<b>(213,807)</b>	33,945
<b>EQUITY</b>			
General reserve		<b>(215,924)</b>	31,828
Fair value reserve		<b>2,117</b>	2,117
		<b>(213,807)</b>	33,945

THE NOTES ON PAGES 139 TO 162 FORM PART OF THESE ACCOUNTS.

**Darren Henley OBE**  
Chief Executive

2 JULY 2018

**Sir Nicholas Serota CH**  
Chair

2 JULY 2018

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2018

	NOTE	2017/18 £000s	2016/17 £000s
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Funds received from the National Lottery Distribution Fund	2	<b>245,261</b>	247,987
Other cash receipts		<b>1,211</b>	790
Grants paid	10	<b>(224,460)</b>	(233,670)
Cash paid to Grant-in-Aid accounts		<b>(17,955)</b>	(17,513)
Other cash payments		<b>(24)</b>	(54)
<b>Net cash inflow/(outflow) from operating activities</b>	12	<b>4,033</b>	(2,460)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		<b>8</b>	9
<b>Net cash inflow from investing activities</b>		<b>8</b>	9
<b>Net increase/(decrease) in cash and cash equivalents</b>	13/14	<b>4,041</b>	(2,451)
<b>Cash and cash equivalents at beginning of period</b>		<b>2,630</b>	5,081
<b>Cash and cash equivalents at end of period</b>		<b>6,671</b>	2,630

THE NOTES ON PAGES 139 TO 162 FORM PART OF THESE ACCOUNTS.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2018

	GENERAL RESERVE 2017/18 £000s	FAIR VALUE RESERVE 2017/18 £000s	TOTAL RESERVES 2017/18 £000s	TOTAL RESERVES 2016/17 £000s
Closing reserve position 31 March	31,828	2,117	<b>33,945</b>	10,511
Transferred (to)/from the statement of comprehensive net expenditure	(247,752)	0	<b>(247,752)</b>	23,434
Closing reserve position 31 March	(215,924)	2,117	<b>(213,807)</b>	33,945

THE NOTES ON PAGES 139 TO 162 FORM PART OF THESE ACCOUNTS.

## NOTES TO THE LOTTERY DISTRIBUTION ACCOUNTS

### 1. ACCOUNTING POLICIES

We have prepared these accounts in accordance with the National Lottery etc Act 1993 (as amended) and directions issued thereunder by the Secretary of State for Digital, Culture, Media and Sport with the consent of HM Treasury and the 2017/18 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate for the particular circumstances of the Arts Council Lottery distribution accounts for the purpose of giving a true and fair view, has been selected. The particular policies adopted by the Arts Council Lottery distribution accounts are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

The accounts are prepared on a going concern basis. Last year the Statement of Financial Position showed a surplus of £34 million. This year the position has moved to a deficit of £214 million. The reason for this is that, unlike Grant-in-Aid, the full amount of Lottery grant commitments are shown in the accounts in the year when the commitment is made. In 2017/18 we entered into our new four-year investment round, which means those National Portfolio Organisations which were being funded through the Lottery distribution accounts are showing the full four-year commitment in 2017/18 of £464 million, for activity and payments which will take place over the period 2018-22. The surplus from last year has moved to a deficit this year; however this deficit will gradually decrease over the next three years as we make payments against these grants from income in those years. The

grant commitments have been entered into after consideration of the cash requirements of grant recipients and after taking account of income projections provided by the Department for Digital, Culture, Media and Sport.

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. Full consolidated accounts have not been prepared.

### 1b. RECOGNITION OF INCOME AND EXPENDITURE

All income and expenditure are accounted for on a receivable and payable basis. Grant 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.

### 1c. NATIONAL LOTTERY DISTRIBUTION FUND

Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Digital, Culture, 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 Digital, Culture, Media and Sport as being available for distribution by Arts Council England for current and future commitments.

### 1d. TAXATION

Arts Council England, as a registered charity (1036733), is considered to pass the tests set out in paragraph 1, schedule 6 of the 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 of the 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.

#### 1e. 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.

The Arts Council Retirement Plan is a multi-employer scheme and we cannot identify our share of the underlying assets and liabilities. We have therefore accounted for this scheme as if it were a defined contribution scheme, in accordance with FRS102, with the costs of the scheme being charged to the statement of financial activities. The West Yorkshire Pension Fund is also a multi-employer scheme, but, as a local government pension scheme, we are able to identify our share of the underlying assets and liabilities and have therefore accounted for this scheme in line with FRS102.

All pensions adjustments are charged through the Grant-in-Aid accounts and recharged to the Lottery distribution accounts.

The law on workplace pensions has changed and every employer must automatically enrol its staff onto a workplace pension scheme. In order to meet these requirements, we now also provide a defined contribution scheme for staff who are automatically enrolled (via the People's Pension).

#### 1f. 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 FRS102 and the Charity SORP, 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.

#### 1g. FINANCIAL INSTRUMENTS

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

#### 1h. POLICY ON RESERVES

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

#### 1i. STATEMENT OF FINANCIAL POSITION

The statement of financial position reports the revaluation reserve on the National Lottery Distribution Fund balance as a fair value reserve.

#### 1j. ADOPTION OF INTERNATIONAL REPORTING STANDARDS

Arts Council England has been required to present the Lottery distribution accounts under International Financial Reporting Standards (IFRS) since 2009/10.

Two new accounting standards have been issued but are not yet effective. These are

- (i) IFRS9 *Financial instruments*
- (ii) IFRS15 *Revenue from contracts with customers*

These standards will not have a material impact on our accounts.

## 2. NATIONAL LOTTERY DISTRIBUTION FUND

	2017/2018 £000s	2016/2017 £000s
Balance at 1 April	<b>314,514</b>	334,285
Share of proceeds from the National Lottery Distribution Fund	<b>228,192</b>	227,475
Investment returns on the Distribution Fund	<b>660</b>	741
Cash drawn down	<b>(245,261)</b>	(247,987)
<b>Balance at 31 March</b>	<b>298,105</b>	314,514

THE BALANCE IN THE NATIONAL LOTTERY DISTRIBUTION FUND AT 31 MARCH 2018 IS BASED ON THE INTERIM CERTIFICATE ISSUED BY DCMS.

## 3. OTHER INCOME

GRANTS AND SPONSORSHIP RECEIVED	2017/2018 £000s	2016/2017 £000s
Other central government bodies	<b>518</b>	514
Public corporations	<b>200</b>	200
Sundry	<b>289</b>	254
	<b>1,007</b>	968

Grants, sponsorship and donations are analysed as follows:

	2017/2018 £000s	2016/2017 £000s
<b>OTHER CENTRAL GOVERNMENT BODIES</b>		
Arts Council of Northern Ireland	<b>100</b>	150
Arts Council of Wales	<b>150</b>	150
Creative Scotland	<b>175</b>	175
Home Office	<b>66</b>	39
Heritage Lottery Fund	<b>25</b>	0
HM Courts and Tribunals Service	<b>2</b>	0
<b>PUBLIC CORPORATIONS</b>		
British Council	<b>200</b>	200
	<b>718</b>	714

#### 4. STAFF COSTS

No operating costs are directly charged to the Lottery accounts; all costs are initially charged to Grant-in-Aid and then recharged to Lottery based on the amount of time spent on Lottery-related activities. These are disclosed in Note 6 below.

#### 5. PENSIONS

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

All transactions generated as a result of the FRS102 report are charged initially to the Grant-in-Aid accounts. The costs are then recharged across to the Lottery accounts in the same ratio as other salary costs. This ensures that both Grant-in-Aid and Lottery are correctly charged with their proportion of the overall pension charges. However the assets and liabilities of the West Yorkshire Pension Fund are shown only in the Grant-in-Aid accounts.

#### WEST YORKSHIRE PENSION FUND

We are an admitted member of the West Yorkshire Pension Fund. This fund provides

pensions to over 268,000 members in 383 mainly local government organisations. The actuaries of the fund are Aon Hewitt. In the year ending 31 March 2018, nine Arts Council staff participated in the scheme. The scheme is a defined benefit scheme and is accounted for in accordance with Charities SORP (FRS102).

The disclosures below relate to the funded liabilities within the West Yorkshire Pension Fund (the 'Fund') which is part of the Local Government Pension Scheme (the 'LGPS'). The funded nature of the LGPS requires The Arts Council of England and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension's liabilities with investment assets.

