

Scottish Arts Council

**National Lottery Distribution Fund
Annual Report and Accounts
for the year to
31 March 2009**



Scottish **Arts** Council

National Lottery Distribution Fund

Reports and Accounts

for the year to 31 March 2009

**Presented to Parliament Pursuant to Section 35 of
the National Lottery Etc Act 1993**

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The Scottish Arts Council
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CONTENTS

	PAGE
DIRECTORS AND OFFICERS	1
ANNUAL REPORT	
DIRECTORS' REPORT	2
MANAGEMENT COMMENTARY	8
REMUNERATION REPORT	13
STATEMENT OF COUNCIL'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES	15
STATEMENT OF INTERNAL CONTROL	16
INDEPENDENT AUDITORS' REPORT	18
INCOME AND EXPENDITURE ACCOUNT	21
BALANCE SHEET	22
CASH FLOW STATEMENT	23
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2009	24
FIVE YEAR SUMMARY	38
STATEMENT OF COMPLIANCE	39
ACCOUNTS DIRECTION	49

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

DIRECTORS AND OFFICERS

**SCOTTISH ARTS COUNCIL AND
SCOTTISH SCREEN JOINT BOARD**

**Richard Holloway
Dinah Caine OBE
Donald Emslie
Steven Grimmond
Charles Lovatt
Ray Macfarlane
Barbara McKissack
James McSharry
John Mulgrew
Rab Noakes
Benjamin Twist**

CHIEF EXECUTIVE

James Urquhart Tough

SECRETARIES AND LEGAL ADVISORS

**Burness LLP
50 Lothian Road
Festival Square
Edinburgh
EH3 9BY**

BANKERS

**Bank of Scotland
20/22 Shandwick Place
Edinburgh
EH2 4RN**

AUDITORS

**Scott-Moncrieff
17 Melville Street
Edinburgh
EH3 7PH**

PRINCIPAL PLACE OF BUSINESS

**12 Manor Place
Edinburgh
EH3 7DD**

DIRECTOR'S REPORT

Background

The Scottish Arts Council is the national body responsible for the distribution of public funds towards the support of the arts. The Scottish Arts Council was established as an independent organisation by Royal Charter in 1994. The Scottish Arts Council is also recognised as a Scottish Charity (SC002835). Its purpose is to develop and improve the knowledge, understanding and practice of the arts; to increase accessibility of the arts to the public; and to advise and co-operate with other bodies and organisations with similar interests.

Its activities in support of the arts are financed by an annual grant-in-aid from the Scottish Government Education Department, by the National Lottery, and from income generated by its activities.

It produces two separate Annual Accounts. This one covers the activities supported by the National Lottery Funds. A separate set of Annual Accounts is produced for those activities supported by Scottish Government grant-in-aid.

National Lottery Fund

Under the National Lottery etc. Act 1993, the Scottish Arts Council was appointed to distribute National Lottery funds for expenditure on or connected with the arts in Scotland, in accordance with the powers set out in its Royal Charter.

Under the directions given by the Scottish Ministers, all distributing bodies must prepare separate statements of account relating to these activities.

Principal activities

The Council's principal activity is the support of the arts, which it does by investing in organisations and individuals, through arts development activities, and by engaging directly in the provision of services such as information, research, education and marketing activities.

Summary of Scottish Arts Council highlights in 08/09

During the period under review, Scottish Arts Council has been able to continue to develop its support for culture in Scotland, by investing £28.365 million in the arts sector.

Part of our response, in seeking to balance sustainability alongside the need for a dynamic and developmental creative sector, has been the ongoing work of the Strategic Review (SR). This involved a fundamental review of our funding relationship with the sector, and established a number of core organisations for the long term alongside a flexible funding programme that allows us to respond to innovation and new artistic ideas in the sector. That works continues to unfold as we move towards Creative Scotland, most notably in the further development of our Quality Framework, a tool for continuous improvement that has been developed with our constituency.

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

During the reporting year we continued through the significant change process that will see the formation of a new body, Creative Scotland, and the abolition of the Scottish Arts Council through an Act of Parliament. It remains a timely opportunity to bring fresh approaches and ideas in support of the nation's creativity, and develop strategies and structures to meet the future needs of arts and creative industries in the 21st century. The impact of the recession of course has become a factor in our thinking as the change process progressed. During the reporting year we began to plan for a programme of support that would help maintain business continuity in the sector and prepare them for a difficult financial future. This could be seen as the next phase of the Strategic Review where we will challenge and support the sector in thinking radically and innovatively about their business models. Our goal will be to enable more resilient and sustainable approaches through organisation change. The programme of support and investment is planned during the reporting year is being rolled out in 09/10.

This is indicative of a wider concern regarding business continuity. With the support of our Board and the Minister for Culture, External Affairs and The Constitution Michael Russell MSP we have been planning how we can maintain a high quality service for the arts constituency through the change process. The planning process has addressed this during 08/09 where we have identified key risk areas and business critical planning decisions, for example the need to commit budgets in support of activities with a longer planning horizon such as touring theatre. This has been an organisation-wide activity for Scottish Arts Council in involving staff in the planning and preparation for Creative Scotland. So despite the turbulence generated in the process of transition to Creative Scotland, we have delivered on our full set of responsibilities and objectives over the last year and carefully planned for business continuity in the next.

This is an overarching achievement in itself and is testament to the hard work, expertise and commitment of a staff team who have delivered despite uncertainty and delay in a long journey towards change.

