



# Group and Lottery Report and Accounts

for the year ended 31 March 2002

**FILM** | COUNCIL



# Foreword to the Group accounts for the year ended 31 March 2002

## INTRODUCTION

The Film Council has been established by the Government as the strategic body responsible for developing the film industry and film culture in the UK. The Film Council has two overarching objectives: to develop a sustainable UK film industry; and to develop film culture in the UK by improving access to, and education about, the moving image.

The creation of the Film Council is a particularly important initiative from both industry and Government viewpoints in that, for the first time, there is one organisation in the UK responsible for encouraging both cultural and commercial film activity.

The Film Council is responsible for all Department for Culture, Media and Sport (DCMS) Grant-in-aid for film (except the National Film and Television School) and it is also designated a Lottery distributor under the National Lottery Acts 1993 and 1998 and is responsible for Lottery funding for film production and development, training and certain other initiatives. The Arts Council of England continues to have responsibility for Lottery funding for film capital projects, stabilisation funding and other schemes. There are also separate Lottery funding functions in Wales, Scotland and Northern Ireland.

The Film Council operates through a Board of Directors, chaired by Sir Alan Parker CBE and was launched in May 2000. The launch document *Towards a Sustainable UK Film Industry* was the first public statement of the Film Council's overall industrial and cultural aims, its objectives and its initial funding programmes.

The Lottery programmes are now well established and comprise three film production funds, launched in October 2000 – the Premiere Fund, New Cinema Fund and Development Fund. The Film Council's Training Fund was launched in April 2001 to

expand training opportunities for scriptwriters, development executives and producer/film-makers. In August 2001, the first awards were made from First Light, a delegated funding scheme through Hi8us FIRST LIGHT, based in Birmingham, to give children and young people the opportunity to experience film-making and explore their talents using low-cost technology.

A Regional Investment Fund for England (RIFE) was launched in June 2001 offering transitional support for the creation of nine Regional Screen Agencies in England. These independent bodies began to operate from April 2002 and up to £6 million a year, including £3 million from Lottery funds, will be available to these agencies to support cultural and industrial film initiatives in the English regions. Film Council co-operation and collaboration on all aspects of film policy with its UK partner organisations; Scottish Screen (for Scotland), Sgrîn Cymru Wales (for Wales) and the Northern Ireland Film and Television Commission has resulted in a joint UK wide strategy, launched at the Edinburgh International Film Festival in August 2002.

As part of the Film Council, the British Film Commission works to encourage overseas filmmakers to locate their production in the UK. The Film Council works closely with the British Council's Film and Television Department on export promotion initiatives and also contributes to the cost of the British Film Office in Los Angeles.

In August 2001, the Film Council established a Research and Statistics Unit to collect, analyse and distribute data about the UK film industry. While in October it commenced hosting a new UK MEDIA Desk, linked to the European Commission's MEDIA Plus Programme, based in central London with an office in Northern Ireland.

## DIRECTORS

Sir Alan Parker CBE – Chairman  
Stewart Till CBE – Deputy Chairman  
Dawn Airey  
Chris Auty  
Joan Bakewell CBE  
Tim Bevan  
Charles Denton \* (retired by rotation 30.8.02)  
Nigel Green (appointed 7.10.02)  
John Hill  
Duncan Kenworthy OBE  
Stephen Knibbs (appointed 7.10.02)  
James Lee  
Colin Leventhal \* (retired by rotation 30.8.02)  
Sarah Radclyffe  
Iain Smith \*  
Parminder Vir OBE \*  
Paul Webster

All Directors were appointed by the Secretary of State for Culture, Media and Sport and unless stated above remained Directors throughout the year.

\* Directors who serve on the Audit Committee in the year ending 31 March 2002.

## REGISTERED AND PRINCIPAL OFFICE

The registered and principal office is 10 Little Portland Street, London W1W 7JG. The Film Council is a company limited by guarantee in England and Wales, registered number 3815052.

## AUDITORS

Ernst & Young LLP, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH.

## INTERNAL AUDITORS

Littlejohn Frazer, 1 Park Place, Canary Wharf, London E14 4HJ.

## SOLICITORS

Withers, 16 Old Bailey, London EC4M 7EG.

## BANKERS

Barclays Media Banking Centre, Soho Square, London W1A 4WA.  
Lloyds TSB Bank, 32 Oxford Street, London W1A 2LD.

# Directors' report

The Directors present their report and accounts for the year ended 31 March 2002.

## RESULTS

The surplus for the year, after taxation, amounted to £15.1 million.

## PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Film Council is the Government body responsible for developing the film industry and film culture in the UK.

The Film Council was incorporated on 22 July 1999, and commenced activity in October 1999 absorbing the responsibilities and staff of the British Film Commission, the production department of the British Film Institute and the Lottery film department of the Arts Council of England on 1 April 2000. It was formally launched in May 2000. In accordance with the wishes of the Secretary of State for Culture, Media and Sport, British Screen Finance Limited became a wholly owned subsidiary of the Film Council on 1 October 2000.

Under its funding agreement with the Department of Culture, Media and Sport, the Film Council receives Grant-in-aid funding and is one of the bodies designated to distribute funds from the National Lottery. The Annual Review highlights the Film Council's achievements in meeting the goals set in this agreement.

The Film Council works at arm's length from Government and has the status of a Non-Departmental Public Body. As such, it is regulated in accordance with a financial memorandum issued by the Secretary of State. Accounts are prepared in accordance with the accounts direction which is available from the Company Secretary at 10 Little Portland Street, London W1W 7JG. Separate accounts are also prepared for the Lottery Fund.

The governing body of the Film Council is the Board of Directors which consists of a Chairman, Deputy Chairman and 13 other Directors.

## FUTURE DEVELOPMENTS AND POST BALANCE SHEET EVENTS

In April 2002, following wide ranging consultation, the Film Council announced a number of initiatives aimed at supporting and stimulating the Specialised Distribution and Exhibition sector and expanding the range of films on offer to audiences across the UK. These Lottery supported measures include a Cinema Screen Fund worth £14 million over four years, and a Digital Exhibition Fund of £1 million (in association with the Arts Council of England), as well as a Cinema Education Fund (£1 million a year) and a Print and Advertising Fund (£1 million a year) to enable film distributors to acquire a greater number of specialised films and release them more widely than has been previously possible with such films.

In May 2002, the Film Council gave full backing to a major research project that will inform a new and comprehensive skills strategy for the UK film industry. The research will cover all sectors of the industry – development, production, post-production, distribution and exhibition.

## DIRECTORS

The Directors during the year were as set out on page 5.

The Film Council is a company limited by guarantee. The Secretary of State for Culture, Media and Sport has provided the single guarantee of £1.

There are no directors' interests requiring disclosure under the Companies Act 1985.

## EMPLOYMENT AND TRAINING POLICIES AND STAFF PARTICIPATION

The Film Council is committed to a policy of equality of opportunity in its employment practices and continues to develop a culturally diverse workforce. The Film Council's training and development programmes are designed to encourage and support all employees in improving performance. In particular, the Film Council aims to ensure that no potential or actual employees receive more or less favourable treatment on

the grounds of race, colour, ethnic or national origin, marital status, age, gender, sexual orientation, disability or religious beliefs.

The Film Council ensures that there are arrangements to promote effective consultation and communications with all staff. All departments have regular staff meetings at which matters relating to the Film Council's activities are discussed and staff are regularly briefed on the matters discussed at management and Board meetings. Meetings of all staff are held regularly.

The Film Council seeks to ensure that the requirements of health and safety legislation are met in the workplace.

## BETTER PAYMENT PRACTICE CODE

The Film Council attempts to abide by the Better Payment Practice Code and in particular to settle bills in accordance with contract. Invoices are normally settled within suppliers' standard terms. The average payment terms taken were 12 days (2001: 24) and 96% of undisputed invoices were paid within 30 days of receipt into the Finance Department (2001: 92%).

## ANNUAL GENERAL MEETING

An elective resolution was passed that, pursuant to S366A of the Companies Act 1985, the company elected to dispense with the holding of annual general meetings in 2001 and subsequent years.

An elective resolution was passed that, pursuant to S252 of the Companies Act 1985, the company elected to dispense with the laying of accounts and reports before the company in general meeting in the current financial and subsequent financial years.

## AUDITORS

An elective resolution is in force pursuant to s386 of the Companies Act 1985, allowing the company to dispense with the obligation to appoint auditors annually, accordingly Ernst & Young LLP will be deemed to be re-appointed as auditors.

By the order of the Board

Sir Alan Parker CBE  
Chairman  
8 November 2002

Alan Bushell  
Secretary  
8 November 2002

## Directors' Report *continued*

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

Under its legislative framework the Film Council is required to prepare a statement of accounts for the financial period in the form and on the basis directed by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury. The accounts are to be prepared on an accruals basis and to show a true and fair view of the Film Council's state of affairs at the year-end and of its income and expenditure and cash flows for the financial year.

Company law requires the directors to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the Film Council and of the surplus or deficit of the Film Council for that period.

The Directors of the Film Council are required to:

- observe the Accounts Direction issued by the Secretary of State, which sets out accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Film Council will continue in operation.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Film Council and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In addition the Department for Culture, Media and Sport has designated the Chief Executive Officer as Accounting Officer for the Film Council. The relevant responsibilities as Accounting Officer, including the responsibility for the propriety and regularity of the finances for which the Chief Executive Officer is answerable, and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by HM Treasury.



John Woodward  
Chief Executive Officer  
8 November 2002



Sir Alan Parker CBE  
Chairman  
8 November 2002

### STATEMENT ON INTERNAL CONTROL

As Accounting Officer, I have responsibility for ensuring that the Film Council maintains and operates a system of internal control that supports its policies, aims and objectives, whilst safeguarding the public funds and the Film Council's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government accounting, ensuring compliance with the requirements of the Film Council's financial memorandum.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. I expect to have the procedures in place by March 2003 necessary to implement Treasury guidance. This takes account of the time needed to fully embed the processes, which the Film Council has agreed should be established, and improve their robustness.

The Senior Management Team has identified the Film Council's significant risks as well as mitigating actions being taken to minimise those risks.

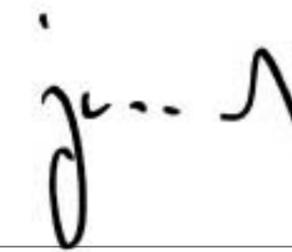
In addition to the actions mentioned above, in the coming year the Film Council plans to:

- establish a risk management document, which will be sent to all staff setting out the Film Council's attitude to risk to the achievement of our objectives;
- ensure that the Senior Management Team's agenda considers risk management and internal control on a regular basis during the year;
- incorporate risk management more fully in the corporate planning and decision making process;
- continue the programme of risk awareness training;
- develop the system of key performance and risk indicators;
- develop and maintain an organisation-wide risk register; and
- arrange for periodic reports from the Chairman of the Audit Committee and

receive regular reports from managers, on the steps taken to manage risks in their areas of responsibility, including progress reports on key projects.