#### Assumptions

The latest actuarial valuation of The Arts Council of England's liabilities took place as at 31 March 2016. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the roll-forward approach. The principal assumptions used by the actuary in updating the latest valuation of the Fund for FRS 102 purposes were:

PRINCIPAL FINANCIAL ASSUMPTIONS	31 MARCH 2018	31 MARCH 2017	31 MARCH 2016
Discount rate	<b>2.6%</b>	2.5%	3.4%
RPI inflation	<b>3.2%</b>	3.1%	2.9%
CPI inflation	<b>2.1%</b>	2.0%	1.8%
Rate of increase to pensions in payment	<b>2.1%</b>	2.0%	1.8%
Rate of increase to deferred pensions	<b>2.1%</b>	2.0%	1.8%
Rate of general increase in salaries	<b>3.35%</b>	3.25%	3.3%

## ASSET ALLOCATION

	VALUE AT 31 MARCH 2018 %	VALUE AT 31 MARCH 2017 %
Equities	<b>77.3%</b>	77.2%
Property	<b>4.5%</b>	4.3%
Government bonds	<b>9.4%</b>	10.1%
Corporate bonds	<b>3.7%</b>	3.9%
Cash	<b>1.8%</b>	1.2%
Other	<b>3.3%</b>	3.3%
<b>Total</b>	<b>100%</b>	100%

## RECONCILIATION OF FUNDED STATUS TO BALANCE SHEET

	VALUE AS AT 31 MARCH 2018 £millions	VALUE AS AT 31 MARCH 2017 £millions	VALUE AS AT 31 MARCH 2016 £millions
Fair value of assets	<b>38.801</b>	36.000	30.126
Present value of funded liabilities	<b>41.531</b>	41.137	35.740
<b>Pension liability recognised on the balance sheet</b>	<b>(2.730)</b>	(5.137)	(5.614)

## AMOUNTS RECOGNISED IN INCOME STATEMENT

	PERIOD ENDING 31 MARCH 2018 £millions	PERIOD ENDING 31 MARCH 2017 £millions
<b>OPERATING COST:</b>		
Current service cost	0.112	0.095
<b>FINANCING COST:</b>		
Interest on net defined benefit liability/(asset)	0.127	0.185
<b>Pension expense recognised in other comprehensive income</b>	<b>0.239</b>	0.280

## AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME

	PERIOD ENDING 31 MARCH 2018 £millions	PERIOD ENDING 31 MARCH 2017 £millions
Asset gains/(losses) arising during the period	1.093	4.586
Liability gains/(losses) arising during the period	(0.328)	(5.081)
<b>Total amount recognised in other comprehensive income</b>	<b>0.765</b>	<b>(0.495)</b>

## CHANGES TO THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION DURING THE ACCOUNTING PERIOD

	PERIOD ENDING 31 MARCH 2018 £millions	PERIOD ENDING 31 MARCH 2017 £millions
Opening defined benefit obligation	41.137	35.740
Current service cost	0.112	0.095
Interest expense on defined benefit obligation	1.015	1.199
Contributions by participants	0.025	0.029
Actuarial (gains)/losses on liabilities	0.328	5.081
Net benefits paid out	(1.086)	(1.007)
<b>Closing defined benefit obligation</b>	<b>41.531</b>	<b>41.137</b>

## CHANGES TO THE FAIR VALUE OF ASSETS DURING THE ACCOUNTING PERIOD

	PERIOD ENDING 31 MARCH 2018 £millions	PERIOD ENDING 31 MARCH 2017 £millions
Opening fair value of assets	36.000	30.126
Interest income on assets	0.888	1.014
Remeasurement gains/(losses) on assets	1.093	4.586
Contributions by the employer	0.098	1.252
Contributions by participants	0.025	0.029
Net benefits paid out*	(1.086)	(1.007)
Net increase in assets from disposals/acquisitions**	1.783	
<b>Closing fair value of assets</b>	<b>38.801</b>	<b>36.000</b>

\*CONSISTS OF NET BENEFITS CASH-FLOW OUT OF THE FUND IN RESPECT OF THE EMPLOYER, INCLUDING AN APPROXIMATE ALLOWANCE FOR THE EXPECTED COST OF DEATH IN SERVICE LUMP SUMS.

\*\*CONSISTS OF PAYMENT OF £1.783 MILLION FROM GREATER MANCHESTER PENSION FUND IN RESPECT OF THE BULK TRANSFER OF STAFF FROM THE FORMER REGIONAL ARTS BOARDS.

## ACTUAL RETURN ON ASSETS

	PERIOD ENDING 31 MARCH 2018 £millions	PERIOD ENDING 31 MARCH 2017 £millions
Interest income of assets	<b>0.888</b>	1.014
Gain/(loss) on assets	<b>1.093</b>	4.586
<b>Total amount recognised in other comprehensive income</b>	<b>1.981</b>	5.600

The 2016 valuation results included the transferred liabilities for 49 active members who transferred from the former arts boards but made no allowance for any bulk transfer payments to or from Surrey (11 members) or Staffordshire (13 members) Pension Funds. With respect to the 25 members who transferred from Greater Manchester an interim payment of £1,000,000 was paid by Greater Manchester Pension Fund to West Yorkshire Pension Fund in October 2014 and a final payment of £1,783,000 was received on 28 March 2018. These payments have been included in the above calculations.

How the transfer payments should be calculated is still under discussion between those funds where payments are still

outstanding: the West Yorkshire Pension Fund and Arts Council England. The actuary has made no allowance for any transfer payments in our disclosures. We have, however, made allowance for the bulk transfers in relation to the other 131 members who transferred from the former arts boards at the same time.

Amounts due to the fund at 31 March 2018 were £nil (31 March 2017: £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, the deferred and pensioner members remained with their legacy pension provider as detailed below:

East England Arts	Cambridgeshire Council
East Midlands Arts	Nottingham Council
Northern Arts	Tyne & Wear 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 did not believe it was responsible for meeting any further liabilities relating to regional arts board employees in respect of these funds following lump sum payments to four schemes. However, two funds have indicated previously that liabilities exist in respect of the deferred pensioner members that they retained within their respective funds. No provision has been made in these accounts.

#### 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, Tŷ Cerdd – Music Centre Wales 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 Charities SORP (FRS102). The actuaries of the fund are Hymans Robertson.

The scheme is financed by payments made by Arts Council England and employees, together with those by the other employers and their employees, into a trustee-administered fund independent of Arts Council England's finances. These contributions are invested by leading fund management companies. The net market value of the scheme's assets at 31 March 2018 was £165 million (2017: £158.5 million).

An actuarial valuation of the pension fund takes place at least every three years. At the last valuation on 31 March 2016, the actuarial value of the assets using the projected unit method was sufficient to cover 84 per cent of the value accrued to members, a deficit of £25,500,000. On the advice of the actuary, with effect from 1 April 2017, we are paying employer's contributions of 21.8 per cent of pensionable salary for Arts Council England employees and 26.4 per cent of pensionable salary for employees who transferred to Arts Council England from Museums, Libraries and Archives. No further contributions are due from Arts Council England in respect of its share of the funding deficit.

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

Consumer prices inflation rate	Bank of England RPI curve, less 1% pa
Long term rate of pay increases	Bank of England RPI curve
Short term rate of pay increases	1.5% pa
Rate of pension increases	In line with consumer prices inflation
Discount rate	Bank of England gilt yield curve, plus 1.2% pa

FRS102 requires that any agreed pension deficit repayment plan be recognised as a liability within the accounts. Arts Council England made two lump sum payments as part of the 31 March 2016 valuation which were sufficient to reduce its future share of deficit payments under the agreed recovery plan to zero. As such there is no outstanding liability to recognise.

Arts Council England is a participating employer in the Arts Council Retirement Plan (1994) together with five other separate organisations. There is no legal separation of the plan's assets or liabilities and as such there is a certain amount of inevitable cross subsidy between participating employers depending on the experience of their own members. Under the plan's rules there is also no requirement or discretion to segregate the assets of the

scheme in the event of the cessation of a participating employer. As such it is a 'last man standing' arrangement and the remaining employers would become liable for meeting the pension obligations of other participating employers who cease participation.

Amounts due to the fund at 31 March 2018 were £nil (31 March 2017: £281,124).

The Arts Council Retirement Plan and the People's Pension are both treated as defined contribution schemes for the purposes of the accounts. Payments to both schemes are charged to the I&E account as and when they fall due. Employers contributions into the Arts Council Retirement Plan during 2017/18 were £3,169,016 (2016/17: £2,321,916) and employer contributions to the People's Pension were £70,816 (2016/17: £63,909).

## 6. COSTS APPORTIONED FROM ARTS COUNCIL ENGLAND GRANT-IN-AID ACCOUNTS

	2017/2018 £000s	2016/2017 £000s
Staff costs	<b>11,121</b>	12,846
Indirect staff costs	<b>350</b>	293
Premises	<b>1,161</b>	1,157
Supplies and services	<b>2,085</b>	1,878
Travel and subsistence	<b>789</b>	762
Professional fees	<b>691</b>	680
Central costs	<b>121</b>	186
Other recharges – contribution to depreciation	<b>379</b>	512
	<b>16,697</b>	18,314
Corporate governance costs included above	<b>489</b>	482

## 7. INCREASE/DECREASE IN LOTTERY FUNDS

	2017/2018 £000s	2016/2017 £000s
Stated after charging:		
(a) Auditors' remuneration	<b>58</b>	58
(b) Staff travel, subsistence and hospitality	<b>789</b>	762

The statutory audit fee for 2017/18 is £58,250 (2016/17: £58,250). There were no fees payable to the auditors for non-audit services.

## 8. NON-CURRENT ASSETS

Lottery accounts are charged their share of the depreciation of assets employed across all Arts Council activities. All tangible fixed assets are recognised on the Grant-in-Aid balance sheet and it is not possible to allocate them across accounts.

## 9. RECEIVABLES

	31 MARCH 2018 £000s	31 MARCH 2017 £000s
Prepayments and accrued income	<b>0</b>	200
Other receivables	<b>12</b>	63
Provision for doubtful debts	<b>0</b>	(49)
	<b>12</b>	214

## 10. GRANT COMMITMENTS

Prior to 2014/15, commitments accounted for were limited to those where there had been written acceptance from the grant recipient.

In line with the 2014/15 Lottery Directions, issued by the Secretary of State, commitments are now accounted for when the decision to award grants had been made and communicated to the grant recipient.