While the artistic highlights of the financial year 2008/09 reflect the resources invested by the Scottish Arts Council, they reflect the achievements which belong to the artists and arts organisations we support. They include:

- The 2008 Edinburgh International Festival had as its theme artists without borders, and a wide spectrum of work was on offer. Some 144,061 tickets were sold for EIF performances and a further 250,000 people enjoyed the ever-popular Bank of Scotland Firework concert with the Scottish Chamber Orchestra.
- The Edinburgh International Book Festival once again surpassed all expectations in its 2008 statistics. With 200,000 visitors, 75% of all available tickets were sold, a rise of 3% on 2007, and there were 800 authors at 750 events, with appearances from Gordon Brown PM, Alex Salmond, First Minister, and Sean Connery, whose event sold out in 40 minutes.
- We supported Scotland Live, a showcase of Scottish theatre and dance which brought 30 promoters from across the world to see 18 performances by a range of Scottish companies in venues in Glasgow, St Andrews, Perth and Edinburgh. The project was managed by the Federation of Scottish Theatre (FST). This led to various international tours and performances including a tour of the Netherlands of Fleeto by Paddy Cunneen and Puppet State's Man Who Planted Trees, performances of David Leddy's Susurrus in Milan, and a three-company programme of work at the Cork Festival.

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

- To accommodate its ever-increasing audience the annual Edinburgh Mela festival was moved to a new, larger venue in Leith. The 2008 highlight was the addition of a weekday programme of ticketed events. The recorded audience figure was 54,394.
- Birds of Paradise, Ankur Arts, and Mischief La Bas work with disabled artists, the minority ethnic community, young people, elderly people and in street arts – the latter engaging people who do not normally attend theatre events. Catherine Wheels and Visible Fictions continued to attract international touring opportunities through the development of a repertoire of innovative work for children.
- Through partnerships with local authorities and arts agencies 90 crafts makers in the Highlands and Islands and eight Lowland regions were able to benefit from local schemes of support
- The Scottish Arts Council launched an international networking project, the Plenary Meeting of IETM (the European Theatre Network), the foremost network for contemporary performing arts in Europe and beyond. The international project, facilitated by the Federation of Scottish Theatre, supports 10 theatre and dance organisations in Scotland to develop international partnerships.
- A number of large-scale Lottery funded projects were completed in 2008/09: Mull Theatre Production Centre; the Pier Arts Centre, Orkney; and Howden Park, Livingston, West Lothian. Work continued on several other large-scale Lottery projects: Scottish Ballet's new headquarters at Tramway and Trongate 103, both in Glasgow, as well as the extensive refurbishment and new extension of the Usher Hall in Edinburgh.
- We reviewed and refreshed the Small Capital Grants scheme by developing new priorities – 34 Lottery awards were made in 2008/09 totalling £1.4 million
- We worked in partnership with Learning and Teaching Scotland on a major project to create content for GLOW, the world's first national education intranet. The project involved educators, IT specialists and arts organisations working together, contributing their creativity and expertise to maximise the potential of the technology for engaging effectively with learners.

Council Members in 2008/09

In the normal course of events Council members are appointed for a term of three years, however, with the imminent creation of a new body (Creative Scotland) a new joint board was established on 1 February 2007 to direct the operations of both the Scottish Arts Council and Scottish Screen. Appointment is through the Commissioner for Public Appointments in Scotland.

An established induction program covers areas of both operation and governance to assist Council members to maximise their contribution.

Joint Board

Richard Holloway (Chairman)	Barbara McKissack
Dinah Caine OBE	James McSharry
Donald Emslie	John Mulgrew OBE
Steven Grimmond	Rab Noakes
Charles Lovatt	Iain Smith (resigned 16 March 2009)
Ray Macfarlane	Benjamin Twist

Joint Board members have the ultimate decision making responsibility. The setting of the corporate and business plans is followed by a delegated structure of art form experts, committees and administrators operating within their fields of expertise and specific levels of delegated authority to deliver the objectives outlined in those plans.

The responsibility for the day-to-day management of the Scottish Arts Council is delegated to the Chief Executive and the Senior Management Team.

Employee arrangements

The Scottish Arts Council involves employees in decisions relating to welfare, employment practices and pay and conditions of service, through a Joint Negotiating Committee. The Council recognises the union Amicus with which it has established a procedural agreement; representatives of management and union meet regularly.

The Scottish Arts Council currently adheres to the 'Investors in People Standard'.

The Council monitors a key performance indicator relating to sickness absence data. For 2008/09, the number of days sickness recorded was 5.19 days per employee.

Sustainability and the Environment

The Scottish Arts Council is committed to an environmentally-friendly approach in the pursuit of its objectives and activities. The Scottish Arts Council intends to take a proactive stance on energy management and carbon saving. Our objective is to identify energy and carbon savings opportunities and to implement the measures necessary, which will be appropriate to our business, to achieve those savings. The Council is one of the early members of the Carbon-Lite program which is delivered by the Carbon Trust on behalf of Scottish Government. As part of this initiative, performance will be monitored through the use of the following key performance indicators; CO² per employee and CO² per square meter.

Equal opportunity in employment and disabled employees

The Scottish Arts Council is committed to applying its comprehensive Equal Opportunities Policy in relation to its staff and all its funding decisions. In addition the Council has received approval to use the widely recognised disability symbol 'Positive about Disabled People'.

Appointment of auditors

The annual accounts are audited by Scott-Moncrieff who were appointed by the Auditor General for Scotland. Their report is presented on pages 19 to 21. The fee for this service was £28,677 (2007/08 £27,240), which relates solely to the provision of statutory audit services.