The Film Council has appointed a firm of chartered accountants to provide internal audit services, operating to standards defined in the Government Internal Audit Standards. The work of the internal auditors is defined by an analysis of risk to which the Film Council is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Film Council's Audit Committee and are approved by me. At regular intervals throughout the year, the internal auditors provide me with reports on the areas of activity within the Film Council subject to audit. The reports include the internal auditor's independent opinion on the adequacy and effectiveness of the Film Council's system of internal control during the report period, together with recommendations for improvement.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the senior managers within the Film Council, who have responsibility for the development and maintenance of the control framework, and any comments made by the external auditors in their management letter and other reports.



John Woodward  
Chief Executive Officer  
8 November 2002

# Independent auditor's report to the members of the Film Council

We have audited the group's accounts for the year ended 31 March 2002 which comprise the group income and expenditure account, group statement of total recognised gains and losses, group balance sheet, balance sheet, group statement of cashflows and the related notes 1 to 26. These accounts have been prepared on the basis of the accounting policies set out therein.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual Report and Accounts in accordance with applicable UK law and accounting standards are set out in the Statement of Directors' Responsibilities on page 8.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts; if the company has not kept proper accounting records; if we have not received all the information and explanations we require for our audit; or if the information specified by law regarding Directors' remuneration and transactions with the group is not disclosed. We also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

We review whether the Accounting Officer's statement on the system of internal control set out on page 9 reflects the company's compliance with HM Treasury's guidance *Corporate Governance: Statement on the System of Internal Control* and

we report if it does not. We are not required to consider whether the company's statement on their controls cover all risks and controls, or form an opinion on the effectiveness of either the company's corporate governance procedures or internal control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited accounts. This other information comprises the Foreword to the accounts; Directors' Report; statement on internal control; Schedule 1: Grant-in-aid awards; and Schedule 2: Lottery awards. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

## BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

# Independent auditors' report to the members of the Film Council

We have audited the group's accounts for the year ended 31 March 2002 which comprise the group income and expenditure account, group statement of total recognised gains and losses, group balance sheet, balance sheet, group statement of cashflows and the related notes 1 to 26. These accounts have been prepared on the basis of the accounting policies set out therein.

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## BASIS OF AUDIT OPINION

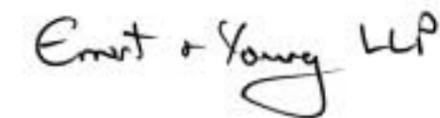
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We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

## OPINION

In our opinion:

- the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 March 2002, and of the surplus of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.



Ernst & Young LLP  
Registered Auditor  
London  
8 November 2002

## Group income and expenditure account for the year ended 31 March 2002

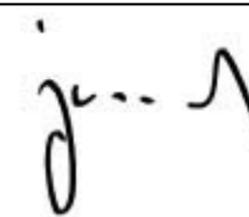
	Notes	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
Group turnover	2	59,870	99,130
Cost of sales		(288)	(1,384)
Grant-in-aid awards made		(18,555)	(17,939)
Lottery awards made – non-film rights		(3,829)	–
Provisions against film rights	3	(16,349)	(10,215)
Over provisions written back	3	951	507
Arts Council of England pre-committed expenditure		160	(3,598)
British Film Commission		(1,288)	(1,154)
Other operating expenses	4	(7,840)	(5,798)
Amortisation of negative goodwill		1,552	1,552
Restructuring costs		–	(450)
		(45,486)	(38,479)
Operating surplus		14,384	60,651
Bank interest receivable		869	1,511
Notional cost of capital	8	(970)	(506)
Operating surplus after notional costs		14,283	61,656
Reversal of notional cost of capital		970	506
Surplus on ordinary activities before taxation		15,253	62,162
Tax on surplus on ordinary activities for the year	9	(182)	(416)
Surplus on ordinary activities for the year		15,071	61,746
<b>Surplus brought forward</b>		<b>75,944</b>	<b>14,198</b>
Surplus carried forward		91,015	75,944

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There have been no recognised gains or losses for the year ended 31 March 2002 or for the year ended 31 March 2001 other than as disclosed above.

## Group balance sheet as at 31 March 2002

	Notes	2002 £000s	2001 £000s
Fixed assets			
Intangible assets: negative goodwill	11	(4,655)	(6,207)
Tangible assets	10	1,542	1,551
		(3,113)	(4,656)
Current assets			
Film rights	12	26,292	17,602
Debtors	13	2,491	876
Balance at the National Lottery Distribution Fund	14	67,655	41,470
Cash at bank and in hand	15	8,826	28,624
		105,264	88,572
Creditors: amounts falling due within one year			
Award commitments	17	6,854	3,859
Creditors	18	4,282	4,113
		11,136	7,972
Net current assets		94,128	80,600
<b>Total assets less current liabilities</b>		<b>91,015</b>	<b>75,944</b>
Capital and reserves			
General reserve	24	(109)	584
Grant-in-aid reserve	24	2,604	2,331
Lottery reserve	24	88,520	73,029
		91,015	75,944



John Woodward  
Chief Executive Officer  
8 November 2002



Sir Alan Parker CBE  
Chairman  
8 November 2002

## Company balance sheet as at 31 March 2002

	Notes	2002 £000s	2001 £000s
<b>Fixed assets</b>			
<b>Tangible assets</b>	<b>10</b>	<b>1,468</b>	<b>1,535</b>
<b>Current assets</b>			
Film rights	12	23,729	12,491
Debtors	13	2,005	1,785
Balance at the National Lottery Distribution Fund	14	67,655	41,470
Cash at bank and in hand	15	5,002	23,719
		98,391	79,465
<b>Creditors: amounts falling due within one year</b>			
Award commitments	17	6,854	3,859
Creditors	18	1,881	1,781
		<b>8,735</b>	<b>5,640</b>
Net current assets		89,656	73,825
Total assets less current liabilities		91,124	75,360
<b>Capital and reserves</b>			
Grant-in-aid reserve	24	2,604	2,331
Lottery reserve	24	88,520	73,029
		91,124	75,360



John Woodward  
Chief Executive Officer  
8 November 2002



Sir Alan Parker CBE  
Chairman  
8 November 2002

## Group statement of cashflows for the year ended 31 March 2002

	Notes	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
Net cash (outflow)/inflow from operating activities	5	(20,221)	24,398
<b>Returns on investments and servicing of finance</b>			
Bank interest received		913	1,323
<b>Taxation</b>			
Tax paid		(261)	(2)
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(229)	(1,636)
Proceeds from disposal of shares		–	125
<b>Acquisitions and disposals</b>			
Net cash acquired with subsidiary undertaking		–	4,288
(Decrease)/increase in cash	15	(19,798)	28,496
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS</b>			
	Notes	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
(Decrease)/increase in cash		(19,798)	28,496
Change in net funds resulting from cashflows	15	(19,798)	28,496
Net funds at 1 April		28,624	128
Net funds at 31 March	15	8,826	28,624

# Notes to the accounts

## NOTE 1: ACCOUNTING POLICIES

### a) Basis of preparation

These accounts are prepared under the modified historical cost convention. The difference between the value of fixed assets and stocks determined on a historical cost basis and on a current cost basis is not material.

The accounts have been prepared in accordance with the Accounts Direction issued by the Secretary of State for Culture, Media and Sport, and they meet the requirements of the Companies Acts 1985, except that certain headings have been amended in order to reflect special circumstances of the group, and in accordance with applicable accounting standards.

In preparing the financial statements for the current year the company has adopted FRS 17 Retirement Benefits, FRS 18 Accounting Policies and FRS 19 Deferred Tax.

Adoption of these statements has not required any revisions to the financial statements in either the current or prior years.

In accordance with the directions issued by the Secretary of State for Culture, Media and Sport, accounts have been prepared for the Film Council group as a whole and separate accounts have been prepared for the Film Council's Lottery activities.

A copy of the Accounts Direction is available from the Company Secretary, Film Council, 10 Little Portland Street, London W1W 7JG.

### b) Basis of consolidation

The group accounts consolidate the accounts of the Film Council and all its subsidiary undertakings drawn up to 31 March 2002. An income and expenditure account is not presented for the Film Council as permitted by section 230 of the Companies Act 1985.

British Screen Finance Limited has been included in the group accounts using the acquisition method of accounting. Accordingly, the group income and expenditure account and statement of cashflows include the results and cashflows of British Screen Finance Limited.

### c) Goodwill

On the acquisition of British Screen Finance Limited the fair value of the separable net assets exceeded the fair value of the consideration. The difference is treated as negative

goodwill and is capitalised and amortised through the income and expenditure account. The negative goodwill arises substantially from recoverable loans to filmmakers and is being amortised over a five year period from 1 April 2000, the date of effective control, to match the period of expected loan recoupment.

### d) Accruals convention

Income and expenditure is accounted for on a receivable basis except for Arts Council of England and Film Council portfolio recoupment (see note 1(h)), and the Grant-in-aid funding from the Department for Culture, Media and Sport, both of which are accounted for on a cash received basis.

As required by the Secretary of State, a distinction is made in respect of Lottery awards between 'hard commitments' and 'soft commitments'. Where the Film Council has made a firm offer of a grant, which, together with the relevant conditions, has been accepted by the recipient, the award is accounted for as a 'hard commitment'. Where the Film Council has agreed in principle to fund a scheme and made an offer, but the offer has not been accepted and the associated conditions precedent met, the award is accounted for as a 'soft commitment'.

Hard commitments are recognised in the accounts whereas soft commitments are recognised by way of note. Hard commitments payable within one year of the balance sheet date are recognised in the balance sheet as current liabilities. Those payable more than one year from the balance sheet date are shown as commitments to filmmakers payable over more than one year, however these are extremely unlikely in the usual course of business. Commitments for future years have been entered into taking into account income forecasts provided by the Department for Culture, Media and Sport. These forecasts take a prudent view of future income.

### e) Depreciation and fixed assets

Depreciation is provided on all tangible fixed assets, calculated at rates to write off the cost less estimated residual value of each asset systematically on a straight line basis over its expected useful life as follows:

- leasehold improvements: over the life of the lease;
- IT and office equipment: over four years; and
- transferred assets: over deemed useful life of asset

The carrying values of tangible fixed assets are reviewed for impairment in the period if events or changes in circumstances indicate the value may not be recoverable.

### f) National Lottery Distribution Fund

Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Culture, Media and Sport.

However, the share of these balances attributable to the Film Council is as shown in the accounts and, at the balance sheet date, has been notified by the Secretary of State for Culture, Media and Sport as being available for distribution by the Film Council in respect of current and future commitments (see note 14). The amount attributable to the Film Council has been treated as income within these accounts.

### g) Film rights

Film rights represent loans paid and advances paid and payable to filmmakers and are included in the balance sheet, with provisions raised against the value of an advance to the extent that full repayment is not expected. The amount payable is also recorded as a liability on the balance sheet.

All advances to filmmakers are repayable under certain conditions. Where a feature film made with the assistance of the Film Council is successfully released, the Film Council is entitled to participate in revenues generated by that success, securing repayment of the investment in full, together with a share of the profits generated by the film. Profits are taken to income when payments are received.