	31 MARCH 2018 £000s	31 MARCH 2017 £000s
Grant liabilities brought forward	<b>279,964</b>	326,189
Grant commitments made	<b>464,805</b>	195,938
Less: lapsed and revoked commitments	<b>(3,883)</b>	(8,493)
Grant liabilities paid	<b>(224,460)</b>	(233,670)
<b>Balance of grant liabilities outstanding carried forward</b>	<b>516,426</b>	279,964

AGEING OF GRANT LIABILITIES:	31 MARCH 2018 £000s	31 MARCH 2017 £000s
2017/18	<b>N/A</b>	215,646
2018/19	<b>232,869</b>	45,260
2019/20	<b>118,562</b>	16,639
2020/21	<b>86,436</b>	2,064
2021/22	<b>77,346</b>	355
2022/23	<b>1,213</b>	0
	<b>516,426</b>	279,964

## 11. CURRENT LIABILITIES

	31 MARCH 2018 £000s	31 MARCH 2017 £000s
Trade payables	<b>101</b>	123
	<b>101</b>	123

## 12. CASH FLOW RECONCILIATION

RECONCILIATION OF OPERATING SURPLUS/(DEFICIT) TO NET CASH FLOW FROM OPERATING ACTIVITIES	2017/2018 £000s	2016/2017 £000s
Operating surplus/(deficit)	<b>(247,752)</b>	23,434
Interest receivable	<b>(8)</b>	(9)
(Increase)/decrease in receivables and prepayments	<b>16,611</b>	19,593
Increase/(decrease) in payables	<b>235,182</b>	(45,478)
<b>Net cash inflow/(outflow)</b>	<b>4,033</b>	(2,460)

## 13. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN FUNDS

RECONCILIATION OF OPERATING SURPLUS/(DEFICIT) TO NET CASH FLOW FROM OPERATING ACTIVITIES	2017/2018 £000s	2016/2017 £000s
Increase/(decrease) in cash and cash equivalents in the year	<b>4,041</b>	(2,451)
Funds at 1 April	<b>2,630</b>	5,081
Funds at 31 March	<b>6,671</b>	2,630

## 14. CASH AND CASH EQUIVALENTS

RECONCILIATION OF OPERATING SURPLUS/(DEFICIT) TO NET CASH FLOW FROM OPERATING ACTIVITIES	1 APRIL 2017 £000s	CASH FLOW £000s	31 MARCH 2018 £000s
Cash and cash equivalents	2,630	4,041	<b>6,671</b>
	2,630	4,041	<b>6,671</b>

## 15. LEASES

There were no commitments under non-cancellable operating leases at 31 March 2018 (31 March 2017: £nil).

## 16. CAPITAL COMMITMENTS

There were no contracted capital commitments as at 31 March 2018 (31 March 2017: £nil).

## 17. CHARGES ON ASSETS

Since April 2012, the standard conditions for capital grants for building projects of £500,000 or more give Arts Council England the option to take security on assets.

## 18. RECONCILIATION OF TRANSACTIONS WITH DELEGATE BODY

### 18a. NATIONAL FOUNDATION FOR 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:

TRANSACTIONS IN ARTS COUNCIL ENGLAND ACCOUNTS:	2017/2018 £000s	2016/2017 £000s
Grant commitments in the year	0	19,302
NFYM payables balance as at 31 March	2,413	12,064
THIS RECONCILES TO NFYM'S ACCOUNTS FOR THE YEAR ENDED 31 MARCH AS FOLLOWS:		
Balance at 1 April	1,337	1,497
INCOMING FUNDS:		
Arts Council England grant	9,651	9,651
other funds	690	602
OUTGOING FUNDS:		
grant expenditure	(8,954)	(9,144)
other expenditure	(1,385)	(1,269)
<b>Balance at 31 March</b>	<b>1,339</b>	<b>1,337</b>
Arts Council England receivables balance as at 31 March	2,413	2,413

The difference of £9,651,000 in 2016/17 between the Arts Council payables and NFYM receivables was due to the different accounting treatment of the future years' grant commitments. The 2017/18 figures were unaudited at the date of signing these accounts. The 2016/17 figures have been adjusted to reflect the audited accounts.

**18b. NATIONAL SKILLS ACADEMY**

The National Skills Academy 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 the National Skills Academy as follows:

TRANSACTIONS IN ARTS COUNCIL ENGLAND ACCOUNTS:	2017/2018 £000s	2016/2017 £000s
Grant commitments in the year	0	0
National Skills Academy payables balance as at 31 March	0	0

This reconciles to the National Skills Academy's accounts for the year ended 31 March as follows:

TRANSACTIONS IN ARTS COUNCIL ENGLAND ACCOUNTS:	2017/2018 £000s	2016/2017 £000s
Balance at 1 April	1,944	5,989
<b>INCOMING FUNDS:</b>		
Arts Council England grant	0	0
other funds	0	0
<b>OUTGOING FUNDS:</b>		
grant expenditure	(50)	(279)
other expenditure	(1,894)	(3,766)
<b>Balance at 31 March</b>	<b>0</b>	<b>1,944</b>
Arts Council England receivables balance as at 31 March	0	0

The 2017/18 figures were unaudited at the date of signing these accounts. The 2016/17 figures have been adjusted to reflect the audited accounts.

### 18c. PERFORMING RIGHTS SOCIETY FOR MUSIC FOUNDATION

The Performing Rights Society for Music Foundation (PRSMF) 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 the PRSMF as follows:

TRANSACTIONS IN ARTS COUNCIL ENGLAND ACCOUNTS:	2017/2018 £000s	2016/2017 £000s
Grant commitments in the year – Grant-in-Aid	0	0
Grant commitments in the year – Lottery	0	1000
PRSMF payables balance as at 31 March – Grant-in-Aid	1	1
PRSMF payables balance as at 31 March – Lottery	125	625

This reconciles to the PRSMF accounts for the year ended 31 March as follows:

	GRANT-IN-AID 2017/18 £000s	LOTTERY 2017/18 £000s	GRANT-IN-AID 2016/17 £000s	LOTTERY 2016/17 £000s
Balance at 1 April	0	(125)	0	0
<b>INCOMING FUNDS:</b>				
Arts Council England grant	0	500	0	375
other funds	0	385	0	235
<b>OUTGOING FUNDS:</b>				
grant expenditure	0	(776)	0	(657)
other expenditure	0	(109)	0	(78)
<b>Balance at 31 March</b>	<b>0</b>	<b>(125)</b>	<b>0</b>	<b>(125)</b>
Arts Council England receivables balance as at 31 March	1	125	1	125

The difference of £500,000 in 2016/17 between the Arts Council payables and PRSMF receivables was due to the different accounting treatment of the future years' grant commitments. The 2017/18 figures were unaudited at the date of signing these accounts.

## 19. 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 2017 the fund balance was £315 million. This had decreased to £298 million by 31 March 2018, at which point there were £516 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 provided by the Department for Digital, Culture, Media and Sport. This means that the Arts Council is exposed to little immediate credit, liquidity or market risk.

### 19a. LIQUIDITY RISK

In 2017/18, 99.56 per cent of Arts Council England's income derived from the National Lottery and the investment returns from the balances held with the National Lottery Distribution Fund.

£000s	
At the balance sheet date, Arts Council England had net assets of:	(213,807)

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 of £233 million over the next financial year.

£000s	
<b>LIQUID ASSETS AS AT 31 MARCH 2018:</b>	
Market value of National Lottery Distribution Fund investments	298,105
Cash and cash equivalents	6,671

**19b. 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 £298,105,141.

In the year, the average return on these investments was 0.35 per cent (2016/17: 0.35 per cent).

	FUND BALANCE £000s	INVESTMENT RETURN £000s	AVERAGE RETURN	PROPORTION OF TOTAL INCOME
2017/18	298,105	660	0.35%	0.29%
2016/17	314,514	741	0.34%	0.32%
2015/16	334,285	1,095	0.50%	0.41%
2014/15	325,697	1,101	0.50%	0.40%
2013/14	286,613	1,083	0.50%	0.47%
2012/13	282,192	1,445	0.78%	0.53%
2011/12	194,490	1,515	2.26%	0.71%
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%

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 per cent below base rate during the year.

The cash balance at the year end was £6,671,098.

**19c. FOREIGN CURRENCY RISK**

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

**19d. FINANCIAL ASSETS BY CATEGORY**

TRANSACTIONS IN ARTS COUNCIL ENGLAND ACCOUNTS:	2017/2018 £000s	2016/2017 £000s
<b>RECEIVABLES DUE WITHIN ONE YEAR</b>		
Accrued income	0	200
Other receivables	12	14
	<b>12</b>	214
<b>INVESTMENTS</b>		
National Lottery Distribution Fund	<b>298,105</b>	314,514
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents	<b>6,671</b>	2,630
<b>Total financial assets</b>	<b>304,788</b>	317,358

In our view the book value of the assets is the same as the fair value.

**19e. FINANCIAL LIABILITIES BY CATEGORY**

	2017/2018 £000s	2016/2017 £000s
Trade payables	101	123
Due to Arts Council Grant-in-Aid accounts	<b>2,068</b>	3,326
Grant payables falling due within one year	<b>232,869</b>	215,646
Grant payables falling due over one year	<b>283,557</b>	64,318
<b>Total financial liabilities</b>	<b>518,595</b>	283,413

Included within the financial liabilities are amounts such as grants outstanding and deferred income. Whilst these liabilities are not contractual they have been disclosed above in the interests of completeness.

**20a. 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 along with amounts awarded for the year ended 31 March 2018 are detailed below.