During the year there was also non-audit work (internal audit services), which was carried out by the Scottish Government Internal Audit department.

Disclosure of information to auditors

So far as the Accountable Officer is aware:

- there is no relevant information of which the Council's auditors are unaware;
- the Accountable Officer has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

Financial Instruments

FRS 29 requires disclosure of financial instruments 'that are complex or play a significant medium to long-term role in the financial risk profile that the Scottish Arts Council faces in undertaking its activities. Cash requirements for Lottery expenditure are met by drawing down against monthly forecasts of need from the balances held on behalf of the Scottish Arts Council by the National Lottery Distribution Fund. At 31 March 2009, the fund balance was £29m, at which point there were £27.9m of grant commitments yet to be paid out.

In budgeting for current expenditure the Scottish Arts Council balances the anticipated outflow of cash payments against grant commitments along with forward forecasts of Lottery income. The Scottish Arts Council is confirmed as a Lottery distributor until 2019. This means that the Scottish Arts Council is exposed to little immediate credit, liquidity or market risk.

Further we do not believe that we are exposed to significant liquidity risks, and are satisfied that we have sufficient current liquid resources to cover our projected payments over the next financial year.

In accordance with the National Lottery Act 1998, National Lottery income receivable by the Scottish Arts Council is passed by the National Lottery Distribution Fund to the Commissioners for the Reduction of National Debt who invest the income in a narrow band of low risk assets such as government bonds and cash. The Scottish Arts Council has no control over the investment of funds on their behalf. However, the Scottish Arts Council does not consider there is an exposure to interest rate risk, barring the current market trend towards declining returns. The management of the National Lottery Distribution Fund meets with representatives of the Commissioners for the Reduction of National debt on a regular basis to manage the risks associated with the investment of these monies.

Our exposure to foreign currency risk is negligible.

Freedom of information and Personal Data related incidents

The Scottish Arts Council is subject to the Freedom of Information Act which came into effect from 1 January 2005. The Scottish Arts Council is obliged to act in a spirit of openness, to provide information (unless exempt) within 20 working days, to provide advice and assistance to applicants and, proactively, publish information under its Publication Scheme.

There have been no reported incidents of loss of personal data. The roles of the majority of employees involve a direct interface with the sector and IT infrastructure arrangements are in place to minimise the risk of any loss of personal data. These include employee agreement to data protection guidelines for remote working, a secure gateway for remote access and password protected laptops and memory sticks which prohibit unauthorised use in the event of loss.

**Richard Holloway
Chairman
11 September 2009**

MANAGEMENT COMMENTARY

Income and Expenditure Account

The Council's share of proceeds from the National Lottery Fund during the year to 31 March 2009 was £16.949 million (2007/08 £16.737 million). Interest and other income of £0.134 million (2007/08 £0.184 million), brought the total income to £17.083 million (2007/08 £16.921 million).

Grants paid and committed, net grant commitments and arts services during 2008/09 totalled £28.365 million (see notes 3 and 4) compared with £14.986 million in 2007/08.

Management and administration costs decreased from £1.041 million in 2007/08 to £0.927 million in 2008/09.

The National Lottery Fund is providing services directly to the arts, such as information, education, marketing and research; therefore we consider it more appropriate to identify the expenditure related to these activities. A total of £0.976 million (2007/08 £1.077 million) covering these areas has been separately identified.

Lottery funds support a wide range of schemes and particular note should be made of the introduction of schemes which support work in local authorities and the Social Inclusion Partnerships. The Advancement Programme continues to assist arts organisations through a process to achieve lasting change and the Capital Programme continues to attract a high number of applications.

The net result for the year is a decrease in fund of £13.026 million (2007/08 was an increase in fund of £0.909 million).

Differences between budgeted figures and those appearing in these accounts are affected by timing of grant decisions and the nature of grants in support of major projects which often result in a delay between decisions being taken and grant expenditure being recorded in the accounts. Grant decisions totalling £2.446 million (2007/08 £1.441 million) taken late in the financial year are not recorded in this account because they have not been formally accepted. They are, however, disclosed in note 15. The ability to treat Lottery income as a continuing fund as opposed to an annual grant means that budget allocations not yet committed are carried forward to be committed in future years and expenditure may anticipate future income.

Note 16 refers to a number of situations where they there have been losses. For example, at Thor Leisure, Thurso, where the commercial operator of this leisure centre, which includes the cinema supported with £450,000 of National Lottery funds, went into insolvent liquidation. The second ranking security taken over this business was sufficient to ensure our involvement in encouraging a new proprietor to continue operation of the cinema but insufficient, second to a commercial banker, to recover any of our grant.

The potential loss indicates the risk inherent in supporting activity in remote areas of low population density to which the Scottish Arts Council is committed. Details a similar situation, the Lemon Tree Aberdeen, is noted in note 16.

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

The National Lottery Fund bears the cost of the use of certain assets included in the Scottish Arts Council's General Fund through a depreciation charge.

Balance Sheet

The account shows total net current assets of £0.832 million (2007/08 £13.639 million).

National Lottery Distribution Fund

In line with the Department for Culture Media and Sport (DCMS) guidance note 01/03 and best practice, the Scottish Arts Council has developed a policy on the management of Lottery Balances.