Provisions are made to the extent that full repayment of an advance, through actual receipts and the value of future estimated receipts, is considered doubtful. Advances for development and short film awards are fully provided against in the year of award, unless there is a reasonable expectation of repayment. Provisions against film rights shown in the income and expenditure account reflect the net effect of these movements.

Proceeds from sales of film rights are shown as income, with associated acquisition costs shown as cost of sales in the income and expenditure account.

### h) Film recoupment income

Income received from a film right is offset against the value of the right on the balance

sheet. Income in excess of the original value of the right is taken to the income and expenditure account as film recoupment income.

All income received from the rights in the portfolio of films transferred from the Arts Council of England is taken directly to the income and expenditure account as these rights are recognised on the Film Council balance sheet at zero value. This reflects the Arts Council of England's accounting policy to write off the value of all advances in the year of award and the fact that no consideration was paid for this transfer by the Film Council.

### i) Other Lottery awards

Lottery awards, other than those for film rights are taken in full to the income and expenditure account in the year in which the hard commitment crystallises.

### j) Notional cost of capital

A notional cost of capital charge is shown in the income and expenditure account in accordance with Treasury guidance. The basis of the charge excludes balances at the National Lottery Distribution Fund, film rights and corresponding creditors. The charge is subsequently reversed in the income and expenditure account so a provision is not made in the balance sheet.

### k) Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date; where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less, or to receive more tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on the disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all the available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

# Notes to the accounts *continued*

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted; and
- deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

## l) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the income and expenditure account.

## m) Leasing commitments

Rentals payable under operating leases are charged in the income and expenditure account on a straight-line basis over the lease term.

## n) Pensions

The company operates a defined benefit pension scheme open to all employees, which requires contributions to be made to a separately administered fund.

Contributions to this fund are charged in the income and expenditure account so as to spread the cost of pensions over the employees' working lives within the Film Council. The regular cost is attributed to individual years using the projected unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs.

## o) Financial instruments

The group's principal financial instruments are cash and holdings in the National Lottery Distribution Fund. The group has various other financial instruments such as trade debtors and trade creditors, that arise directly from its operations. The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The magnitude of the risks arising are detailed in note 16.

## NOTE 2: TURNOVER

	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
Film Council funding received from the National Lottery		
Share of proceeds from the National Lottery	33,675	31,474
Investment returns on the National Lottery Distribution Fund	2,904	2,581
Arts Council of England delegation income	–	36,596
Arts Council of England portfolio recoupment income	1,645	4,175
Other income	2	–
	38,226	74,826
Film Council Grant-in-aid voted by Parliament and paid in full	20,860	21,760
Film Council other income	261	–
British Screen Finance Group income received from		
Arts Council of England	–	28
Sales of film rights	4	1,512
Interest received from film loans	85	212
Profits from films	190	472
Fees receivable	214	320
Other income	30	–
	523	2,544
Total turnover	59,870	99,130

Turnover represents the amount derived from the provision of services which fall within the group's continuing ordinary activities, stated net of value added tax. The group's turnover originates wholly within the United Kingdom.

The Arts Council of England delegation income arose from a transfer agreement of

April 2001 between the Film Council and the Arts Council of England. The Film Council acquired ownership of rights in a portfolio of film awards for which no consideration was paid. These rights are reflected on the Film Council balance sheet at zero value reflecting the Arts Council of England's accounting policy to write off the value of all advances in the year of the award. The transfer agreement also provided for a transfer of Lottery funds to the Film Council. These funds represent the film cash allocation of the Arts Council of England that had not been drawn down from the National Lottery Distribution Fund as at the date of transfer. A proportion of this relates to outstanding liabilities on awards similarly transferred.

## NOTE 3: PROVISIONS AGAINST FILM RIGHTS

	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
Provisions made		
British Screen Finance loans	1,896	790
British Screen Finance short films	–	140
British Screen Finance development loans	169	408
European Co-production Fund loans	618	1,003
European Co-production Fund development loans	13	125
Film council film awards	13,653	7,749
	16,349	10,215
Over-provisions written back		
British Screen Finance loans	78	156
British Screen Finance short films	1	8
British Screen Finance development loans	60	79
National Film Finance Corporation	35	106
European Co-production Fund loans	298	149
European Co-production Fund development loans	–	9
Film Council film awards	479	–
	951	507

## NOTE 4: OTHER OPERATING EXPENSES

This is stated after charging:

	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
Depreciation	238	249
Auditor's remuneration – internal	15	7
Auditor's remuneration – Ernst & Young LLP	31	32
Operating lease rentals – land & buildings	342	34

In addition, for the audit of the National Lottery accounts, the National Audit Office remuneration was £15,000 for the year ended 2002 and £15,000 for the year ended 2001.

## NOTE 5: STATEMENT OF CASH FLOWS

Reconciliation of operating surplus to net cash flows from operating activities:

	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
Operating surplus	14,384	60,651
Depreciation	238	249
Amortisation of negative goodwill	(1,552)	(1,552)
Provision for losses on loans	16,349	10,215
Provisions written back	(951)	(147)
Loans advanced	(28,367)	(24,580)
Decommitments	576	–
Receipts from loans	3,702	2,647
Increase in debtors	(27,843)	(26,190)
Increase in creditors	3,243	3,105
Net cash (outflow)/inflow from operating activities	(20,221)	24,398

# Notes to the accounts *continued*

## NOTE 6: STAFF COSTS

Directors' remuneration (including daily allowances) is:

	Year ended 31 March 2002	Year ended 31 March 2001
	£s	£s
Joan Bakewell	1,203	3,950
Colin Leventhal	1,388	3,600
Sarah Radclyffe	2,128	3,595
Parminder Vir	3,053	4,130
	<b>7,772</b>	<b>15,275</b>

The costs of staff working within the Film Council are:

	Year ended 31 March 2002	Year ended 31 March 2001
	£000s	£000s
Wages and salaries	3,401	2,522
Social Security costs	336	271
Other pension costs	185	135
	<b>3,922</b>	<b>2,928</b>

Salary and entitlements of senior staff members of the Film Council are as follows:

	Age	Total remuneration in year ending 31 March 2002	Pension accrued at 65 as at 31 March 2002	Increase to pension accrued during 2001/02	Total remuneration in year 31 March 2001
		£000s	£000s	£000s	£000s
Robert Jones – Head of the Premiere Fund (from 22.8.00)	41	150-155	2.5-5	0-2.5	90-95
Paul Trijbits – Head of the New Cinema Fund (from 16.9.00)	40	100-105	0-2.5	0-2.5	65-70
Jenny Borgars – Head of the Development Fund (from 2.10.00)	31	80-85	–	–	35-40
Steve Norris – British Film Commissioner	43	105-110	0-2.5	0-2.5	100-105
Carolyn Lambert – Head of Policy	59	70-75	0-2.5	0-2.5	60-65
Jackie O'Sullivan – Head of Business Affairs	39	100-105	–	–	55-60
Alan Bushell – Chief Operating Officer (from 2.7.01)	51	60-65	0-2.5	0-2.5	–
Michael Kelly – Head of Finance (to 31.7.01)	40	35-40	–	–	75-80
Ted Ulas – General Manager (to 31.7.01)	52	20-25	0-2.5	0-2.5	55-60

The average number of staff employed during the year was:

	31 March 2002	31 March 2001
Management and administration	80	54

The remuneration of the Chief Executive Officer was:

	Year ended 31 March 2002	Year ended 31 March 2001
	£s	£s
<b>John Woodward</b>		
Salary and benefits	100,617	99,489
Bonus	19,848	19,000
<b>Total</b>	<b>120,465</b>	<b>118,489</b>
Pension contribution	14,965	15,552

John Woodward, Michael Kelly, Jenny Borgars and Jackie O'Sullivan are all members of private pension schemes to which monetary contributions were made during the year.

Pension payments for the remainder are to the Local Government Pension Scheme of which the Film Council is a member. The pension benefits have accrued as a result of their period of employment at the Film Council and are payable on retirement. The scheme also provides for lump sum payments on retirement of three times final pension.

Ted Ulas also received a compensation for loss of office payment of £55,000. In addition, on being granted access to his standard pension benefits £137,312 was payable to the Local Government Pension Scheme.

## NOTE 7: PENSIONS BENEFITS

In August 2000, the Film Council became an admitted body of the Local Government Pension Scheme, which operates a defined benefit scheme for Film Council employees who wish to join. It is a statutory, funded pension scheme and its benefits are defined and guaranteed in law. The scheme is administered by the London Pension Fund Authority, a statutory body established on 31 October 1989, responsible to the Mayor of London and accountable to Parliament and the Greater London Assembly for its actions. The scheme is contributory for both employee and employer. Employer contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

The contributions to the defined benefit scheme were £0.16 million in the year to 31 March 2002 (2001: £0.11 million), all relating to current service costs.

SSAP 24 DISCLOSURE

SSAP 24 disclosure of the last triennial scheme valuation conducted as at 31 March 2001 follows. The main actuarial assumptions applied in this valuation were:

Market value of scheme's assets (£ million)	£2,981.3
Level of funding being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases	101%
Price increases (% per annum)	2.8%
Salary increases (% per annum)	4.3%
Pension increases (% per annum)	2.8%
Discount rate (% per annum)	6.6%

FRS 17 DISCLOSURE

For FRS 17 disclosure the valuation at 31 March 2001 has been updated by actuaries Hymans Robertson, to assess the liabilities of the scheme as at 31 March 2002. Scheme assets are stated at their market value at 31 March 2002, and the assets and liabilities of the London Pensions Fund Authority and the expected rate of return as at 31 March 2002 are:

Assets (whole fund)	Long term return % per annum	Fund value at 31 March 2002 £000s	Expected return £000s per annum
Equities	7.5%	1,341,061	100,580
Bonds	5.5%	1,328,926	73,091
Property	6.0%	–	–
Cash	4.0%	105,917	4,237
		<b>2,775,904</b>	<b>177,908</b>

## Notes to the accounts *continued*

Price increases (% per annum)	2.8%
Salary increases (% per annum)	4.3%
Pension increases (% per annum)	2.8%
Discount rate (% per annum)	6.4%

The net pension assets attributable to the FILM COUNCIL as at 31 March 2002 are:

	£000s
<b>Estimated Film Council share of the assets</b>	<b>735</b>
Present value of scheme liabilities attributable to the Film Council	539
Present value of unfounded liabilities attributable to the Film Council	–
Total value of liabilities	539
Net pension asset attributable to the Film Council	196

If this pension asset were to be disclosed in the accounts, the effect on the balance sheet and reserves as at 31 March 2002 would be:

	£000s
Net assets and reserves excluding pension asset as at 31 March 2002	91,015
FRS 17: Pension asset	196
Net assets and reserves including pension asset as at 31 March 2002	91,211

### NOTE 8: NOTIONAL COST OF CAPITAL

Notional cost of capital is calculated at 6% of the average net assets employed by the Film Council in the year, excluding the balances in the National Lottery Distribution Fund, film rights and the matching Lottery award liabilities.