COUNCIL MEMBER	GRANT FOR THE YEAR ENDED 31 MARCH 2018 £000s	BALANCE UNPAID AS AT 31 MARCH 2018 £000s	ORGANISATION	RELATIONSHIP TYPE
<b>Sir Nicholas Serota CH</b>	0	175	Cornubian Arts and Science Trust	Partner is Chair
	1,800	1,874	Kneehigh Theatre Trust Ltd	Partner is a Board Member
<b>Maria Balshaw CBE</b>	131	151	Manchester City Council	Director of Culture at Manchester City Council (until 31 May 2017)
	0	4,840	Hallé Concerts Society	Board Member (until 28 April 2017)
	60	60	Manchester City Galleries	Director of Manchester City Galleries, linked to MCC (until 31 May 2017)
<b>Veronica Wadley</b>	45	18	Greater London Authority	Senior Advisor to the Mayor, Member of Music Education Steering Group (until 5 May 2016)
	0	20	Royal College of Music	Board Member
	129	64	Thames Festival Trust	Employed by GLA which co-funds Festival (until 5 May 2016)
<b>Andrew Miller</b> (from 15 November 2017)	3,000	3,570	The Space CIC	Board Member
<b>Elizabeth Murdoch</b> (from 15 November 2017)	150	123	Nottingham Contemporary	Chair of Freelands Foundation, which funds this organisation
	0	175	Cornubian Arts and Science Trust	Chair of Freelands Foundation, which funds this organisation
	724	544	Turner Contemporary	Chair of Freelands Foundation, which funded this organisation
<b>Paul Roberts OBE</b> (from 15 November 2017)	0	93	Nottingham Music Service	Board Member
	150	123	Nottingham Contemporary	Board Member

COUNCIL MEMBER	GRANT FOR THE YEAR ENDED 31 MARCH 2018 £000s	BALANCE UNPAID AS AT 31 MARCH 2018 £000s	ORGANISATION	RELATIONSHIP TYPE
<b>Professor Roni Brown</b> (from 15 November 2017)	0	22	Artsworld Limited	Board Member (until 31 January 2018)
	15	1	Creative Foundation	Deputy VC of University for the Creative Arts which has a service agreement with organisation
	724	544	Turner Contemporary	Deputy VC of University for the Creative Arts which has a service agreement with organisation
<b>Dame Rosemary Squire</b>	57	222	Rambert Dance Company	Partner is Chair
<b>David Bryan</b> (to 30 September 2017)	2,869	2,869	Oval House	Chair
	0	527	Writers Centre Norwich	Board Member
<b>Sheila Healy</b> (to 30 September 2017)	1,800	1,874	Kneehigh Theatre Trust Ltd	Board Member
<b>Sukhy Johal MBE</b> (to 30 September 2017)	0	148	The New Art Exchange	Chair



The declared interests in grant recipients along with amounts awarded for the year ended 31 March 2017 were as follows:

COUNCIL MEMBER	GRANT FOR THE YEAR ENDED 31 MARCH 2017 £000s	BALANCE UNPAID AS AT 31 MARCH 2017 £000s	ORGANISATION	RELATIONSHIP TYPE
Sir Nicholas Serota CH (from 31 January 2017)	140	453	Kneehigh Theatre Trust Ltd	Partner is a Trustee
	0	425	Cornubian Arts and Science Trust	Partner is Chair
	629	434	Nottingham Contemporary	Partner was Chair
	0	425	Tate Gallery	Director
Maria Balshaw CBE	65	146	Manchester City Council	Director of Manchester City Galleries, linked to MCC
	730	630	The Whitworth Art Gallery	Director
	4,840	4,840	Hallé Concerts Society	Board Member
	0	643	Tate Gallery	Director Designate
	100	40	Manchester City Galleries	Director of Manchester City Galleries, linked to MCC
David Bryan	877	893	Writers' Centre Norwich	Board Member
Sheila Healy	140	453	Kneehigh Theatre Trust Ltd	Board Member
	0	165	Situations	Board Member
Alistair Spalding CBE	0	56	Sadler's Wells Trust Ltd	Chief Executive
Rosemary Squire OBE	166	2,442	Rambert Dance Company	Partner is Chair
Veronica Wadley	39	17	Greater London Authority	Senior Advisor to the Mayor for the team London, Volunteering, Charities and Sponsorship

**20b. 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 declared interests in grant recipients along with amounts awarded for the year ended 31 March 2018 are detailed below.

DIRECTOR OR SENIOR MANAGER	GRANT FOR THE YEAR ENDED 31 MARCH 2018 £000s	BALANCE UNPAID AS AT 31 MARCH 2018 £000s	ORGANISATION	RELATIONSHIP TYPE
Simon Mellor	0	64	Manchester International Festival	MIF was awarded the contract to run 'The Factory' of which he was Project Director from 1 Sep 2015 to 30 April 2016.
	131	151	Manchester City Council	Was seconded to Project Director of 'The Factory' at MCC until 30 April 2016

The declared interests in grant recipients along with amounts awarded for the year ended 31 March 2017 were as follows:

DIRECTOR OR SENIOR MANAGER	GRANT FOR THE YEAR ENDED 31 MARCH 2017 £000s	BALANCE UNPAID AS AT 31 MARCH 2017 £000s	ORGANISATION	RELATIONSHIP TYPE
Mark Ball (left 30 April 2016)	479	854	Birmingham Repertory Theatre Limited	Brother (Steve Ball) is an Associate Director
	0	21	London International Festival of Theatre	CEO and Artistic Director
Darren Henley OBE	39	17	Greater London Authority	Former committee Chair
Peter Knott	134	94	Dance UK	Partner is Chair of 'Young Peoples Panel'
	100	10	Leicester Theatre Trust Ltd	Partner is Head of Learning
Simon Mellor	65	146	Manchester City Council	Seconded to 'The Factory' Project Director at MCC until April 2016

## 20c. OTHER GOVERNMENT BODIES

The Department for Digital, 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, National Skills Academy and the Performing Rights Society for Music Foundation are similarly regarded as related parties by virtue of their funding relationships with the Arts Council. At the year end, Arts Council England had the following balances outstanding with other government bodies:

	PAYABLES 31 MARCH 2018 £000s	RECEIVABLES 31 MARCH 2018 £000s	PAYABLES 31 MARCH 2017 £000s	RECEIVABLES 31 MARCH 2017 £000s
Balances with other DCMS government bodies	<b>2,893</b>	<b>0</b>	6,134	0
Balances with other central government bodies	<b>91</b>	<b>0</b>	5	0
Balances with academies	<b>29</b>	<b>0</b>	22	0
Balances with local authorities	<b>33,804</b>	<b>0</b>	28,797	0
Balances with NHS Trusts	<b>56</b>	<b>0</b>	0	0
Balances with public corporations and trading funds	<b>8</b>	<b>0</b>	0	200

	EXPENDITURE Y/E 31 MARCH 2018 £000s	INCOME Y/E 31 MARCH 2018 £000s	EXPENDITURE Y/E 31 MARCH 2017 £000s	INCOME Y/E 31 MARCH 2017 £000s
Transactions with other DCMS government bodies	44	0	132	0
Transactions with other central government bodies	984	518	880	514
Transactions with academies	64	0	39	0
Transactions with local authorities	17,646	0	18,984	0
Transactions with NHS Trusts	196	0	15	0
Transactions with public corporations and trading funds	79	200	0	200

## 21. CONTINGENT LIABILITY

There were no contingent liabilities as at 31 March 2018.

## 22. CONTINGENT ASSETS

The National Lottery distributors are entitled to receive a share of receipts from the sale of land on Queen Elizabeth Olympic Park in return for their contribution of an additional £675 million to the funding of the London 2012 Olympic and Paralympic Games. This was announced in 2007. The arrangements are set out in a legal agreement between the Secretary of State and the Greater London Authority (GLA) dated 29 March 2012 which sets out the distribution of funds between the GLA and the Lottery distributors (via DCMS). Land sales are likely to take place over a lengthy period, estimated to be from 2016/17 to 2036/37. DCMS estimates the first payments to the Lottery Distributors to come through around 2020/21.

## 23. EVENTS AFTER THE REPORTING PERIOD

In accordance with the requirements of IAS 10 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.