At 31 March 2009 the balance held under the stewardship of the National Lottery Distribution Fund (NLDF) attributable to the Scottish Arts Council National Lottery Fund was £29.014 million (2007/08 £28.130 million). During the year to 31 March 2009 £15.225 million (2007/08 £20.376 million) was called down from the Distribution Fund for the payment of approved awards and administration of the Council's National Lottery Fund. Because most of the grants made to date are in support of major projects whose life extends well beyond the financial year in which the award decision is made, there is a considerable time lag between grants being offered, work commencing and coming to a conclusion. Although steps are being taken to reduce this time lag it is likely to remain at a high level for the foreseeable future. Substantial sums are still being committed to capital projects which can take several years to complete and therefore several years for the final payments to be made. The majority of funds held, invested on behalf of the Scottish Arts Council by the NLDF, are allocated to specific projects. The unallocated balance is added to later budgets for allocation

Unallocated balances (from 2008/09 budget)

	2009 £'000
Arts Development	2,574
Audience Development	393
Crafts	4
Dance	1
Drama	1
Education	76
Equalities	17
Music	6
Visual Arts	45
	<hr/> <hr/> 3,117 <hr/> <hr/>

Arts Development includes budget allocated to the Inspire Fund which took longer than anticipated to set up but which is accepting applications in the 2008/09 and 2009/10 years.

These figures do not include funds which have been agreed in principle but have not been fully committed.

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

Review of Activities

In 2008/09 the Council budgeted to distribute the funds available on the following basis:

	2009 £'000
<u>Arts Development</u>	
Arts Development	6,040
Crafts	75
Creative Industries	180
Dance	821
Drama	1,192
Literature	292
Music	1,141
Visual Arts	341
<u>Strategic Development</u>	
Audience Development	960
Capital	1,415
Education	360
Equalities	841
	<hr/> <hr/> 13,658

Although the grant decisions made during the year were close to the budgeted amounts, the hard commitments of grant awards which can be taken into this account total £27.895 million (see note 15). The balance of funds available refers to soft commitments and decisions taken near the end of the year which, because of accounting principles, cannot be included in this account.

Going Concern

The accounts have been prepared on the going concern basis. Whilst the establishment of Creative Scotland is expected to lead to the transfer of Scottish Arts Council's assets, liabilities and operations to this new successor body and the ultimate dissolution of the Scottish Arts Council as an entity. The timescales for any such transfer are dependant on a range of external factors beyond the Scottish Arts Council's control. The Joint Board is committed to continuity of service to the sector through this period of change and is of the opinion that the going concern basis remains appropriate, and that this position most accurately presents a true and fair view of the financial results.

Future Developments

General

When Lottery Funds were first introduced the emphasis was entirely on support of capital expenditure projects. Later years saw the introduction of support for activity, firstly through the New Direction Programme. This trend has continued with the Council transferring more resources from capital expenditure towards activity based projects. All grant decisions are taken in accordance with a general Lottery Strategy agreed with

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

the Council, the Scottish Government and DCMS. This strategy is now wholly integrated with the Council's corporate plan which covers all of its activities.

It has been agreed with other distributors to continue the imaginative and simplified Awards for All Scheme which aims to support small and voluntary organisations by awarding grants up to £5,000.

Review of Lottery Distribution

Following a review of the distribution of lottery funds, the Minister for Culture announced recently that the existing arrangements will continue for the ten years beyond 2009. This vote of confidence in existing distributors is welcome and means that Creative Scotland, once constituted, will likely receive the shares of lottery income previously received by the Scottish Arts Council and Scottish Screen.

The Minister for Culture also announced that the lottery would contribute to the cost of the 2012 Olympic Games to be held in London and this will result in lower proceeds until that date.

In February 2008 a statutory Instrument (SI2008 No. 255 The Payments into the Olympic Lottery Distribution Fund etc. Order 2008) was passed which allowed for the transfer of up to £1,085 million from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund in order to meet some of the costs of hosting the 2012 games. This comprises of £410 million as originally envisaged when the Government decided to support London's Olympic bid in 2003, and a proposed further £675 million arising from the subsequent budget review.

The Scottish Arts Council was committed to contribute up to £5.5 million in the original bid and this order allows for the transfer of up to £7.0 million resulting in a total contribution of £12.5 million.

The first transfer of funds took place on 2 February 2009.

Outline of Procedures

Decisions on grant awards are taken by the Scottish Arts Council on the advice of specialist committees which deal with the Capital Programme and a range of revenue funding schemes.

Grant decisions are also taken under delegated authority as follows:

	From £	To £
Lead Officer	£0	£10,000
Lead Officer and Head of Department	£10,001	£249,999
Lottery Committee	£250,000	£999,999
Joint Board	£1,000,000	(and over)

All decisions over £1 million must be approved by the Joint Board and in addition all decisions taken under delegated authority are reported to Council.

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

The Scottish Arts Council maintains a register of interests which is disclosed in note 16.

Payment of Creditors Policy

The Scottish Arts Council's NDPB Fund observes the principles of the Better Payment Practice Code.

It is the policy of the Scottish Arts Council that creditors should be paid within the credit terms of the supplier. In the normal course of events this should happen within 30 days of receipt of invoice. This is in line with the policy stated in the Scottish Public Finance Manual at November 30th, 2008 which had 30 days as its stated target for average time taken to pay creditors.

The Council tracks the key performance indicator for average time taken to pay creditors. In 96.51% of cases, the KPI target was successfully met, with a further 1.16% being paid within 35 days. The majority of the remaining 3.49% were the subject of some dispute and were only paid once a resolution was achieved.

Effective 1 December 2008, the SPFM revised its policy to reduce the target for average time taken to pay creditors from 30 days to 10 days. The impact of the necessary operational steps required to meet this target, while maintaining the internal controls to ensure the propriety, regularity and accuracy of the expenditure, on this revised KPI target, will be seen in the next financial year.