### NOTE 9: TAXATION

	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
Corporation tax	182	416

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
Surplus on ordinary activities	15,253	62,162
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	4,576	18,649
Effects of:		
Film Council surplus not chargeable to UK corporation tax	(4,617)	(18,349)
Adjustment regarding British Screen Finance group losses	223	116
<b>Current tax charge for the period</b>	<b>182</b>	<b>416</b>

Following agreement from the Inland Revenue, profits from the UK film activities of the Film Council are not subject to corporation tax.

The implementation of FRS 19 Deferred Taxation has no impact on the current or prior year tax charge or deferred taxation liabilities due to the tax status of the company.

British Screen Finance, a subsidiary company of the Film Council, has an unrecognised deferred tax asset resulting from carried forward losses of £9.1 million. These are available to relieve future profits of that company from taxation.

### NOTE 10: TANGIBLE FIXED ASSETS

Group	Leasehold improvements £000s	IT equipment £000s	Office equipment £000s	Transferred assets £000s	Total £000s
<b>Cost</b>					
At 1 April 2001	1,281	199	302	39	1,821
Additions	172	27	30	–	229
At 31 March 2002	1,453	226	332	39	2,050

Group	Leasehold improvements £000s	IT equipment £000s	Office equipment £000s	Transferred assets £000s	Total £000s
<b>Depreciation</b>					
At 1 April 2001	92	65	74	39	270
Charge for the year	100	56	82	–	238
At 31 March 2002	192	121	156	39	508

Group	Leasehold improvements £000s	IT equipment £000s	Office equipment £000s	Transferred assets £000s	Total £000s
<b>Net book value</b>					
At 1 April 2001	1,189	134	228	–	1,551
At 31 March 2002	1,261	105	176	–	1,542

Company	Leasehold improvements £000s	IT equipment £000s	Office equipment £000s	Transferred assets £000s	Total £000s
<b>Cost</b>					
At 1 April 2001	1,279	199	284	39	1,801
Additions	111	27	20	–	158
At 31 March 2002	1,390	226	304	39	1,959

Company	Leasehold improvements £000s	IT equipment £000s	Office equipment £000s	Transferred assets £000s	Total £000s
<b>Depreciation</b>					
At 1 April 2001	91	65	71	39	266
Charge for the year	93	56	76	–	225
At 31 March 2002	184	121	147	39	491

Company	Leasehold improvements £000s	IT equipment £000s	Office equipment £000s	Transferred assets £000s	Total £000s
<b>Net book value</b>					
At 1 April 2001	1,188	134	213	–	1,535
At 31 March 2002	1,206	105	157	–	1,468

# Notes to the accounts *continued*

## NOTE 11: INTANGIBLE FIXED ASSETS

	Goodwill £000s	Total £000s
Cost		
At 1 April 2001	(7,759)	(7,759)
Additions	–	–
<b>At 31 March 2002</b>	<b>(7,759)</b>	<b>(7,759)</b>
Amortisation		
At 1 April 2001	1,552	1,552
Charge for the year	1,552	1,552
<b>At 31 March 2002</b>	<b>(3,104)</b>	<b>(3,104)</b>
Net book value		
<b>At 1 April 2001</b>	<b>(6,207)</b>	<b>(6,207)</b>
<b>At 31 March 2002</b>	<b>(4,655)</b>	<b>(4,655)</b>

## NOTE 12: FILM RIGHTS

Group	British Screen Finance Limited	European Co-production Fund Ltd	FILM COUNCIL	Total
	£000s	£000s	£000s	£000s
At 1 April 2001	3,567	1,544	12,491	17,602
Advances	536	311	27,519	28,366
Repayments	(324)	(847)	(2,531)	(3,702)
Decommitments	–	–	(576)	(576)
De-provisions	174	298	479	951
Provisions	(2,065)	(631)	(13,653)	(16,349)
At 31 March 2002	1,888	675	23,729	26,292

Company	Lottery £000s	Total £000s
At 1 April 2001	12,491	12,491
Advances	27,519	27,519
Repayments	(2,531)	(2,531)
Decommitments	(576)	(576)
De-provisions	479	479
Provisions	(13,653)	(13,653)
<b>At 31 March 2002</b>	<b>23,729</b>	<b>23,729</b>

## NOTE 13: DEBTORS

Group	2002 £000s	2001 £000s
Trade debtors	581	152
Prepayments and accrued income	173	172
VAT receivable	1,609	321
Other debtors	128	231
	2,491	876

Company	2002 £000s	2001 £000s
Due from subsidiary undertakings	153	1,155
Trade debtors	–	21
Prepayments and accrued income	122	123
VAT receivable	1,606	280
Other debtors	124	206
	2,005	1,785

## NOTE 14: BALANCE AT THE NATIONAL LOTTERY DISTRIBUTION FUND

Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Culture, Media and Sport. However, the share attributable to

the Film Council is as shown in the accounts and, at the balance sheet date, had been notified by the Secretary of State for Culture, Media and Sport as being available for distribution by the Film Council in respect of current and future year commitments.

The funds are invested on behalf of the National Lottery Distribution Fund by the National Debt Commissioners. The Film Council's distribution is in accordance with Sections 22 and 23 of the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998). The Film Council is required by statute to show on the balance sheet the lower of the market value or the cost as at the year-end.

The movement in balances held at the National Lottery Distribution Fund is:

	2002 £000s	2001 £000s
Opening balance held at the National Lottery Distribution Fund	41,470	15,631
National Lottery income	33,674	31,474
Investment returns on held income	2,904	2,580
Amounts drawn down	(10,393)	(7,336)
Investment returns paid directly to the Film Council by the Arts Council	–	(623)
Market value	67,655	41,726
Share of unrealised (losses)/gains	419	(256)
Cost carried forward	68,074	41,470

## NOTE 15: CASH AND LIQUID RESOURCES

	At 1 April 2001 £000s	Net cash flow £000s	At 31 March 2002 £000s
Group			
Cash at bank and in hand	28,624	(19,798)	8,826
Company			
Cash at bank and in hand	23,719	(18,717)	5,002

## NOTE 16: FINANCIAL INSTRUMENTS

FRS 13 Derivatives and other financial instruments, requires disclosure of the role which financial instruments have had during the period, in creating or changing the risks the Film Council faces in undertaking its role. The Film Council is not currently required to comply with this standard but has chosen to make disclosures relating to the risks arising on the financial instruments to assist the reader of the financial statements.

### Liquidity risks

In 2001/02, £33.67 million, (55%), (2001: £31.45 million, 31%) of the Film Council's income derived from the National Lottery. £20.86 million, (34%), arose from Grant-in-aid funding allocated by the Department for Culture, Media and Sport (2001: £21.8 million, 22%). The remaining income derived from investment returns from the balance of Lottery income held with the National Lottery Distribution Fund £2.9 million, 5% (2001: £2.6 million, 3%), recoupment income from film rights £1.65 million, 3% (2001: £4.2 million, 4%), income arising from British Screen Group £0.5 million, 1% (2001: £2.5 million, 2%) and bank interest and sundry income £1.16 million, 2% (2001: £1.5 million, 2%). In addition, in 2000/01 £36.6 million was delegated to the Film Council from the Arts Council of England relating to the transfer of film rights and liabilities.

The Board considers that as the National Lottery Distribution Fund balance, notified by the Secretary of State for Culture, Media and Sport and the Film Council's own Lottery cash holding, amounts to £72.3 million at the balance sheet date (2001: £65.1 million), sufficient liquid resources are available to cover all current hard and soft commitments totalling £60.59 million (2001: £69.06 million) and any related creditors. In addition, the year-end cash balances not attributable to Lottery of £4.45 million (2001: £4.9 million) are deemed sufficient to cover remaining creditors.

### Interest rate risks

The Film Council's largest financial asset is retained in the National Lottery Distribution Fund, which invests in a narrow band of low risk assets such as Government bonds and cash. The Film Council nor its Board has any control over these investments. At the year-end the balance sheet value of the Council's investment in the National Lottery Distribution Fund was £67.66 million (2001: £41.47 million) and the average investment return for the year was 5.3%. (2001: 9%).

## Notes to the accounts *continued*

Cash drawn down from the Grant-in-aid allocation held at the Department for Culture Media, and Sport or from the National Lottery Distribution Fund, or received from other sources, to pay grant commitments and operating costs are held in variable rate bank accounts, and the average interest rate return for the year was 4.6% (2001: 10.5%). The cash balance for the Group at the year-end was £8.83 million (2001: £28.62 million). The Board considers that in respect of these funds the Film Council is not exposed to significant interest rate risks.

Foreign currency risk

The Film Council financial assets are not exposed to material foreign exchange risks, as long-term balances are only held in sterling.

### NOTE 17: SOFT AND HARD COMMITMENTS

Group and company soft and hard commitments	2002 £000s	2001 £000s
Soft commitments		
Soft commitments brought forward	65,201	2,285
Soft commitments transferred from the Arts Council of England	–	70,710
Soft commitments made	19,258	16,117
Soft commitments transferred back from hard commitments	652	5,161
Soft decommitments	(4,619)	(8,144)
Soft decommitments from prior years reinstated	4,601	–
Soft commitments transferred to hard commitments	(31,350)	(20,928)
<b>Balance of soft commitments outstanding carried forward</b>	<b>53,743</b>	<b>65,201</b>

	2002 £000s	2001 £000s
Hard commitments		
Hard commitments brought forward	3,859	2,754
Hard commitments transferred from the Arts Council of England	–	11,646
Hard commitments made	31,350	20,928
Hard decommitments	(83)	(6,305)
Hard commitments where payment refunded to the Film Council	38	–
Hard commitments transferred back from soft commitments	(652)	(5,161)
Hard commitments met in the period to 31 March 2001	(27,658)	(20,003)
<b>Balance of hard commitments outstanding carried forward</b>	<b>6,854</b>	<b>3,859</b>

Hard commitments made during the year comprise:

	2002 £000s	2001 £000s
Film rights	27,519	20,928
First Light award scheme	1,000	–
Regional award scheme	2,136	–
Training award scheme	695	–
	<b>31,350</b>	<b>20,928</b>

Under the transfer agreement between the Film Council and the Arts Council of England, a portfolio of active awards was transferred to the Film Council on 1 April 2000. The transfer of the hard and soft commitments is consistent with the hard and soft status of the awards at the Arts Council of England as at 31 March 2000.

Of the £65.2 million of soft commitments as at 1 April 2002, £58.89 million relates to the three Arts Council of England franchise awards. The treatment of these soft

commitments by the Film Council continues to be that of the Arts Council of England – any element of the total awards made to the franchise holders that has not been allocated to specific projects, or where the specific project allocation has not hardened, continues to be shown as a soft commitment. Of the £58.89 million, £12.21 million was allocated to specific franchise projects in the year. £0.65 million has been decommitted and transferred from hard commitments back into soft commitments during the year.

Ageing of hard commitments	2002 £000s	2001 £000s
2001/02	–	3,859
2002/03	6,854	–
	<b>6,854</b>	<b>3,859</b>

It is expected that all outstanding hard commitments as at 31 March 2002 will be fully paid by 31 March 2003.