## 24. LOSSES AND SPECIAL PAYMENTS

	2017/2018 £000s	2016/2017 £000s
Total value of losses and special payments	<b>53</b>	15
Total number of losses and special payments	<b>3</b>	2

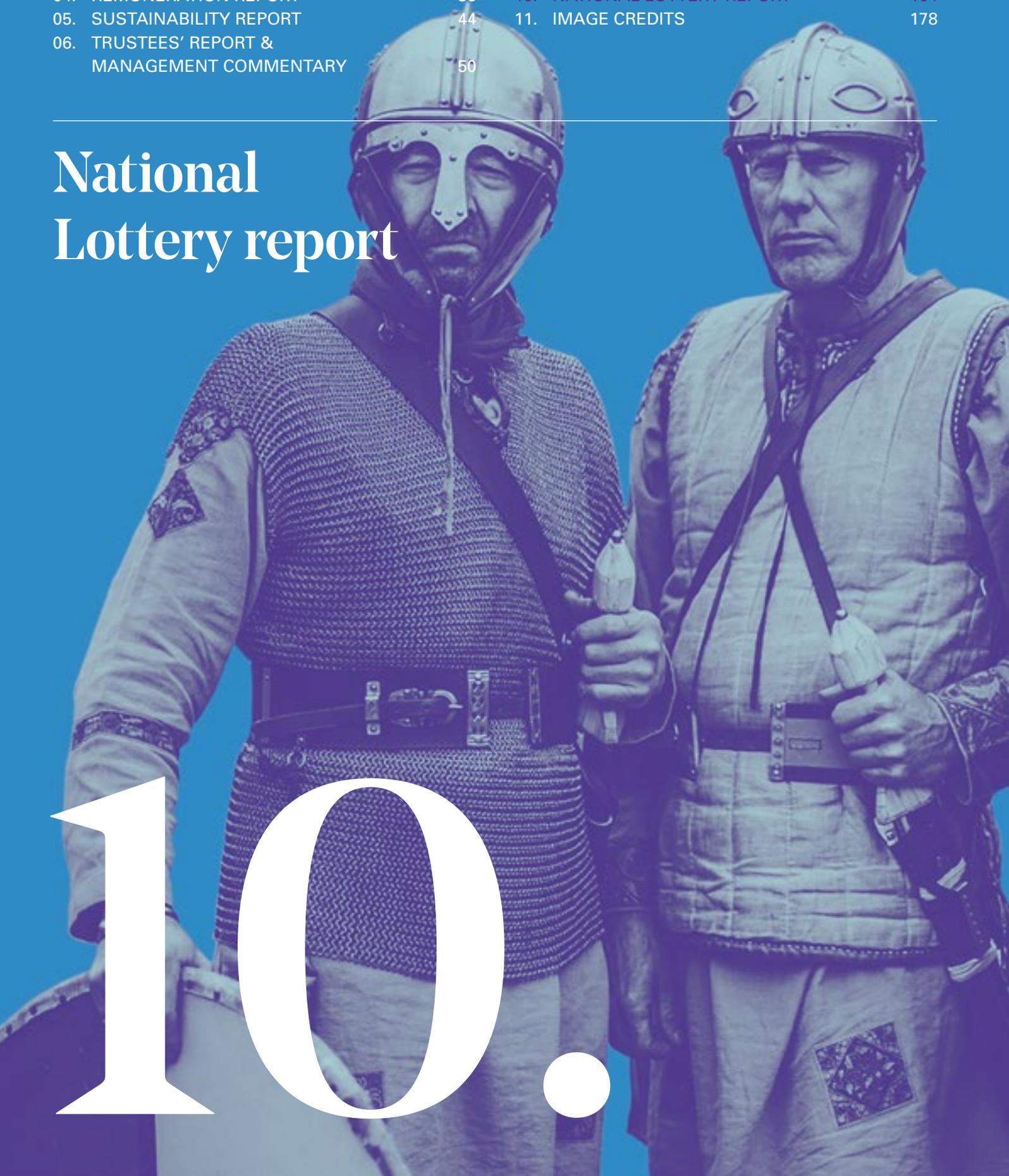
THE THREE LOSSES WHICH OCCURRED DURING THE FINANCIAL YEAR RELATE TO BAD DEBTS WHICH WERE WRITTEN OFF.



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# National Lottery report

# 10





**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. The Policy Directions were updated in October 2016 and 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 10-year strategy for the arts, libraries and museums, *Great Art and Culture for Everyone*, guides all of our investment, development and advocacy work. The strategy has been shaped by the views of artists, arts and cultural organisations, the public and our many other stakeholders and partners.

Since 2009, we have been running a programme of research that explores perceptions of the Arts Council and experiences of working with us among a range of audience and stakeholder groups. In this way, we explore levels of trust and confidence in Arts Council England, as well as perceptions of accountability and attitudes to Lottery funding of the arts. Every year we track our progress against certain issues, as well as any changes in opinions. In 2016/17 we ran two public polls to explore perceptions of arts and culture and research with political stakeholders such as MPs and local councillors. No sector research was commissioned this financial year because extensive sector consultation took place in March 2016 on the 2018-22 investment process, the findings from which have influenced our investment programmes.

The Tailored Review process also involved consultation with the sector.

### **b) Its assessment of the needs of the arts and culture and its priorities for addressing them**

*Great Art and Culture for Everyone* sets out our commitment to our mission and our five goals. It also brings together our responsibilities across the arts and the wider cultural sector. It describes what success looks like, and how we measure progress towards our goals.

With its focus on long-term collaborative action, this strategy directs Arts Council England to work with its partners to bring about positive change throughout the arts, museums and libraries. It helps create the conditions in which great art and culture can be presented and produced, experienced and appreciated by as many people as possible. It enables us to focus our investment where it can achieve the greatest impact. It supports the development of world-class museums and great libraries that engage diverse audiences. It sustains us as we work to maintain and enhance England's status as a leading cultural force in the world.

### **c) The need to increase access and participation for those who do not currently benefit from the artistic and cultural opportunities available in England**

Evidence demonstrates that some communities are engaging very little with the arts. This may be through lack of opportunities to attend and participate or because of barriers like socio-economic factors, physical accessibility, or a limited offer. We believe that everyone has the right to access the arts and we want to transform the opportunities open to people in these places.

Our vision for Creative People and Places is to support the public in shaping local arts provision and, in so doing, increase attendance and participation in excellent art; existing Creative People and Places consortia are working to a 10-year vision to achieve this. New funding available in 2017/18 allowed a selection of the places currently in receipt of Creative People and Places funding to build on achievements



ILLUSTRATION BY NICOLE MOLLETT, PART OF CREATIVE PEOPLE AND PLACES COMMISSION MORE THAN 100 STORIES.

made possible through the current fund and to continue to develop approaches that support learning across the wider arts and culture sector. This will enable new outcomes over and above those supported as part of the original funding. In November 2017, we announced a further three years of investment for six Creative People and Places projects totalling £5,534,483 of investment.

#### **d) The need to inspire children and young people, awakening their interest and involvement in the arts and culture**

One of our goals in *Great Art and Culture for Everyone* outlines our commitment to high quality arts, museums and libraries provision for children and young people. We have a number of Lottery funded programmes that support our priorities around children and young people.

In 2017/18, through our Grants for the Arts programme, we have invested over £21,072,484 into 1,147 projects focused on activities with, for and by children and young people.

These included the following projects:

The community-run Richard Jefferies Museum in Swindon, awarded £55,000 through Grants for the Arts to produce the Arts@Jefferies project, an 18-month arts programme that not only connects new and existing audiences with the museum's collections, but also introduces new audiences to the arts in innovative ways that are relevant to them. This funding is helping the museum to work with community navigators and researchers to reach people who are socially disadvantaged, disabled or otherwise limited in their access to arts activities; and with four Arts Award Advisers at the museum, they are also working to bring arts to new, younger audiences through Arts Awards in schools. As part of this project the museum is supporting Artsmark, delivering high-quality children and family-focused events, and extending its under-fives programme. Funding will also help the museum to develop artists through an Emerging Artists programme that will support them to deliver Arts Award

activity to schools, individuals and home-educated children.

Leeds based professional dancer, De-Napoli Clarke (Napps), received £9,725 through Grants for the Arts to deliver *A Carnival World*, a project designed to bring together Caribbean Carnivals in the East Midlands and Leeds West Indian Carnival. Using carnival dance styles such as Soca, Calypso, Samba and Maracatu, De-Napoli worked with dancers in Nottingham and Leeds to choreograph a high-energy dance collaboration that was performed at the *EMCCAN King and Queen Show* at Nottingham Playhouse and an excerpt at the *Prince and Princess Show* in Leeds. There were two intensive weekend residencies working with 30 dancers aged between 13 and 18 in Leeds and Nottingham, 10 of whom achieved their Arts Award Bronze through the activity. Masterclasses took place in Leicester and Nottingham, with performances at the Leeds West Indian Carnival parade.

Hertfordshire Museums Development were awarded £14,450 through Grants for the Arts towards the Hertfordshire and Bedfordshire Museum Explorer Passport project. The passport is used by local museums to encourage families to visit, and in 2017/18 the grant holders wanted to integrate Arts Award into the scheme at Discover level, enabling the children to benefit from accessible artist workshops and encouraging even more families to discover their museums. This was a cross-county project with 25 partner museums and six arts practitioners based on established partnerships. The aim was to open the doors to high quality art workshops in museums for a broad range of families, while also building links between artists and museums with a view to creating a strong legacy of engaging with Arts Award.

### **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. We have funded a range of projects that have been produced by, for and with communities across the country, presented in spaces from theatres to village halls and shopping centres.

Working in partnership with local community organisations supporting marginalised women, Shakti Women in the Community received £13,500 to deliver a series of 12 participatory workshops for up to 60 under-represented women in Birmingham. The project supported them to realise the artistic force of their own words and to develop their confidence, resilience and voice through poetry, spoken word, script writing and storytelling. Working in collaboration with local, predominantly Black and minority ethnic female artists and performers, the workshops brought women in the community together in an expressive space to develop their voices, speak out and perform together. The project was supported by a participatory blog and culminated in two performances run by the women at a local venue. The participants also produced a self-published anthology of their poems, script and stories, bringing under-represented women's voices to the fore, building a creative community of women writers, and enabling them to share their work with the wider public. The project also brought together an online community of around 500 readers and digital attendees who were able to connect to the project through the blog and by sharing their writings online via the *Womanly Words* anthology.

### **f) The need to support volunteering and participation in the arts and culture and community arts and culture**

We encourage 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.