**James Urquhart Tough
Chief Executive and Accountable Officer
7 September 2009**

REMUNERATION REPORT

The Chairman and the Chief Executive are appointed by the Scottish Government and their remuneration is reviewed by the Council's Remuneration committee, although determined by Scottish Government. The Scottish Government Public Sector Pay Policy for Senior Appointments policy states the remuneration package for Chief Executives includes the potential to earn a bonus and performance will be assessed against these requirements for future years.

As Acting Chief Executive, the postholder's remuneration fell within the regular pay remit, which is approved by the Remuneration committee. The Acting Chief Executive was appointed to the post of Chief Executive in November 2008.

	2008/09 Salary	2007/08 Salary
Name	£	£
Richard Holloway Chairman Joint Board	21,824	21,402
James Urquhart Tough Chief Executive (with effect from 01/11/08)	80,998	77,882

The above salary information has been subject to audit.

Salary includes gross salary, performance pay or bonuses and any other allowance to the extent that it is subject to UK taxation.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. No benefits in kind have been provided to employees during this year.

A sum representing 32% of the total Chairman and Chief Executive's remuneration has been allocated to the National Lottery Fund.

Name	Accrued pension at age 65 as at 31/3/09 and related lump sum £	Real increase in pension and related lump Sum at age65 as at 31/3/09 £	Cash Equivalent Transfer Value at 31/3/09 £	Cash Equivalent Transfer Value at 31/3/08 £	Real Increase In Cash Equivalent Transfer Value £
Richard Holloway Chairman	0	0	0	0	0
James Urquhart Tough Chief Executive (with effect from 01/11/08)	117,204	7,426	370,368	375,269	(3,400)

The above pension information has been subject to audit.

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

The Chief Executive is a permanent member of staff; however, the Chairman's contract is for a period of 3 years with provision for renewal at the end of that term.

The Chairman is not a member of the Arts Council Retirement Plan (1994). The Chief Executive is an ordinary member of the Arts Council Retirement Plan (1994). This is a final salary scheme to which members contribute 1.5% of pensionable earnings with pensions normally payable at age 65.

Council and committee members excluding the Chairman are not paid for their services, and are not members of the Arts Council Retirement Plan (1994).

The Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time.

Real increase in CETV reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Remuneration Committee

Richard Holloway (Chairman)
Donald Emslie
Charles Lovatt

Ray Macfarlane
John Mulgrew OBE
Steven Grimmond

The Remuneration committee meets at least twice a year, with additional meetings as required at either Scottish Screen's offices in Glasgow or Scottish Arts Council offices in Edinburgh. The Remuneration committee has delegated responsibility for recruiting and setting the remuneration for the Chief Executives of the Scottish Arts Council and Scottish Screen. As Acting Chief Executive, the postholder's salary was reviewed in accordance with the procedures for his substantive post within the regular pay remit. Since his appointment as Chief Executive in November 2008, the Remuneration committee reviewed the proposed salary arrangements which were presented to Scottish Government for approval.

**James Urquhart Tough
Chief Executive and Accountable Officer
7 September 2009**

STATEMENT OF COUNCIL'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under Section 35 (2)-(3) of the National Lottery etc. Act 1993 the Scottish Arts Council is required to prepare a Statement of Accounts for the financial year in the form and on the basis directed by the Scottish Ministers with the consent of the Secretary of State for Culture, Media and Sport.

The financial statements are prepared on an accruals basis and must show a true and fair view of the Scottish Arts Council's National Lottery Fund's state of affairs at the year end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Council is required to:

- Observe the Accounts Direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Council's Lottery Fund will continue in operation.

The Accountable Officer for the Scottish Government Education Department has designated the Acting Chief Executive as Accountable Officer for the Scottish Arts Council. The relevant responsibilities as Accountable Officer, including the responsibility for the propriety and regularity of the public finances and for the keeping of proper records are set out in the Memorandum to Accountable Officers of Public Bodies, issued by the Scottish Government.

STATEMENT OF INTERNAL CONTROL

Scope of Responsibility

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives set by the Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

This accountability is supported by a senior management team which meets weekly to review current issues and devise policy and operational improvements. It considers the identification and management of risks both current and likely. This process is formalised and reviewed by Audit Committee and Council.

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling of public funds. It is mainly designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety, and secure effective accountability and good systems of internal control.

Purpose of the System of Internal Control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's 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 the organisation's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The process within the organisation accords with the SPFM and has been in place for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts and accords with guidance from the Scottish Ministers.

Risk and Control Framework

All bodies subject to the requirements of the SPFM must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

As Accountable Officer I am assisted in the management of risk by formal structures of Internal Audit, Risk Management and the work of the Audit Committee. The Risk Register is subject to regular review with an annual cycle of Internal Audit work informing improvements to operating systems. The Risk Register has been used to inform internal audits assessment of corporate risk and to prioritise areas of internal audit scrutiny and review. The Audit Committee reviews the systems of internal control to ensure the adequacy and timeliness of action.

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

More generally, the organisation is committed to a process of continuous development and improvement, developing procedures in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2009 and up to the signing of the accounts the organisation addresses the following areas:

- A number of significant risks have been identified for the arts sector as a result of the recession, including the downturn in corporate sponsorship and reduced trust income. As Accountable Officer, I have identified a strategic response to these risks in the form of a Resilience fund to address any major risks.
- The further development of risk management and business continuity planning procedures is expected to increase the effectiveness of management systems for the achievement of the organisations objectives, in a time of change. Of paramount importance during the transition to Creative Scotland is the continuity of service to the sector.
- Provided assurance to the Deputy Director of Scottish Government's Culture Division, to inform her assurance to the Principal Accountable Officer, that I can confirm controls in my area have been, and are, working well.