### NOTE 18: CREDITORS: AMOUNTS FALLING DUE WITHIN 1 YEAR

	2002 £000s	2001 £000s
Group		
Trade creditors	2,580	2,846
Accruals and deferred income	926	595
Corporation tax	411	490
Other creditors and Social Security	365	182
	<b>4,282</b>	<b>4,113</b>

	2002 £000s	2001 £000s
Company		
Trade creditors	358	862
Accruals and deferred income	820	490
Corporation Tax	405	246
Other creditors and Social Security	298	183
	<b>1,881</b>	<b>1,781</b>

### NOTE 19: DEFERRED TAXATION

The company had no potential liability to deferred taxation at 31 March 2002 (31 March 2001: £nil)

### NOTE 20: LEASES

As at 31 March 2002, the Film Council had annual commitments under a non-cancellable operating lease relating to land and buildings as set out below:

	2002 £000s	2001 £000s
Operating lease which expires in over five years	315	315

### NOTE 21: CAPITAL COMMITMENTS

As at 31 March 2002 the Film Council had no capital commitments outstanding (31 March 2001: £90,000).

### NOTE 22: GRANT-IN-AID COMMITMENTS FOR FUTURE YEARS

As at 31 March 2002 the Film Council had Grant-in-aid commitments for 2002/03 as follows:

British Film Institute	14,500,000
Regional awards	4,500,000

# Notes to the accounts *continued*

## NOTE 23: COMPANY LIMITED BY GUARANTEE

The Film Council is a company limited by guarantee. The guarantee of £1 has been provided by the Secretary of State for the Department for Culture, Media and Sport.

## NOTE 24: MOVEMENTS IN RESERVES

Group	General reserve £000s	Grant-in-aid reserve £000s	Lottery reserve £000s	Total £000s
As at 1 April 2000	–	287	13,911	14,198
Surplus for the year	584	2,044	59,118	61,746
<b>At 1 April 2001</b>	<b>584</b>	<b>2,331</b>	<b>73,029</b>	<b>75,944</b>
Surplus for the year	(693)	273	15,491	15,071
<b>At 31 March 2002</b>	<b>(109)</b>	<b>2,604</b>	<b>88,520</b>	<b>91,015</b>
Company				
As at 1 April 2000	–	287	13,911	14,198
Surplus for the year	–	2,044	59,118	61,162
<b>At 1 April 2001</b>	<b>–</b>	<b>2,331</b>	<b>73,029</b>	<b>75,360</b>
Surplus for the year	–	273	15,491	15,764
<b>At 31 March 2002</b>	<b>–</b>	<b>2,604</b>	<b>88,520</b>	<b>91,124</b>

## NOTE 25: INVESTMENTS

The Film Council's subsidiary undertaking at 31 March 2002 was:

	Ordinary shares of £1 each	Holding
British Screen Finance	4,200,078	100%

As the subsidiary was acquired by the Film Council at the cost of £8 there is no carrying value of the investment recorded on the balance sheet.

British Screen Finance Limited is a company that manages a current and historic portfolio of investments in commercial film development and production. British Screen Finance Ltd, in addition, holds the following investments:

	Ordinary shares of £1 each	Holding
<b>Subsidiary undertakings</b>		
National Film Trustee Company Ltd	100	100%
National Film Finance Consortium Ltd	100	100%
European Co-production Fund Ltd	2	100%
British Screen Rights Ltd	2	100%
The Greenlight Fund Ltd	2	100%

### Associated undertaking

British Film-Makers Ltd	50	50%
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The National Film Trustee Company is a collection agency for film revenues. The National Film Finance Consortium is a dormant company. European Co-production Fund is a company that makes loans to films produced by European co-producers. British Screen Rights acquires and sells rights in feature films. The Greenlight Fund managed the investment of some National Lottery proceeds into feature films on behalf of the Arts Council of England. British Film-Makers collects and distributes film revenues on behalf of British Screen Finance and third parties. Its results are not material to the group.

## NOTE 26: RELATED PARTIES

The Film Council maintains a publicly available register of Board Directors' interests. Board Directors declare any direct interest in award applications made to the Council and commercial relationships with the Council. They exclude themselves from the relevant application appraisal discussion and decision process within the Council.

During the year the group entered into transactions, in the ordinary course of business, with related parties. Grant-in-aid awards are written off in the year of award and Lottery awards are taken to the balance sheet date, in accordance with the group's accounting policies.

Organisation	Name	Relationship to the Film Council	Relationship to recipient organisations	Awards
Lottery awards				
The Film Consortium Ltd	John Christopher Auty	Director	Managing Director	£3,307,483
DNA Films Ltd	Duncan Kenworthy	Director	Director	£4,655,000
	James Lee	Director	Director	
FilmFour Ltd				
(in own stead or in co-production)	Paul Webster	Director	Chief Executive	£2,313,092
Sarah Radclyffe Productions Ltd	Sarah Radclyffe	Director	Managing Director	£10,000
Carlton Television Ltd	Parminder Vir	Director	Employee	£8,250
National Film and Television School/NSCTP	Tim Bevan	Director	Trustee	£21,306
	Duncan Kenworthy	Director	Trustee	
	Stewart Till	Director	Trustee	
Grant-in-aid awards				
British Film Institute	Joan Bakewell	Director	Chairman	£14,050,000
London Film Commission	Michael Kelly*	Employee	Director	£150,000
Cinema Marketing Association	John Woodward	Employee	Director	£100,000
Scottish Screen	James Lee	Director	Chairman	£45,000
Skillset	John Woodward	Employee	Director	£50,000

\* Michael Kelly left the employment of the Film Council as at 31 July 2001, but retained directorship of the London Film Commission (LFC) until 8 May 2002. The Film Council made further awards, totalling £111,850 to the LFC after Michael Kelly's employment with the Film Council had ceased.

# Lottery schedules

Schedule 1: Grant-in-aid awards in the year ending 31 March 2002

Organisation	£
Arista	5,000
Black Filmmaker Magazine	15,000
British Council	28,940
British Federation of Film Societies	100,000
British Film Institute	14,050,000
British Film Office in Los Angeles	147,000
Celtic Film & Television Festival	3,500
Cinema Marketing Association	100,000
Dinard Film Festival	24,799
East England Arts	301,943
East Midland Arts	330,000
European Film Awards*	75,000
Grierson Awards	30,000
London Film and Development Agency	525,004
London Film Commission	261,850
Michael Powell Award	30,000
MIDA North West	125,000
New Producers Alliance	35,000
North West Arts	250,000
Northern Arts Board	280,000
Northern Ireland Film Commission	200,000
The Production Guild of Great Britain	11,394
Scottish Screen	45,000
Screen East	98,057
Screen South	35,632
The Script Factory	8,000
Sgrin Cymru Wales	160,000
Skillset	50,000
South East Arts (on behalf of SE Film Task Force)	239,368
South West Media Development Agency	332,816

Organisation	£
South West Screen	67,184
Split Screen – European Database	50,000
West Midlands Arts	200,000
Yorkshire Arts Board	340,000
<b>Total Grant-in-aid awards in 2002/03</b>	<b>18,555,487</b>

\* The figure for the European Film Awards represents sponsorship for 2001 and 50% sponsorship for 2002.

Schedule 2: Lottery awards made in the year ending 31 March 2002

Film awards to non-franchisees disclosed as soft commitments

Producer	Film	£
4 Way Pictures Ltd	The Dope Priest	24,000
50 Cannon Entertainment UK Ltd	Box of Delights	64,833
50 Cannon Entertainment UK Ltd	Mistress of Spices	36,583
50 Cannon Entertainment UK Ltd	Mrs Darwin	38,583
Amoeba Films Ltd	Hoover Street Revival	175,000
Anthony Neilson	Digitizer	1,000
Anthony Neilson	Witch	1,000
APT Film and Television Ltd	The Anarchists	15,828
Arcadia Films	Godparents	30,000
Arcane Pictures Limited	By the Shore	27,500
Archer Street Ltd	Thanksgiving	21,950
Archer Street Ltd/Tiger Lily Ltd	Development slate	138,050
Ariel Films Ltd	Untitled love story	1,000,000
Autonomous Pictures Ltd	The Proposition	200,000
Autonomous Pictures Ltd	Development slate	140,000
Balhar Film Productions Ltd	Crime of the Century	9,000
Bard Entertainment Ltd	Revengers Tragedy	10,000

Film awards to non-franchisees disclosed as soft commitments (cont)

Producer	Film	£
bfi Productions	Love is the Devil	1,591
Buffalo Pictures Ltd	The Rivals	2,500
Canteen Culture Ltd	Canteen Culture	101,800
Carlton Television Ltd	The Prince of Dalston	8,250
Chocolate Vanilla Productions Ltd	Chocolate Vanilla	15,525
Cine B/Tubedale Films Ltd	The Man from the Train (L'homme du train)	500,000
CNC Ltd (The Shorts Channel)	CNC Shorts	91,920
Company of Wolves Ltd	Intermission	900,000
Dan Film Ltd	Salsa Con Fusion	11,500
David P Kelly Productions Ltd	Just the Two of Us	33,000
Deep Blue River Films	One Fine Day in the Middle of the Night	39,000
Digital shorts	Tier One digital shorts	40,000
Dragon/Mission Pictures Ltd	Carrion	32,250
Ecosse Films Ltd	Development slate	130,000
Ecosse Films Ltd	Faith	83,000
Ecosse Films Ltd	On Green Dolphin Street	37,000
Emotional Backgammon Ltd	Emotional Backgammon	45,000
FAME Ltd	Sensation	23,315
Fat Melon Films Ltd	Gods of War	24,000
Fat Melon Films Ltd	The Hangman's Apprentice	29,700
FilmFour Ltd	Tier Two shorts scheme	296,750
First Take Ltd/Screen East Ltd	Tier One digital shorts	40,000
Fragile Films Ltd	Development slate	200,000
Fragile Films Ltd	The Importance of Being Earnest	75,303
Frigid Films Ltd	Flood	25,000
Fugue Films	Revolving Door	10,000
Glasgow Media Access Centre	Tier One digital shorts	40,000
Granada Film Ltd	Bloody Sunday	49,500
Green Park Films	Straight to Video	20,000
Hallmark Entertainment Distributors Ltd	Mike Bassett: England Manager	653,000