Qube Arts in Oswestry was awarded £14,922 to build on their strong track record of creating inspiring, challenging and accessible projects, and their successful volunteering programme, in their 2017 project *Made*. With artists as catalysts, *Made* celebrated diversity in the local community using traditional arts techniques and handcrafts from different cultures, particularly the local Polish and Japanese immigrant communities. This project used exhibitions and workshops to promote the shared creative traditions of these cultural groups and to introduce them to new generations. Key to the project's success was working to enhance the professional development of Qube volunteers, strengthening Qube's capacity to support marginalised members of the community. The project commissioned artist tutors to upskill volunteers to support work in the day centres and youth clubs of partner organisations so that they could then pass on that learning through participatory activities, thereby enriching the community through inter-generational shared practices.

### **g) The need to support excellence and skills, and to encourage innovation in artform development, in attracting new audiences, visitors, and participants, and in value creation and business models**

Our Ambition for Excellence programme was aimed at supporting projects that stimulate and support ambition, talent and excellence across the arts sector in England. It supported the creation of work for major national moments that build on the legacy of the London 2012 Cultural Olympiad, and enabled organisations to reach international and national audiences.

In 2017/18, we awarded £12,537,201 to 25 projects, including the following:

Writers' Centre Norwich (WCN) received a grant of £465,000 to deliver *East Out*, an ambitious three-year programme of work that sees WCN explore its role as the National Centre for Writing, bringing together regional, national and international partners to improve the literature sector's ambition and capacity to commission, create and tour excellent

new work, and experiment with new forms of collaboration. WCN aim to challenge the sector through debate, create new audiences through physical and digital partnerships, and support England's best and most diverse artists and practitioners to create international partnerships, find new markets and share best practice.

New Art Exchange (NAE) in Nottingham received £650,000 towards Africa/UK: Transforming Art Ecologies. The project is inspired by the work of renowned British African artist John Akomfrah, who was commissioned as part of the 2014-18 NOW initiative marking the centenary of the First World War, to make a major moving image work of art, *African Soldier*. Between 2017 and 2020 NAE and its partner organisations will develop a significant contemporary arts development programme, geared towards creating and strengthening existing relationships between the Midlands/UK and African arts ecologies. There will be a major significant international commission reaching over 200,000 people, smaller commissions, a major collaborative R&D visit to locations in Africa, and artists and curators from the UK and Africa will engage in a substantial development programme including international conferences and UK residencies.

#### **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 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**

Our capital investment programme is committed to furthering the objectives of sustainable development. We expect organisations applying for capital investment,

as far as possible, to take account of all long-term benefits and costs – environmental, social and economic – and to consider energy efficiency as a priority. Data collected on our behalf by Julie's Bicycle has demonstrated that overall, emissions continue to decrease – for example, energy use emissions decreased by 17 per cent between 2015/16 and 2016/17. It has also been shown that the arts and cultural sector improved energy efficiency, with 9 per cent reduction in energy use during the same period, and that 19 per cent of organisations are on clean energy or green tariffs.

In the year ended 31 March 2018, we made a capital award of £2.5 million to Derby Museums towards the costs of restoring, redeveloping and extending the 3,900m<sup>2</sup> former Derby Silk Mill to create the Museum of Making (MoM) which will reveal the whole building for the first time and re-introduce manufacturing to the site. The MoM will be the first museum in the UK to be co-curated by local people – a process which will design, deliver, and reinvent the museum experience for future generations.

As energy consumption is one of the highest contributors to the carbon footprint of the Silk Mill, sustainability has been a core consideration during design development. The proposed design subsequently includes:

- hydro pumps and photovoltaic renewable energy generation
- consideration of whole-life costs in the selection of materials, plant and equipment
- environmentally sustainable materials/goods with reduced maintenance costs
- sustainable construction practices and waste management
- energy and resource-saving devices such as spray water taps and LED lighting
- natural ventilation and the avoidance of mechanical means wherever possible
- encouraging sustainable transport to the venue by providing bicycle racks

These measures should help to achieve higher sustainability standards than is currently required by legislation as well as a 'very good' BREEAM rating. The carbon footprint calculation will form the basis of an annual plan to monitor and reduce energy consumption once the venue has reopened.

#### **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**

We know that where people live is likely to have a profound impact on the likelihood of them attending or participating in the arts. There are considerable differences in engagement levels for regions, local authority areas and neighbourhoods across England and one of the factors that affect engagement is economic and social deprivation. In 2017/18, 20 per cent of the total value of Lottery grants awarded have been channelled into the 20 most deprived local authorities in England.<sup>1</sup>

The National Rural Touring Forum received £416,855 through Strategic Touring to build on the success of the Rural Touring Dance Initiative to support the rural touring network by curating and supporting three annual programmes of rural touring, taking diverse dance productions to audiences who don't normally receive them. The programme is enabling more people, particularly children and young people, to access dance productions and take part in workshops in rural locations (mainly village halls) across England. The three-year rural touring investment will focus on far reaching engagement with 3,060 participants, and around 13,260 live audiences, including many areas with limited arts engagement (Active People Survey).

#### **k) The need to support the long-term managerial viability and leadership of organisations in the arts**

The focus of our Building Resilience programme is to increase the resilience of up to 100 cultural organisations and to provide models and case studies that can be shared and used more widely to increase resilience across the sector. This programme will support up to four external organisations/consultancies to lead up to four cohorts of organisations exploring and piloting different approaches to long-term sustainability. The themes are:

- diversity and entrepreneurship
- international philanthropy – bringing successful international models of growing philanthropy to England
- change management
- what are you good at – making the most of your intellectual property

The School for Social Entrepreneurs has been awarded £373,313 to deliver a programme to support cultural organisations to build resilience through diversity and entrepreneurship. They will be delivering an action-based learning programme featuring experts and 'witnesses', Action Learning Sets, project visits and tailored consultancy support. Peer learning will allow participants to develop networks and partnerships. They will recruit, support and develop cultural leaders to become innovative entrepreneurs. Diversity will be weaved into the recruitment and selection of participants, the content of the programme, differentiated support for participants, and in how they evaluate progress and outcomes.

<sup>1</sup> BASED ON 2015 IMD RANKING.

### **l) The desirability of working jointly with other organisations, including other distributors**

We recognise that through partnership working and alignment of our activities at local and national level, greater benefits can be realised for the economy, and the effectiveness and impact of our Lottery funded activity can be increased. With our capital investment programme, 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 good causes.

We have also developed close relationships with a number of organisations.

Since the Cultural Destinations Programme began in 2014, 28 grants have been awarded totalling £7,448,921. The overall aim of the programme is to enable arts and culture organisations working in partnership with Destination Organisations and other tourism partners to increase their reach, engagement and resilience, and it was open exclusively to applications from consortiums. This round of the programme had a particular focus on supporting the positioning of culture as a prominent part of the visitor offer by awarding match funding to some projects co-supported through VisitEngland's £40 million Discover England Fund. The complementary Arts Council and VisitEngland funds will enable those funded projects to effect a step change for both culture and tourism in those destinations, repositioning culture as a prominent part of the visitor offer and local economic growth plans. Funded projects had to demonstrate a commitment from public and private sector partners to continue working in partnership to support the growth of the local visitor economy through cultural tourism beyond the life of the project.

### **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.

### **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 use our 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. Applicants are always asked to provide information about the financial viability of their projects (including how they will raise match funding, whether in cash or in kind) and to describe how their projects will be managed (including how they will evaluate their work and learn/share lessons).

Lottery funding is allocated through two main channels:

**1.** Grants for the Arts is our flagship open application programme that provides Lottery funding to individuals and organisations and for national activities. Grants range from £1,000 to £100,000 (although we may fund activities to a higher value in exceptional circumstances, and can cover activities lasting up to three years). 2017/18 was the 14th full year of operation and saw the programme make over 3,860 awards with a total value of £71,061,193.

**2.** Strategic funding is used alongside our National Portfolio investment to target particular challenges, opportunities or gaps in the delivery of those priorities. It is open to any individual, organisation or consortium that meets the eligibility criteria.

Awards 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.

Our Strategic funds are used to target particular challenges, opportunities or funding gaps, creating the environment for further development to take place in the arts and culture sector. Ultimately, they help us meet our mission of 'great art and culture for everyone'. In 2017/18 over 424 awards were made with a total value of over £103,965,000 (including over £39,522,000 invested in 14 Capital projects).

**3.** In 2017/18 £69,105,757 supported some of our National Portfolio Organisations to deliver touring activity and work with, for and by children and young people.

**p) Where capital funding is sought, the need (a) for a clear business plan showing how any running and maintenance costs will be met for a reasonable period, and (b) to ensure that appraisal and management for major projects match the Office of Government Commerce's Gateway Review standards**

All applicants for capital funding must provide a detailed business plan that demonstrates how they will meet ongoing maintenance and running costs for a reasonable period following completion. In the case of major capital projects, we require a four-year business plan that we regularly reassess at key stage reviews. Modelled on the Office of Government Commerce's Gateway Review standards, these reviews allow us and the client to take a more flexible approach to the monitoring and management of risks that may vary during the lifetime of a complex construction or renovation project.

## 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 England, 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 2017/18. A copy of the Statement of Financial Requirements is publicly available.

## LOTTERY ADMINISTRATION COSTS

The Lottery Forum, which is made up of representatives from all of the Lottery distributors, has agreed, in conjunction with DCMS, to publish annually the following information about the costs of administering the distribution of Lottery funds. The actual Lottery administration costs data below shows that the 2015/16 administration costs are nearly £350,000 less than the target and approximately £500,000 less than last year.