Review of Effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by:

- the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors, who submit to the organisation's Audit Committee regular reports which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement;
- comments made by the external auditors in their management letters and other reports.

The system of internal control includes routine revision of policy and procedures to ensure they remain current. These policies and procedures are in turn subject to a rolling cycle of Internal Audit review which is reported to Audit Committee.

Appropriate action is in place to address any weaknesses identified and to ensure the continuous improvement of the system.

There are, in my opinion, no other significant matters arising which would require to be raised specifically.

**James Urquhart Tough
Chief Executive and Accountable Officer
7 September 2009**

**Independent auditors' report to the members of the Scottish Arts Council
National Lottery Distribution Fund, the Auditor General for Scotland and the
Scottish Parliament**

We have audited the financial statements of the Scottish Arts Council National Lottery Distribution Fund for the year ended 31 March 2009 under the National Lottery etc Act 1993. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. We have also audited the information in the Remuneration Report that is described in that report as having been audited.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Council, Chief Executive and auditors

The Council and Chief Executive, as accountable officer, are responsible for preparing the Annual Report which includes the Remuneration Report and the financial statements in accordance with the National Lottery etc Act 1993 and directions made thereunder by the Scottish Ministers. The Council and Chief Executive are also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Council's and Chief Executive's Responsibilities.

Our responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Lottery etc Act 1993 and directions made thereunder by the Scottish Ministers. We report to you whether, in our opinion, the information which comprises the Directors' report and management commentary, included in the Annual Report, is consistent with the financial statements. We also report whether in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

In addition, we report to you if, in our opinion, the body has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects the body's compliance with the Scottish Government's guidance, and we report if, in our opinion, it does not. We are not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the unaudited part of the Remuneration Report, the 5 year summary and the National Lottery Statement of Compliance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. Our audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body'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 financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

Financial statements

In our opinion

- the financial statements give a true and fair view, in accordance with National Lottery etc Act 1993 and directions made thereunder by the Scottish Ministers, of the state of affairs of the body as at 31 March 2009 and of its decrease in funds, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Lottery etc Act 1993 and directions made thereunder by the Scottish Ministers; and
- information which comprises the directors' report and management commentary included with the Annual Report is consistent with the financial statements.

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

Regularity

In our opinion in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Scott-Moncrieff

Registered Auditors
17 Melville Street
Edinburgh
EH3 7PH

21 September 2009

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

Income and Expenditure Account for the year ended 31 March 2009

	Notes	2009 £'000	2008 £'000
Income			
National Lottery Fund proceeds		16,949	16,737
Other income	2	134	184
		<hr/> 17,083 <hr/>	<hr/> 16,921 <hr/>
Expenditure			
Grants paid and committed during the year	3	7,305	5,986
Net grant commitments	3.2	20,084	7,923
Arts services	4	976	1,077
2012 Olympic transfer		840	0
Management and administration costs	6	927	1,041
		<hr/> 30,132 <hr/>	<hr/> 16,027 <hr/>
Surplus/(Deficit) on operating activities		(13,049)	894
Notional interest		23	15
		<hr/> (13,026) <hr/>	<hr/> 909 <hr/>

All the results of the fund relate to continuing activities

Statement of total recognised gains and losses for the year ended 31 March 2009

The Fund has no recognised gains and losses other than those included in the results above and therefore no separate statement of total recognised gains and losses has been prepared.

The notes on pages 24 to 37 form part of these accounts, the schedule on page 38 is for information only.

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

Balance Sheet as at 31 March 2009

	Notes	2009 £'000	2008 £'000
Fixed Assets			
Tangible fixed assets	7	<u>0</u>	<u>0</u>
Current Assets			
Investments - balances held in NLDF	8	29,014	28,130
Bank	9	<u>21</u>	<u>1,534</u>
		29,035	29,664
Liabilities			
Creditors: Amounts falling due within one year	10	<u>28,084</u>	<u>15,906</u>
Net current assets		951	13,758
Provisions for liabilities and charges	11	<u>119</u>	<u>119</u>
		832	<u>13,639</u>
Represented by:			
Grants: Amounts falling due after one year	12	546	327
General fund	14	<u>286</u>	<u>13,312</u>
		832	<u>13,639</u>

James Urquhart Tough

Chief Executive and Accountable Officer

Date

The notes on pages 24 to 37 form part of these accounts, the schedule on page 38 is for information only.