Producer	Film	£
Haystack Productions Ltd	Cork	9,999
Haystack Productions Ltd	In Every Dream Home	27,600
Holy Cow Productions Ltd	Family Entertainment (aka Lifesaving)	19,508
Home Movies Ltd	Tomorrow La Scala! (aka Sweeney)	205,000
Ideal World Films Ltd	Comes the Time	19,163
Illumination Films Ltd	Timbuktu	3,750
Infilm Productions Ltd	Carol	17,500
Intermedia Film & Video (Nottingham) Ltd	Tier One digital shorts	40,000
J Marmot, Hot Property Ltd	Body Song	350,000
Jodhi May c/o ICM	L'amour fou	15,500
Jonathan Rendall	Unknown Rider	1,000
Kiss It Productions Ltd	Kiss it	506,000
Kuhn & Co Ltd	Development slate	350,000
London Film and Video Development Agency	Tier One digital shorts	40,000
Lighthouse Media Ltd	Tier One digital shorts	40,000
Litmus Productions Ltd	Patrick Robertson	26,000
Lucy Daniel Raby	Young Santa	2,000
M Stellman & B Ward	Hostages to Fortune	7,500
Markar Productions Ltd	The Chosen	4,750
Mark Brozel/Denis Wax	Nero	3,000
Martin Pope Productions Ltd	The Lawless Heart	300
Media Development Agency West Midlands	Tier One digital shorts	40,000
MIDA Ltd	Tier One digital shorts	40,000
Midland Films Ltd	Once Upon a time in the Midlands	750,000
Mission Pictures Ltd (formerly Dragon Pictures)	Development slate	250,000
Monogram Pictures Ltd	Mapping the Edge	57,500
Monogram Pictures Ltd/		
Wark Clements Productions Ltd	Memoirs of a Geezer	18,000
Napoleon Films Ltd	Boney & Betsey	10,000
Napoleon Films Ltd	Acts of Charity	200,000
National Film and Television School	Development slate	12,000
NFH Ltd	Kisses after Dark	65,000

## Lottery schedules *continued*

Film awards to non-franchisees disclosed as soft commitments (cont)

Producer	Film	£
Noe Productions	Julia	75,000
Northern Arts	Tier One digital shorts	40,000
Northern Ireland Film Commission	Tier One digital shorts	40,000
Olivier Delahaye ODP/Tall Stories Ltd	The Wooden Camera	205,000
One Love Films Ltd	One Love	9,380
Parallax Pictures Ltd	Blind Flight	28,750
Passion Pictures	The Monday Club	20,000
Passion Dox Ltd	Live Forever	200,000
Pearl Pictures Ltd	The Rose Grower	85,000
Peter Chelsom Productions Ltd	Between the Frames	32,000
PPF Films Ltd	The Magdalene Sisters (aka Magdalene)	643,010
Primadonna Productions Ltd	China to Me	15,500
Recorded Picture Company Ltd	Young Adam	500,000
Richard Stanley	VIY	10,000
Richard Vincent	These Things Stay	6,000
Riverchild Films Ltd	Braids, Twists & Tales	62,000
Riverchild Films Ltd	Development slate	65,000
Riverchild Films Ltd	The Emperor's Babe	5,250
Riverchild Films Ltd	Cross Your Heart	12,650
Robert Fox Ltd t/a Fox Phillips	Grand Ambition	45,721
Rubicon Pictures Ltd	The Third Day	13,500
Rubicon Pictures Ltd	When I Fall in Love	10,000
Ruby Films Ltd	DJ Plumm	36,000
Ruby Films Ltd	La Symphonie Pastorale	115,000
Ruby Films Ltd	Holy Land	30,420
Sadly Compromised Prod'ns Ltd	My Other Wheelchair is a Porsche	6,664
Samuelson Productions Ltd	The Devil's Assassin	33,500
Samuelson Productions Ltd	Urban Legends	2,500
Sara Harper/Babydoll Productions Ltd	The Liar, the Bitch and the Wardrobe Mistress	5,000
Sarah Radclyffe Productions Ltd	Fever	10,000
Saul's Story Ltd	Entering Blue Zone	237,500

Producer	Film	£
Scala Productions Ltd	The Night we called it a Day	10,000
Seducer Films Ltd	Serial Seducer	28,000
Sgrin Cymru Wales	Tier One digital shorts	50,000
Shine Ltd	Comedy strand	75,000
Short Film Factory	Tier One digital shorts	35,000
Silver Fox Films Ltd	The Water Warriors	500,000
Sonata Films	Smokescreen	45,000
South West Media Development Agency/ South West Screen Ltd	Tier One digital shorts	40,000
Starfield Productions Ltd	Anita & Me	103,175
Sureshot Films Ltd/Treasure (Ireland) Films Ltd	Ape	28,000
Suspect Device Ltd	Straightheads	8,500
Tall Stories Ltd	The Wooden Camera	12,000
Tall Stories Ltd	Development slate	100,000
Telescope Pictures Ltd	The Eustace Diamonds	15,833
The Bureau Film Company Ltd	Noi the Albino	100,000
The First Film Company	Bomber	71,500
The Jim Henson Company Ltd	Five Children & It	500,000
The Starry Night Film Company Ltd	Photographing Fairies	6,125
Thin Man Films Ltd	Untitled 03 (Mike Leigh)	500,000
This is Not a Company Ltd	This is Not a Love Song	94,286
Tiger Man Ltd	The Last Man	19,750
TS2K	Tier One digital shorts	40,000
Wild Horses Ltd	Helen of Peckham	375,000
Zenith Productions Ltd	Wisdom of Crocodiles	26,717
Zephyr Films Ltd	Panic Beach	7,850
Zephyr Films Ltd	Wise Men	18,125
<b>Total single project awards</b>		<b>14,033,507</b>

Training awards (non-bursaries)

Company	Training course	£
Bournemouth University	Short courses in adaptations	14,500
Cyfle	Short courses for script readers	4,800
Draft Zero Ltd	Project development workshops	26,000
Draft Zero Ltd	Short courses for development executives	44,104
Draft Zero Ltd	Training the trainers	5,630
First Film Foundation	Yorkshire First Feedback	14,854
FT2 Film & TV Freelance Training	Development trainee internship	216,733
Glasgow Media Access Centre	NCF low-budget digital shorts	6,500
Intermedia Film & Video (Nottingham) Ltd	NCF low-budget digital shorts	6,500
Kuhn & Co Ltd	Training slate	349,179
Leeds Metropolitan University	Screenwriting scholarships	24,000
Leeds Metropolitan University	Short courses for development executives	100,000
London Film and Video Development Agency	NCF low-budget digital shorts	6,500
Lighthouse Arts & Training Ltd	NCF low-budget digital shorts	6,500
Lighthouse Arts & Training Ltd	Project development workshops	9,000
Liverpool John Moores University	Screenwriting scholarships	11,664
The London Institute/London College of Printing	Hardship fund	855
Mayavision International Ltd	NCF/FilmFour short film initiative	10,000
Media Development Agency for the West Midlands Ltd	NCF digital shorts	6,500
Moonstone International Screen Labs	Project development workshops	45,000
Moving Image Development Agency Ltd	NCF low-budget digital shorts	6,500
National Film and Television School (NSCTP)	Project development workshops	13,000
National Film and Television School (NSCTP)	Training the trainers	8,306

Company	Training course	£
New Producers Alliance	Short courses for development executives	16,777
New Writing North Ltd	Screenwriting masterclasses	12,580
North by NorthWest	Project development workshops	25,000
Northern Film & Media Ltd	NCF low-budget digital shorts	6,500
Performing Arts Labs Ltd	Project development workshops	70,000
Performing Arts Labs Ltd	Short courses - adaptations	38,416
Royal Holloway - University of London	Hardship fund	2,618
Screen East Ltd	NCF low-budget digital shorts	6,500
Shine Ltd	Comedy shorts training programme	35,000
South West Screen Ltd	NCF low-budget digital shorts	6,500
The Bureau Film Company Ltd	NCF/FilmFour short film initiative	19,510
The London Institute	Screenwriting scholarships	9,000
The Production Guild	New Producer seminar programme	50,000
The Script Factory	Project development workshops	34,350
The Script Factory	Screenwriting masterclasses	25,000
The Script Factory	Short courses for development executives	27,000
The Script Factory	Short courses for script readers	25,943
Webshields Ltd t/a Arista	Project development workshops	90,000
Yorkshire Media Production Agency	NCF low-budget digital shorts	6,500
<b>Total training awards (non-bursaries)</b>		<b>1,443,819</b>

Training bursaries

**84 awards < £100,000** **40,081**

## Lottery schedules *continued*

### Other Lottery awards

Organisation		£
East Midlands Media Ltd	Regional Lottery award	270,000
Hi8us First Light Ltd	First Light scheme	1,000,000
London (delegated body as yet unknown)	Regional Lottery award	155,000
MIDA/North West Vision Ltd	Regional Lottery award	356,470
Northern Film and Media Ltd	Regional Lottery award	323,530
Screen East Ltd	Regional Lottery award	350,000
Screen South Ltd	Regional Lottery award	210,000
Screen West Midlands Ltd	Regional Lottery award	326,000
South West Screen Ltd	Regional Lottery award	300,000
Screen Yorkshire Ltd	Regional Lottery award	450,000
<b>Total other Lottery awards</b>		<b>3,741,000</b>
<b>Total new soft commitments 2001/02</b>		<b>19,258,407</b>

(see note 17)

### Awards to franchise projects disclosed as soft commitments

Company	Film	£
DNA Ltd	28 Days Later	3,225,000
DNA Ltd	Heartlands	1,430,000
Pathé Pictures Ltd	A Semester Abroad	34,250
Pathé Pictures Ltd	Drunken Monkey	10,250
Pathé Pictures Ltd	Hawksmoor	36,670
Pathé Pictures Ltd	Hoffman (aka Max)	2,112,000
Pathé Pictures Ltd	The Blitz	100,000
Pathé Pictures Ltd	The Mushroom Prince	20,900
Pathé Pictures Ltd	The One and Only	1,750,000
Pathé Pictures Ltd	The Season	47,515
Pathé Pictures Ltd	Thunderpants	53,867
Pathé Pictures Ltd	Tunnel Vision	36,500
Pathé Pictures Ltd	Untitled Bollywood project	41,500
The Film Consortium Ltd	24 Hour Party People	747,842
The Film Consortium Ltd	Charlie Noads – RIP	5,898

Company	Film	£
The Film Consortium Ltd	Christmas Carol	425,000
The Film Consortium Ltd	Dead Souls	6,000
The Film Consortium Ltd	Fourth Wall	15,000
The Film Consortium Ltd	Gabriel and Me (aka Jimmy Spud)	101,243
The Film Consortium Ltd	Innocence (aka Intended)	1,158,000
The Film Consortium Ltd	Large	80,000
The Film Consortium Ltd	Once a Pilgrim	28,500
The Film Consortium Ltd	Room to Rent	80,000
The Film Consortium Ltd	Shame	10,000
The Film Consortium Ltd	Inside this World (aka The Silk Road)	650,000
<b>Total Franchise awards</b>		<b>12,205,935</b>
<b>Total Lottery awards 1 April 2001 – 31 March 2002</b>		<b>31,464,342</b>

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# Foreword to the Lottery accounts for the year ended 31 March 2002

## INTRODUCTION

The Film Council has been established by the Government as the strategic body responsible for developing the film industry and film culture in the UK. The Film Council has two overarching objectives: to develop a sustainable UK film industry; and to develop film culture in the UK by improving access to, and education about, the moving image.

The creation of the Film Council is a particularly important initiative from both industry and Government viewpoints in that for the first time there is one organisation in the UK responsible for encouraging both cultural and commercial film activity.