### 1. ACTUAL LOTTERY ADMINISTRATION COSTS

	2013/14 £M ACTUAL	2014/15 £M ACTUAL	2015/16 £M ACTUAL	2016/17 £M ACTUAL	2017/18 £M ACTUAL	2017/18 £M TARGET
ACTUAL ADMINISTRATION COSTS*	16.84	17.74	17.25	17.85	16.26	16.94

\* EXCLUDES EXCEPTIONAL ITEMS AND ONE-OFF IT DEVELOPMENT COSTS

## 2. ADJUSTED LOTTERY ADMINISTRATION COSTS

The figures in this table are for illustration only and show administration costs adjusted for inflation, using inflation rates as defined by the Treasury's GDP deflators.

	2013/14 £M ACTUAL	2014/15 £M ACTUAL	2015/16 £M ACTUAL	2016/17 £M ACTUAL	2017/18 £M ACTUAL	2017/18 £M TARGET
ACTUAL ADMINISTRATION COSTS*,**	16.84	17.49	16.89	15.02	15.31	15.95

\* EXCLUDES EXCEPTIONAL ITEMS AND ONE-OFF IT DEVELOPMENT COSTS

\*\* FIGURES HAVE BEEN ADJUSTED FOR INFLATION USING 2013/14 AS THE BASE YEAR

## 3. ACTUAL LOTTERY ADMINISTRATION COSTS AS A PROPORTION OF LOTTERY INCOME

	2013/14 ACTUAL	2014/15 ACTUAL	2015/16 ACTUAL	2016/17 ACTUAL	2017/18 ACTUAL
ACTUAL ADMINISTRATION COSTS AS % OF LOTTERY INCOME*	7.11%	6.51%	6.40%	7.82%	7.07%

\* 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 £15,000:	6 weeks
Applications for funding for £15,001 and above:	12 weeks

Since 2009/10 we have adopted a target of processing 90 per cent of all applications within our stated turnaround times. The thresholds were increased on 1 July 2013 from £10,000 to £15,000.

YEAR		A	B	C
2013/14	Actual*	77.40%	89.00%	86.40%
2013/14	Actual**	99.60%	98.50%	99.40%
2014/15	Actual	99.58%	98.26%	99.32%
<b>2015/16</b>	<b>Actual</b>	99.50%	98.71%	99.37%
<b>2016/17</b>	<b>Actual</b>	99.83%	99.13%	99.73%
<b>2017/18</b>	<b>Actual</b>	95.50%	97.07%	95.74%
<b>2017/18</b>	<b>Target</b>	<b>90%</b>	<b>90%</b>	<b>90%</b>

\* GRANT THRESHOLDS OF £10,000 AND UNDER, AND £10,001 AND OVER

\*\* GRANT THRESHOLDS OF £15,000 AND UNDER, AND £15,001 AND OVER

- A** % of applications for up to £15,000 processed in six weeks or less (£10,000 prior to 1 July 2013)
- B** % of applications for over £15,001 processed in 12 weeks or less (£10,001 prior to 1 July 2013)
- C** Overall % 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.

### POLICY ON ADDITIONALITY

Arts Council England 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 2017/18 was the fourth year covered by our refreshed strategy, *Great Art and Culture for Everyone*, which set out details of our five goals for the arts and culture. Detailed information on our goals can be found on pages 9 to 31. These goals 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.

01. CHAIR'S REPORT	02	07. STRATEGIC REPORT	74
02. CHIEF EXECUTIVE'S REPORT	06	08. GRANT-IN-AID ACCOUNTS	84
03. ACHIEVING GREAT ART AND CULTURE	10	09. LOTTERY DISTRIBUTION ACCOUNTS	130
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05. SUSTAINABILITY REPORT	44	11. IMAGE CREDITS	178
06. TRUSTEES' REPORT & MANAGEMENT COMMENTARY	50		

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# Image credits



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## *In order of appearance*



ARTSMARK SCHOOL.  
PHOTO © KEVIN RICKS



REFLECTING NATURE PRINT  
REFN 07 IMAGE MARK WARE.  
(PAGES 1, 2, 5, 15, 73)



FRIDAY FIRSTS, LIZ AGGISS –  
SLAP AND TICKLE  
PHOTO © SARA TERESA.



PHOTO © SUNDERLAND ECHO.



JURASSIC AMMONITES FROM  
BAVARIA, HOUSED AT LAPWORTH  
MUSEUM OF GEOLOGY  
IMAGE © LAPWORTH MUSEUM  
OF GEOLOGY, UNIVERSITY OF  
BIRMINGHAM. *ICE SCULPTURES*  
BY NÉLE AZEVEDO, PART OF  
THE LAKES ALIVE FESTIVAL IN  
2016, CUMBRIA. PHOTO: STEVE  
EGGLETON.



BLACKHEATH HALLS' YOUTH  
CHOIR PERFORMING CHRISTMAS  
2015. PHOTO © ADAM KANG.



MERCHANT OF VENICE BY STUDIO  
3 ARTS. PHOTO © MARK SEPPE.



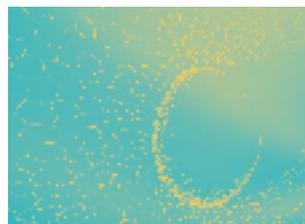
JAMES AND THE GIANT PEACH –  
POLKA THEATRE.  
PHOTO © ROBERT WORKMAN.



ANGELA WYNTER & ECLIPSE  
THEATRE'S – ASHLEY ZHANGAZHA  
IN A RAISIN IN THE SUN  
PHOTO © RICHARD DAVENPORT.



PHOTO © HUGO GLENDENNING.



ALEXANDRA CARR: BODIES OF  
MOVEMENT AT ELY CATHEDRAL  
SCIENCE FESTIVAL, 2017.



TOM THISTLETHWAITE CONCRETE  
FAÇADE DETAIL BRUSSELS,  
BELGIUM. (PAGES 9, 12)



RE:NEW BECOMES STORYHOUSE (MAR 2017 TO MAY 2017). PHOTO © MARK CARLINE.



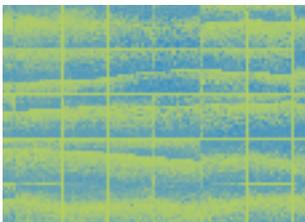
THE MACHINE SHOW FEATURING DANCER RACHEL MAYBANK AT INTERNATIONAL DANCE FESTIVAL BIRMINGHAM 2016. PHOTO © DANEXCHANGE / DANI BOWER PHOTOGRAPHY.



DANCE UMBRELLA 16 PRIMAL MATTER. PHOTO © JULIAN MOMMERT.



KIDS IN MUSEUMS TAKEOVER DAY 2017 AT SOUTH SHIELDS MUSEUM & ART GALLERY (TYNE & WEAR ARCHIVES & MUSEUMS). PHOTO © STEVE BROCK.



COASTAL CURRENTS 2017: REOCCURRING UNDULATION VI, 2017 BY ELPIDA HADZI-VASILEVA. PHOTO © ALEXANDER BRATELL.



EXTRAORDINARY BODIES COME DANCE WITH ME – PERFORMANCE IN DUBLIN IMAGE CREDIT TOM SWIFT.



MILAPFEST. PHOTO © STEPHANIE MARTIN / MILAPFEST.



EXTRAORDINARY BODIES COME DANCE WITH ME – PERFORMANCE IN DUBLIN IMAGE CREDIT TOM SWIFT.



CHILDREN TRYING ON ROMAN UNIFORM FROM ROYAL ALBERT MEMORIAL MUSEUM & ART GALLERY PHOTO © MATT AUSTIN / ROYAL ALBERT MEMORIAL MUSEUM & ART GALLERY.



EUGENE ONEGIN GARSINGTON OPERA 2016 RODERICK WILLIAMS (ONEGIN) OLEKSIY PALCHYKOV (LENSKY) CREDIT MARK DOUET EUGENE ONEGIN AT GARSINGTON OPERA BY PYOTR ILYICH TCHAIKOVSKY. PHOTO © MARK DOUET.



BROKEN TUSK, FESTIVAL OF THE IMAGINEERS, COVENTRY PHOTO © MARCIN SZ. (PAGES 16, 53)



REOPENING OF MANCHESTER CENTRAL LIBRARY, MARCH 22ND 2014. PHOTO © JOEL C. FILDES FOR ARTS COUNCIL ENGLAND.



ARTS COUNCIL ENGLAND  
DIVERSE CITY – EXTRAORDINARY  
BODIES YOUNG ARTISTS (EYBA)  
PERFORMING TOUCH AT U DANCE  
SW REGIONAL, 2015. PHOTO ©  
MY LITTLE EYE PHOTOGRAPHY.



MICHAEL ESSIEN I WANT TO PLAY  
AS YOU, SICK! FESTIVAL  
PHOTO © PAULIEN VERLACKT.



MICHELLE GERENCSE, SOUTH  
SHIELDS. PHOTO © STEPHEN KING.



THE BRITISH PARAORCHESTRA  
AND EXTRAORDINARY BODIES  
PERFORM TERRY RILEY'S IN C  
AT COLSTON HALL, BRISTOL.  
IMAGE © PAUL BLAKEMORE 2016.



DIVERSE CITY – EXTRAORDINARY  
BODIES. PHOTO © CHRIS FRAZER  
SMITH.



DANNY HERO BY MADE IN CORBY.  
IMAGE © ADAM BALCOMB.  
PERMISSIONS OBTAINED.