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

Cash Flow Statement for the year ended 31 March 2009

	Notes	2009 £'000	2008 £'000
Net cash (outflow)/inflow from operating activities	i	(1,590)	1,029
Returns on investment and servicing of finance			
Interest receivable		77	121
(Decrease)/increase in funds	ii	<u>(1,513)</u>	<u>1,150</u>

(i) Reconciliation of operating surplus/(deficit) to operating net cash inflow/(outflow) from operating activities

	2009 £'000	2008 £'000
Net (decrease)/increase in funds	(13,026)	909
Less interest receivable	<u>(77)</u>	<u>(121)</u>
Operating (deficit)/surplus	(13,103)	788
Increase/decrease in investment with NLDF	(884)	3,639
Increase(decrease) in creditors due within one year	12,178	(3,283)
Increase(decrease) in creditors due outwith one year	219	(115)
Net cash inflow/(outflow) from operating activities	<u>(1,590)</u>	<u>1,029</u>

(ii) Analysis of change in net funds

	At 1 April 2008	Cash- flow	At 31 March 2009
Cash at bank	1,534	(1,513)	21
NLDF	28,130	884	29,014
	<u>29,664</u>	<u>(629)</u>	<u>29,035</u>

The notes on pages 24 to 37 form part of these accounts, the schedule on page 38 is for information only.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2009

1. Accounting Policies

1.1 *Basis of accounting*

These financial statements are prepared under the historical cost convention. The accounts have been prepared in accordance with the Accounts Direction issued by the Scottish Ministers, the Government Financial Reporting Manual (FReM) and of the Statements of Standard Accounting Practice / Financial Reporting Standards issued and adopted by the Accounting Standards Board, so far as those requirements are appropriate.

Separate accounts have been prepared for the activities funded from grant-in-aid, in accordance with the directions issued by the Scottish Ministers. Consolidated Accounts have not been prepared.

1.2 *Accruals convention*

All income and expenditure is taken into account in the financial year to which it relates.

As required by the Scottish Ministers, a distinction is made in respect of National Lottery Fund grants between 'hard commitments', where the Scottish Arts Council has made a firm offer of grant which (together with the appropriate conditions) has been accepted by the recipient and the 'soft commitments' where the Scottish Arts Council has agreed in principle to fund a scheme and made an offer but the offer has not been accepted.

Hard commitments (where an offer has been made and accepted) are recognised in the income and expenditure account, whereas soft commitments (where an offer has been agreed in principle but has not been formally accepted) are disclosed by way of a note. Hard commitments payable within one year are recognised in the Balance Sheet as current liabilities. Those payable in more than one year from the balance sheet date are shown as Grants: amounts falling due after one year.

1.3 *Going Concern*

These accounts have been prepared on the going concern basis. The establishment of Creative Scotland is expected to lead to the winding up of Scottish Arts Council. The Board is of the view that the going concern basis remains appropriate as the Scottish Arts Council's assets, liabilities and operations would transfer to the new organisation.

1.4 *Tangible fixed assets and depreciation*

Tangible fixed assets have not been revalued, on the grounds that revaluation would not be material and are shown at cost less depreciation. Any type of asset purchased with a value of £500 or more is capitalised. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, of each asset evenly spread over its expected useful life as follows:

Furniture	10 years
Office and IT equipment	4 years

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

1.5 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 Council's Lottery Fund is as shown in the accounts and has been certified by the Secretary of State subject to:

- Completion of the Statement of Assurance of Payments due to the National Lottery Distribution Fund for 2008/09 by the Director of the National Lottery.
- Completion of the audit of the National Lottery Distribution Fund accounts for 2008/09 by the National Audit Office.

The National Lottery Distribution Fund Investment is shown at the lower of cost or market value. Any adjustment to the final balance will be reflected in subsequent financial statements.

1.6 Pension costs

The Scottish Arts Council's National Lottery Distribution Fund does not have any direct employees. All staff involved in the fund's activities are employed by the Scottish Arts Council and covered by its pension arrangements. The relevant portion of their cost is recharged to Lottery activity.

Contributions to the Council's pension scheme (The Arts Council Retirement Plan 1994) are charged to the income and expenditure account. The costs are spread over the working lives of the employees.

1.7 Notional costs

In line with 'Executive Non-Departmental Public Body Annual Accounts Guidance' issued by HM Treasury, the Council has included notional costs in respect of Capital Employed.

The Council's financial structure does not include specific interest-bearing debt. However, to ensure that the Income and Expenditure Account bears an appropriate charge for the use of capital in the year, a notional interest charge is normally included.

The cost of capital provision has been calculated by applying a rate of 3.5% to the average total assets less current liabilities, excluding grant creditors and NLDF balances.

1.8 Taxation

The Scottish Arts Council is recognised as a Scottish Charity by the Inland Revenue (No. SC002835) and is exempt from the Income and Corporation Taxes Act 1970 and accordingly no provision is made for any such liability.

2. Other income

	2009	2008
	£'000	£'000
Interest	77	121
Other income (recoupment)	57	63
	134	184

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

3. Grants paid and net grant commitment

	2009 £'000	2008 £'000
Annual grants paid and committed	<u>7,305</u>	<u>5,986</u>
<i>3.1 Grants paid</i>		
Paid and committed in this year	7,305	5,986
Paid and committed in previous years	7,741	11,826
	<u>15,046</u>	<u>17,812</u>
<i>3.2 Net grant commitments</i>		
Hard commitments made during the year	27,895	14,171
Less grants paid and committed	(7,305)	(5,986)
Less grants withdrawn	(506)	(262)
	<u>20,084</u>	<u>7,923</u>

4. Arts services

	2009 £'000 Direct	2009 £'000 Recharged	2009 £'000 Total	2008 £'000 Total
Art Development	81	41	122	166
Audience Sales & Development	28	37	65	33
Capital	262	0	262	257
Crafts	0	37	37	44
Creative Industries	11	0	11	0
Dance	0	40	40	98
Drama	0	70	70	71
Education	0	36	36	34
Equalities	63	14	77	77
Literature	0	55	55	78
Music	48	58	106	121
Olympiad	4	16	20	0
Visual Arts	18	57	75	98
	<u>515</u>	<u>461</u>	<u>976</u>	<u>1,077</u>