The Film Council is responsible for all DCMS Grant-in-aid for film (except the National Film and Television School), and it is also designated a Lottery distributor under the National Lottery Acts 1993 and 1998 and is responsible for Lottery funding for film production and development, training and certain other initiatives. The Arts Council of England continues to have responsibility for Lottery funding for film capital projects, stabilisation funding and other schemes. There are also separate Lottery funding functions in Wales, Scotland and Northern Ireland.

The Film Council operates through a Board of Directors, chaired by Sir Alan Parker CBE and was launched in May 2000. The launch document *Towards a Sustainable UK Film Industry* was the first public statement of the Film Council's overall industrial and cultural aims, its objectives and its initial funding programmes.

The Lottery programmes are now well established and comprise three film production funds launched in October 2000 – the Premiere Fund, the New Cinema Fund and the Development Fund. The Film Council's Training Fund was launched in April 2001 to expand training opportunities for scriptwriters, development executives and producer/filmmakers. In August 2001, the first awards were made from First Light,

a delegated funding scheme through Hi8us FIRST LIGHT, based in Birmingham, to give children and young people the opportunity to experience filmmaking and explore their talents using low-cost technology.

A Regional Investment Fund for England (RIFE) was launched in June 2001 offering transitional support for the creation of nine Regional Screen Agencies in England. These independent bodies began to operate from April 2002, and up to £6 million a year, including £3 million from Lottery funds, will be available to these agencies to support cultural and industrial film initiatives in the English regions.

## DIRECTORS

The Film Council is constituted as a company limited by guarantee, the sole guarantee of £1 is provided by the Secretary of State for Culture, Media and Sport.

The governing body of the Film Council is the Board of Directors, which consists of a Chairman, Deputy Chairman and 13 other Directors.

All Directors were appointed by the Secretary of State for Culture, Media and Sport and, unless stated below, remained Directors throughout the year.

Sir Alan Parker CBE – Chairman\*  
Stewart Till CBE – Deputy Chairman  
Dawn Airey  
Chris Auty  
Joan Bakewell CBE  
Tim Bevan  
Charles Denton\* (retired by rotation 30.8.02)  
Nigel Green (appointed 7.10.02)  
John Hill  
Duncan Kenworthy OBE  
Stephen Knibbs (appointed 7.10.02)  
James Lee  
Colin Leventhal\* (retired by rotation 30.8.02)  
Sarah Radclyffe  
Iain Smith\*  
Parminder Vir OBE\*  
Paul Webster

There are no Directors' interests requiring disclosure under the Companies Act 1985.

\*Directors who have served on the Audit Committee in the year ending 31 March 2002.

## REGISTERED AND PRINCIPAL OFFICE

The registered and principal office is 10 Little Portland Street, London W1W 7JG. The Film Council Ltd is a company registered in England and Wales, number 3815052.

## AUDITORS

The Comptroller and Auditor General  
c/o National Audit Office, 157-197 Buckingham Palace Road, London SW1W 9SP.

## INTERNAL AUDITORS

Littlejohn Frazer, 1 Park Place, Canary Wharf, London E14 4HJ.

## SOLICITORS

Withers, 16 Old Bailey, London EC4M 7EG.

## BANKERS

Barclays Media Banking Centre, Soho Square, London W1A 4WA.  
Lloyds Bank, 32 Oxford Street, London W1A 2LD.

# Foreword to the Lottery accounts

## continued

### PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The Film Council is the Government body responsible for developing the film industry and film culture in the UK, and is one of the bodies designated to distribute funds under the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998).

Funds from the National Lottery are distributed in accordance with directions issued under the Act by the Secretary of State for Culture, Media and Sport.

The Council works at arm's length from Government and has the status of a Non-Departmental Public Body. As such, it is regulated in accordance with financial memoranda issued by the Secretary of State for Culture, Media and Sport. These accounts are for the Lottery Fund and have been prepared in accordance with an Accounts Direction given by the Secretary of State for Culture, Media and Sport. The Accounts Direction is available from the Accounting Officer at 10 Little Portland Street, London W1W 7JG.

The surplus for the period, after taxation, amounted to £15.49 million.

### FUTURE DEVELOPMENTS AND POST BALANCE SHEET EVENTS

In April 2002, following wide-ranging consultation, the Film Council announced a number of initiatives aimed at supporting and stimulating the Specialised Distribution and Exhibition sector and expanding the range of films on offer to audiences across the UK.

These Lottery supported measures include a Cinema Screen Fund worth £14 million over four years and a Digital Exhibition Fund of £1 million (in association with the Arts Council of England), as well as a Cinema Education Fund (£1 million a year) and a Print and Advertising Fund (£1 million a year) to enable film distributors to acquire a greater number of specialised films and release them more widely than has been previously possible with such films.

### EMPLOYMENT AND TRAINING POLICIES AND STAFF PARTICIPATION

The Film Council is committed to a policy of equality of opportunity of its employment practices and continues to develop a culturally diverse workforce. The Film Council's training and development programmes are designed to encourage and support all employees in improving performance. In particular, the Film Council aims to ensure that no potential or actual employees receive more favourable treatment on the grounds of race, colour, ethnic origin, marital status, age, gender, sexual orientation, disability or religious beliefs.

The Film Council ensures that there are arrangements to promote effective consultation and communications with all staff. All departments have regular staff meetings at which matters relating to the Film Council's activities are discussed and staff briefed on the matters discussed at Senior Management Team and Board meetings. Meetings of all staff are held periodically.

The Film Council seeks to ensure that the requirements of health and safety legislation are met in the workplace.

### BETTER PAYMENT PRACTICE CODE

The Film Council attempts to abide by the Better Payment Practice Code and in particular to settle bills in accordance with contract. Invoices are normally settled within suppliers' standard terms. The average payment terms taken were 12 days (2001: 24) and 96% of undisputed invoices were paid within 30 days of receipt into the Finance Department (2001: 92%)

### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Under its legislative framework the Film Council is required to prepare a statement of accounts for the financial period in the form and on the basis directed by the Secretary of State for Culture, Media and Sport, with the consent of HM Treasury. The accounts

are to be prepared on an accruals basis and to show a true and fair view of the Film Council's state of affairs at the year-end, and of its income and expenditure and cash flows for the financial year.

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Film Council and of the surplus or deficit of the Film Council for that period.

The Directors of the Film Council are required to:

- observe the Accounts Direction issued by the Secretary of State, which sets out accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Film Council will continue in operation.

The Accounting Officer for the Department of Culture, Media and Sport has designated the Chief Executive Officer as Accounting Officer for the Film Council. The relevant responsibilities as Accounting Officer, including the responsibility for the propriety and regularity of the finances for which the Chief Executive Officer is answerable and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officers' Memorandum, issued by HM Treasury.

### STATEMENT ON INTERNAL CONTROL

As Accounting Officer, I have responsibility for ensuring that the Film Council maintains and operates a sound system of internal control that supports its policies, aims and objectives, whilst safeguarding the public funds and the Film Council's assets for which

I am personally responsible in accordance with the responsibilities assigned to me in Government Accounting, ensuring compliance with the requirements of the Film Council's financial memorandum.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. I expect to have the procedures in place by March 2003 necessary to implement Treasury guidance. This takes account of the time needed to fully embed the processes, which the Film Council has agreed should be established, and improve their robustness.

The Senior Management Team has identified the Film Council's significant risks as well as mitigating actions being taken to minimise those risks.

In addition to the actions mentioned above, in the coming year the Film Council plans to:

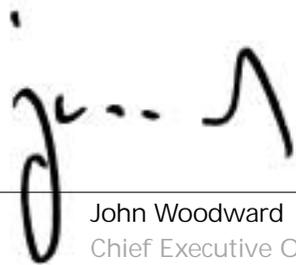
- establish a risk management document, which will be sent to all staff setting out the Film Council's attitude to risk to the achievement of our objectives;
- ensure that the Senior Management Team's agenda considers risk management and internal control on a regular basis during the year;
- incorporate risk management more fully in the corporate planning and decision making process;
- continue the programme of risk awareness training;
- develop the system of key performance and risk indicators;
- develop and maintain an organisation-wide risk register; and
- arrange for periodic reports from the Chairman of the Audit Committee and

# Foreword to the Lottery accounts *continued*

receive regular reports from managers, on the steps taken to manage risks in their areas of responsibility, including progress reports on key projects.

The Film Council has appointed a firm of chartered accountants to provide internal audit services, operating to standards defined in the Government Internal Audit Standards. The work of the internal auditors is defined by an analysis of risk to which the Film Council is exposed and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Film Council's Audit Committee and are approved by me. At regular intervals throughout the year the internal auditors provide me with reports on the areas of activity within the Film Council subject to audit. The reports include the internal auditor's independent opinion on the adequacy and effectiveness of the Film Council's system of internal control during the report period together with recommendations for improvement.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the senior managers within the Film Council, who have responsibility for the development and maintenance of the control framework, and the comments made by the external auditors in their management letter and other reports.



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John Woodward  
Chief Executive Officer  
8 November 2002

# Auditor's report

## FILM COUNCIL LOTTERY DISTRIBUTION ACTIVITIES THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements on pages 44 to 57 under the National Lottery etc. Act 1993 (as amended by the National Lottery Act 1998). These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 46 to 47.

## RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS, CHIEF EXECUTIVE OFFICER AND AUDITOR

As described on page 40 the Board of Directors and the Chief Executive Officer of the Film Council are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Board and the Chief Executive Officer are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and directions made by the Secretary of State thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the foreword is not consistent with the financial statements, if the Film Council has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit. I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 41 and 42 reflects the Film Council's compliance with HM Treasury's guidance *Corporate Governance: Statement on Internal Control*. I report if it does not meet the requirements specified by HM Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

## BASIS OF OPINION

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Film Council and the Chief Executive Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Film Council's circumstances, consistently applied and adequately disclosed. I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

## OPINION

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Film Council's lottery distribution activities at 31 March 2002 and of the retained surplus for the period; total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Lottery etc. Act 1993 (as amended) and directions made thereunder by the Secretary of State for Culture, Media and Sport; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



John Bourn

Comptroller and Auditor General

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

8 November 2002

## Income and expenditure account for the year ended 31 March 2002

	Notes	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
<b>Income</b>			
Share of proceeds of Lottery income		33,675	31,474
Investment returns on the National Lottery Distribution Fund		2,904	2,580
Arts Council of England delegation income	2	–	36,596
Arts Council of England portfolio recoupment income	3	1,645	4,175
Other income		2	9
<b>Total income</b>		<b>38,226</b>	<b>74,834</b>
<b>Expenditure</b>			
Training awards		(693)	–
Regional awards		(2,136)	–
First Light scheme		(1,000)	–
Non-film production awards		(3,829)	–
Other operating costs	4	–	(2)
Arts Council of England pre-committed expenditure		160	(3,598)
Costs apportioned from Grant-in-aid	5	(6,224)	(4,492)
Restructuring costs	6	–	(450)
Provisions against film rights	10	(13,653)	(7,749)
Over-provisions written back	10	479	–
Total other expenditure		(19,238)	(16,291)
<b>Total expenditure</b>		<b>(23,067)</b>	<b>(16,291)</b>
<b>Operating surplus</b>		<b>15,159</b>	<b>58,543</b>
Bank interest received		474	821
Notional cost of capital	11	(807)	(809)
Operating surplus after notional costs		14,826	58,555
Reversal of notional cost of capital		807	809
<b>Surplus on ordinary activities before taxation</b>		<b>15,633</b>	<b>59,364</b>
Tax on surplus on ordinary activities	7	(142)	(246)
<b>Retained surplus for the financial period</b>		<b>15,491</b>	<b>59,118</b>

### Statement of total recognised gains and losses for the year ended 31 March 2002.

There have been no recognised gains or losses for the year to 31 March 2002 or for the year to 31 March 2001 other than the surplus as disclosed above.