RAF SIMONS AW 2003  
PHOTO © RAF SIMONS



BALLET BLACK 'TO BEGIN, BEGIN'  
BY CHRISTOPHER MARNEY.  
DANCERS JACOB WYE & SAYAKA  
ICHIKAWA. PHOTO © BILL  
COOPER.



THE EMPATHY MUSEUM/A MILE  
IN MY SHOES. PHOTO © KATE  
RAWORTH.



HOOT, RAJASTHAN HERITAGE  
BRASS BAND, MAY CONTAIN NUTS  
FESTIVAL. PHOTO © JENNI BAKER.



ALEXANDER VANTOURNHOUT  
'ANECKXANDER' AT JACKSONS  
LANE, LONDON INTERNATIONAL  
MIME FESTIVAL  
PHOTO © BART GRIETENS.



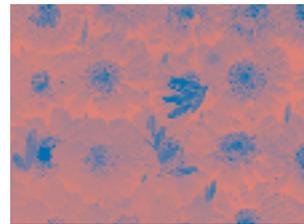
MUSIKO MUSIKA'S ECCO  
CONCERT AT SOUTHBANK  
CENTRE, FEBRUARY 2014.  
PHOTO © HARRIET ARMSTRONG /  
MUSIKO MUSIKA.



ARCHITECTS OF OUR REPUBLIC  
2013 1 APPLES AND SNAKES,  
CREDIT: SUZI CORKER.



HAVELOCK ACADEMY.  
PHOTO © MARK SAVAGE /  
HAVELOCK ACADEMY.



ATTENBOROUGH ARTS CENTRE.  
PLANT CULTURE EXHIBITION.  
PHOTO © DAVID WILSON CLARKE/  
ATTENBOROUGH ARTS CENTRE.  
(PAGES 37, 55, 159)



THE BROKE 'N' BEAT COLLECTIVE  
2016. PHOTO © ROBERT DAY.



YOUNG DIRECTORS COURSE  
PHOTO © WESLEY STOREY.



LIVERPOOL PHILHARMONIC –  
IN HARMONY 7TH BIRTHDAY  
CONCERT. PHOTO © MARK  
MCNULTY – IN HARMONY  
LIVERPOOL.



GRADE II LISTED SCULPTURE  
DONKEY BY WILLI SOUKOP, 1955,  
PITMANS FIELD, MARK HALL  
SOUTH, HARLOW.  
PHOTO © HARLOW MUSEUM.



ICE SCULPTURES BY NÉLE  
AZEVEDO, PART OF THE LAKES  
ALIVE FESTIVAL IN 2016,  
CUMBRIA. PHOTO © STEVE  
EGGLETON.



RAMM, EXETER'S ROYAL ALBERT  
MEMORIAL MUSEUM & ART  
GALLERY, I LOVE HISTORY –  
ANCIENT EGYPTIAN ACTIVITIES  
AT EXETER'S ROYAL ALBERT  
MEMORIAL MUSEUM.  
IMAGE © MATT AUSTIN.



JEMMA CHURCHILL AS  
BARONESS IN CINDERELLA  
AT SALISBURY PLAYHOUSE  
IMAGE © ROBERT WORKMAN,  
SALISBURY PLAYHOUSE.



URBAN DEVELOPMENT: RELOAD  
– INDUSTRY TAKEOVER DAY.  
CREDIT: ALEXIS MARYON



BIRMINGHAM REPERTORY  
THEATRE IN ASSOCIATION WITH  
RAMPS ON THE MOON: DARYL  
JACKSON AND BECKY BARRY IN  
THE GOVERNMENT INSPECTOR @  
THE NEW WOLSEY THEATRE, 2016  
PHOTO CREDIT ROBERT DAY  
BIRMINGHAM REPERTORY  
THEATRE IN ASSOCIATION WITH  
RAMPS ON THE MOON.



CITY OF COLOURS (4). WORK FROM CITY OF COLOURS, A GRANTS FOR THE ARTS SUPPORTED STREET ART FESTIVAL IN BIRMINGHAM. PHOTO © ARTS COUNCIL ENGLAND. (PAGES 47, 128)



BIRMINGHAM ROYAL BALLET'S PRODUCTION OF THE NUTCRACKER. PHOTO © BILL COOPER / BIRMINGHAM ROYAL BALLET.



SONGLINES INSTALLATION BY OPEN CLASP. PHOTO © PHYLLIS CHRISTOPHER / OPEN CLASP THEATRE COMPANY.



NORTHERN BALLET'S SWAN LAKE ANTOINETTE BROOKS-DAW, JENNY HACKWELL, RACHAEL GILLESPIE AND ISABELLE CLOUGH IN SWAN LAKE. PHOTO © EMMA KAULDHAR.



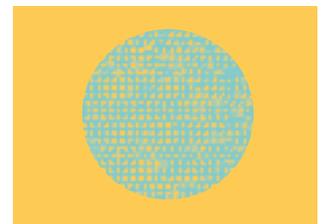
BLAST THEORY'S TOO MUCH INFORMATION AUDIO WALKAROUND PROJECT ON THE STREETS OF MANCHESTER, CREATED IN PARTNERSHIP WITH THE ROYAL EXCHANGE THEATRE PHOTO © RULER – BLAST THEORY.



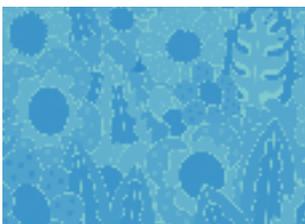
ROSIE KAY DANCE COMPANY – MK ULTRA – PHOTO © BRIAN SLATER (3).



VANESSA BROOKS: A MAN WITH DOWNS SYNDROME TALKS ABOUT LOVE AND TELLS A STORY, PHOTO © VANESSA BROOKS.



WEEK 53, THE LOWRY. PHOTO © NATHAN COX. (PAGES 14, 160)



STILL FROM TOXIC MEGA FADE BY ANDY BAKER AND KYLE PLATTS, PRODUCED IN ASSOCIATION WITH RANDOM ACTS. PHOTO © ANDY BAKER AND KYLE PLATTS / IT'S NICE THAT.



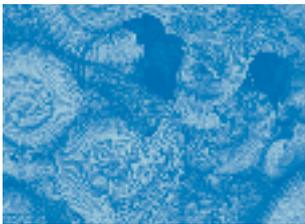
MERRY WIVES. PHOTO © NOBBY CLARK.



SPYMONKEY'S THE COMPLETE DEATHS. PHOTO © JOHN HUNTER PERMISSION OBTAINED.



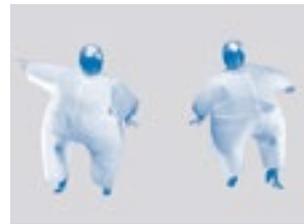
I HATE ALONE, HULL 2017. PHOTO © THOMAS ARRAN.



JURASSIC AMMONITES FROM BAVARIA, HOUSED AT LAPWORTH MUSEUM OF GEOLOGY. IMAGE © LAPWORTH MUSEUM OF GEOLOGY, UNIVERSITY OF BIRMINGHAM.



THE MYSTERIOUS VANISHMENT OF POBBY AND DINGAN' WHICH TOURED TO LIBRARIES AROUND THE WEST OF ENGLAND. PHOTO © CAMILLA ADAMS/FARROW CREATIVES, TRAVELLING LIGHT/LIBRARIES WEST TOUR.



THEATRESTATE: TRIBUTE ACTS TOUR 2016. PHOTO © HELEN MURRAY.



WHERE'S MY IGLOO GONE BY THE BONE ENSEMBLE. IMAGE © PAMELA RAI TH PHOTOGRAPHY.



VANESSA BROOKS: A MAN WITH DOWNS SYNDROME TALKS ABOUT LOVE AND TELLS A STORY, PHOTO © VANESSA BROOKS.



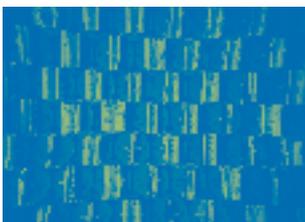
OLDHAM COLISEUM THEATRE, PYGMALION. PHOTO © JOEL CHESTER FILDES.



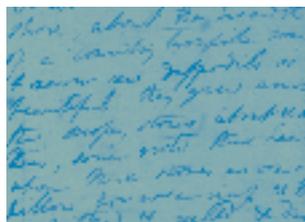
TILTED WORKSHOPS. CREATIVE PEOPLE & PLACES HOUNSLOW, LED BY WATERMANS. PHOTO © ALEX BRENNER.



HELLO FUTURE ME AT CHILDWALL ACADEMY – LIVERPOOL BIENNIAL PHOTO © GARETH JONES.



YOUNG DIRECTORS COURSE PHOTO © WESLEY STOREY.



A PAGE FROM DOROTHY WORDSWORTH'S GRASMERE JOURNAL, ENTRY FROM 15TH APRIL 1802, IN WHICH SHE DESCRIBES SEEING 'DAFFODILS' BY ULLSWATER. IMAGE © WORDSWORTH MUSEUM.



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DERRIN CRAWFORD & DEMI-LEIGH CRUICKSHANK IN 'THE LIVER BIRDS' LOVE MAGAZINE, LIVERPOOL, 2012. PHOTO © ALICE HAWKINS.



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THE BEST THING BY VAMOS MASK THEATRE – DENNIS AND SUSAN – IMAGE © GRAEME BRAIDWOOD



THE BRISTOL WHALES – BRISTOL GREEN CAPITAL 2015. IMAGE © PAUL BOX



## Contact & accessibility

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