## Balance sheet as at 31 March 2002

*Alan Parker*

Sir Alan Parker CBE  
Chairman  
8 November 2002

*John Woodward*

John Woodward  
Chief Executive Officer  
8 November 2002

## Statement of cashflows for the year ended 31 March 2002

	Notes	2002 (£000s)	2001 (£000s)
<b>Current assets</b>			
Film rights	10	23,729	12,491
Balance at the National Lottery Distribution Fund	12	67,655	41,470
Debtors	13	1,223	341
Cash at bank and in hand	14	4,673	23,685
<b>Total current assets</b>		<b>97,280</b>	<b>77,987</b>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year			
Commitments to filmmakers	16	6,854	3,859
Creditors	17	1,906	1,099
<b>Total current liabilities</b>		<b>8,760</b>	<b>4,958</b>
<b>Net current assets</b>		<b>88,520</b>	<b>73,029</b>
<b>Total assets less current liabilities</b>		<b>88,520</b>	<b>73,029</b>
<b>Capital and reserves</b>			
Lottery reserve brought forward	21	73,029	13,911
Surplus for the year	21	15,491	59,118
		<b>88,520</b>	<b>73,029</b>
	Notes	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
<b>Operating activities</b>			
Funds received from the National Lottery Distribution Fund		10,393	7,337
Transfer of funds from the Arts Council of England		188	36,305
Arts Council of England portfolio income		1,635	4,175
Film Council portfolio income		2,531	–
Other cash receipts		50	9
Overheads payments		(5,095)	(4,956)
Payment of hard commitments		(27,658)	(20,003)
Other cash payments		(1,551)	–
<b>Net cash inflow/(outflow) from operating activities</b>	<b>20a</b>	<b>(19,507)</b>	<b>22,867</b>
<b>Return on investments and servicing of finance</b>			
Bank interest received		495	802
<b>Net cash inflow/(outflow)</b>	<b>20b</b>	<b>(19,012)</b>	<b>23,669</b>

# Notes to the accounts

## NOTE 1: ACCOUNTING POLICIES

### a) Basis of preparation

These accounts are prepared under the modified historical cost convention. The difference between the value of fixed assets and stocks determined on a historical cost basis and on a current cost basis is not material.

In preparing the financial statements for the current year the company has adopted FRS 17 Retirements Benefits, FRS 18 Accounting Policies and FRS 19 Deferred Tax. Adoption of these statements has not required any revisions to the financial statements in either the current or prior years.

The accounts have been prepared in accordance with the Accounts Direction issued by the Secretary of State for Culture, Media and Sport, and they meet the requirements of the Companies Acts 1985, except that certain headings have been amended in order to reflect special circumstances of the company, and in accordance with applicable accounting standards.

In accordance with the directions issued by the Secretary of State for Culture, Media and Sport accounts have also been prepared for the Film Council group as a whole.

A copy of the Accounts Direction is available from the Company Secretary, Film Council, 10 Little Portland Street, London W1W 7JG.

### b) Accruals convention

Income and expenditure is accounted for on a receivable basis except for recoupment income: see note 1(g).

As required by the Secretary of State, a distinction is made in respect of Lottery awards between 'hard commitments' and 'soft commitments'. Where the Film Council has made a firm offer of a grant which, together with the relevant conditions, has been accepted by the recipient, the award is accounted for as a 'hard commitment'. Where the Film Council has agreed in principle to fund a scheme and has made an offer, but the offer and associated conditions have not been accepted, the award is accounted for as a 'soft commitment'. Hard commitments are recognised in the accounts whereas soft commitments are recognised by way of note.

Hard commitments payable within one year of the balance sheet date are recognised in the balance sheet as current liabilities. Those payable more than one year from the balance sheet date are shown as commitments to filmmakers payable over more than one year, however these are extremely unlikely in the normal course of business.

Commitments for future years have been entered into taking into account income forecasts provided by the Department for Culture, Media and Sport. These forecasts take a prudent view of future income.

### c) Fixed assets

All fixed assets owned by the Film Council are included in the Grant-in-aid fund. Usage by the Lottery Fund is accounted for by means of a capital recharge from the Grant-in-aid fund.

### d) National Lottery Distribution Fund

Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Culture, Media and Sport. The share of these balances attributable to the Film Council is as shown in the accounts and at the balance sheet date has been notified by the Secretary of State for Culture, Media and Sport as being available for distribution by the Film Council in respect of current and future commitments (see note 12). The amount attributable to the Film Council has been treated as income within these accounts.

### e) Apportioned costs

The Film Council incurs costs which are shared between activities funded from Grant-in-aid and activities funded from the National Lottery. The Film Council is required to apportion costs in accordance with good accounting practice.

The notes to the income and expenditure account show the apportioned costs separately from those directly incurred by the Lottery operation.

### f) Film rights

Film rights represent advances paid and payable to filmmakers and are included in the balance sheet, with provisions raised against the value of an advance to the extent that full repayment is not expected. The amount payable is also recorded as a liability on the balance sheet.

All advances to filmmakers are repayable under certain conditions. Where a feature film made with the assistance of the Film Council is successfully released, the Film Council is entitled to participate in revenues generated by that success, securing

repayment of the investment in full, together with a share of the profits generated by the film. Profits are taken to income when payments are received.

Provisions are made to the extent that full repayment of an advance, through actual receipts and the value of future estimated receipts, is considered doubtful. Advances for development and short film awards are fully provided against in the year of award unless there is a reasonable expectation of repayment.

Provisions against film rights shown in the Income and Expenditure account reflect the net effect of these movements.

### g) Film recoupment income

Income received from a film right is offset against the value of the right on the balance sheet. Income in excess of the original value of the right is taken to the income and expenditure account as film recoupment income.

All income received from the rights in the portfolio of films transferred from the Arts Council is taken directly to the income and expenditure account as these rights are recognised on the Film Council balance sheet at zero value. This reflects the Arts Council of England's accounting policy to write off the value of all advances in the year of award and the fact that no consideration was paid for the rights transfer by the Film Council.

### h) Other Lottery awards

Lottery awards other than those for film rights are taken in full to the income and expenditure account in the year in which the commitment to these awards crystallises.

### i) Notional cost of capital

A notional cost of capital charge is shown in the income and expenditure account in accordance with Treasury guidance. The basis of the charge excludes balances at the National Lottery Distribution Fund, film rights and corresponding creditors. The charge is subsequently reversed in the income and expenditure account so a provision is not made in the balance sheet.

### j) Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but

not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less, or to receive more tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on the disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all the available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted; and
- deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### k) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the income and expenditure account.

### l) Leasing commitments

Rentals payable under operating leases are charged in the income and expenditure account on a straight-line basis over the lease term.

### m) Financial instruments

The group's principal financial instruments are cash and holdings in the National Lottery Distribution Fund. The group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations. The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The magnitude of the risks arising are detailed in note 15.

# Notes to the accounts *continued*

## NOTE 2: ARTS COUNCIL OF ENGLAND DELEGATION INCOME

The Arts Council of England Delegation income arose from a transfer agreement of April 2001 between the Film Council and the Arts Council of England, where the Film Council acquired ownership of rights in a portfolio of film awards for which no consideration was paid. These rights are reflected on the Film Council balance sheet at zero value reflecting the Arts Council of England's accounting policy to write off the value of all advances in the year of the award.

The transfer agreement also provided for a transfer of Lottery funds to the Film Council. These funds represent the film cash allocation to the Arts Council of England that had not been drawn down from the National Lottery Distribution Fund as at the date of transfer. Awards that were still soft commitments at the point of transfer, but have hardened since, are treated in the same manner as changes in such commitments arising from Film Council awards.

## NOTE 3: RECOUPMENT INCOME

Arts Council of England portfolio recoupment

Under the transfer agreement with the Arts Council of England, the Film Council receives all future income generated from rights in the portfolio of films transferred from the Arts Council of England. In the year ended 31 March 2002, 31 of the transferred titles recouped income.

Titles in receipt of income, identifying those over £100,000, in the year ended 31 March 2002:

	£000s
Billy Elliot	816
Ordinary Decent Criminal	148
There's only one Jimmy Grimble	288
Titles with income below £100,000	393
	<b>1,645</b>

Film Council portfolio recoupment

The Film Council is entitled to receive recoupment against all the film awards that have been made since the creation of the Council in line with the terms of the individual

production funding agreement. This income is taken directly against the carrying value of the film right on the balance sheet. Only when recoupment exceeds the amount of the investment is the 'profit' thus generated taken to the income and expenditure account.

In the year ended 31 March 2002, 22 of the Film Council titles recouped income – in all cases this was netted off against the loan with no 'profit' situation yet being reached.

Those titles receiving recoupment in the year to 31 March 2002 in excess of £100,000 were:

	£000s
Crush (aka A Certain Age)	265
Dust	434
Mike Bassett: England Manager	918
The 51st State	111
The Hole	489
Titles with income below £100,000	314
	<b>2,531</b>

## NOTE 4: OTHER OPERATING COSTS

	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
These costs include:		
Bank charges	–	2

## NOTE 5: COSTS APPORTIONED FROM GRANT-IN-AID

These costs include:

	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
Audit costs: National Audit Office	15	15
Capital recharge	225	204
Staff travel & subsistence – domestic	24	16
Staff travel and subsistence – foreign	31	27
Agency fees and freelance staff	54	161
Hospitality	26	14
Legal costs	46	161
Other professional fees	84	145
Arts Council of England service charge	–	108

## NOTE 6: RESTRUCTURING COSTS

The Film Council was created from the Arts Council of England Lottery Department, *bfi* Production, British Screen Film Finance and the British Film Commission. The restructuring costs from bringing these organisations together, including redundancy payments, in 2000/01 were £450,424.

## NOTE 7: TAX ON SURPLUS ON ORDINARY ACTIVITIES

	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
Corporation tax payable	142	246

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	Year ended 31 March 2002 £000s	Year ended 31 March 2001 £000s
Surplus on ordinary activities for the year	15,633	59,364
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001:30%)	4,689	17,809
Effects of:		
Film Council Lottery surplus not chargeable of UK corporation tax	(4,547)	(17,563)
Current tax charge for the period	142	246

Following agreement from the Inland Revenue, profits from the film activities of the Film Council are not subject to corporation tax.

The implementation of FRS 19: Deferred Taxation, has no impact on the current or prior year tax charge or deferred taxation liabilities due to the tax status of the company.