5. Employees

	2009 £'000 Direct	2009 £'000 Recharged	2009 £'000 Total	2008 £'000 Total
Wages and salaries	190	669	859	846
Social security costs	14	50	64	64
Other pension costs	47	161	208	197
	<u>251</u>	<u>880</u>	<u>1,131</u>	<u>1,107</u>

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

5.1 *Average number of employees*

	2009	2008
The average number of employees during the year was:		
Total number of Scottish Arts Council employees	110.0	109.0
Attributable to National Lottery activities	35.0	36.0
The average full time equivalent number of employees	99.0	99.0

National Lottery activities attract a 32% share of the relevant Scottish Arts Council's payroll costs and 100% of Capital payroll costs

5.2 *Pension scheme*

The total pension cost charged was £208,015 (2007/08 £196,630). The employers contribution to the scheme was 26.1% (2007/08 – 25.4%).

The Scottish Arts Council does not operate its own pension scheme but participates in a defined benefit scheme, the Arts Council Retirement Plan (1994), provided by the Scottish Arts Council for all its employees. The scheme is funded by payments from the Council and its employees to a trustee-administered fund independent of the Council's finances. These contributions are invested in a managed fund by a leading company of fund managers.

The Arts Council Retirement Plan 1994 is a multi-employer scheme where the share of assets and liabilities applicable to each employer cannot be separately identified. The Arts Council has therefore accounted for its pension costs on a defined contribution basis as permitted by Financial Reporting Standard 17.

Contributions paid in the financial year 2008/09 are based on an actuarial valuation of the scheme on 31 March 2007 and are charged against the income and expenditure account. There were no outstanding contributions at the year end.

5.3 *Actuarial valuation*

The most recent actuarial valuation of the Fund was carried out on 31 March 2007 by Hewitt Bacon and Woodrow, Actuaries and Consultants. This valuation concluded that although the Fund complied with the Minimum Funding Requirement, there was a past service deficit.

In order to eliminate this past service deficit the Fund actuary recommended that all participating employers, including the Scottish Arts Council, increase contributions to the Fund. The Fund Actuary recommended that the Scottish Arts Council should contribute at the rate of 26.1% of pensionable salary from 1 April 2008. This recommendation was accepted by the Trustees of the Fund and subsequently adopted by all participating employers including the Scottish Arts Council.

At the last valuation on 31 March 2007, the actuarial value of the assets using the projected unit method was sufficient to cover 76% of the value accrued to the members, a deficit of £18.8 million. However, the intention is to eliminate the past

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

service deficit over a nine year period from the date of the latest valuation. The net market value of total scheme assets at 31 March 2007 was £58.5 million.

The Scottish Arts Council participates in the Arts Council Retirement Plan (1994) (“the Plan”) along with Arts Council England, the Arts Council of Wales, the Crafts Council and Ty-Cerdd – Music Centre Wales (and from 1 April 2009 Creativity, Culture & Education (“CCE”). The Plan is therefore a multi-employer, defined benefit plan.

In the past, we have received advice from our current advisors Hymans Robertson LLP and our previous advisors, Hewitt Bacon & Woodrow Limited, that the circumstances of the Plan are such that there is not sufficient information available to use defined benefit accounting for the individual participating employers. The relevant part of FRS 17 is Section 9(b) which states:

*‘Where more than one employer participates in a defined benefit scheme the employer should account for the scheme as a Defined Benefit scheme **unless** the employer’s contributions are affected by a surplus or a deficit in the scheme but the employer is unable to identify its share of the underlying asset and liabilities in the scheme on a consistent and reasonable basis.’*

There have been no changes to the Plan in the last year which would improve Hymans Robertson LLP’s ability to identify the underlying assets and liabilities relating to the Scottish Arts Council so they are satisfied that this continues to remain the case.

There have not yet been any firm decisions regarding the pension arrangements on the move to Creative Scotland. The Scottish Arts Council’s share of the deficit may become payable if it were to leave the scheme. As and when the plans for Creative Scotland become more certain, this matter will be fully investigated and assessed.

The contribution from employees remains unchanged at 1.5% of pensionable salary.

6. Management and administration costs

	2009	2009	2009	2008
	£'000	£'000	£'000	£'000
	Direct	Recharged	Total	Total
Management and Administration				
Accommodation	0	81	81	202
Administration costs	0	136	136	136
Auditor remuneration	28	0	28	27
Auditor remuneration for non-audit work	0	11	11	8
Depreciation	0	26	26	23
Notional interest	23	0	23	15
Other finance costs	0	9	9	14
Other staff costs	0	30	30	36
Publicity and promotions	0	49	49	49
Staff development	0	16	16	14
Staff salaries	0	518	518	517
	51	876	927	1,041

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

7. Tangible Fixed Assets

Cost or Revaluation	Fixtures/ Fittings £'000	IT Equipment £'000	Total £'000
As at 1 April 2008	35	15	50
Disposals	0	0	0
As at 31 March 2009	35	15	50
Depreciation			
As at 1 April 2008	35	15	50
On Disposals	0	0	0
As at 31 March 2009	35	15	50
Net Book Value at 31 March 2009	0	0	0
Net Book Value at 31 March 2008	0	0	0

8. Investments

	2009 £'000	2008 £'000
National Lottery Distribution Fund	29,014	28,130

The fund is stated at the lower of cost or market value. At 31 March 2009 the fund is shown at cost. If it had been included at market value, the figure would have been £29.048 million. In line with our accounting policy, the cost of investments as at 31 March 2008 as previously reported has not moved following the issue of a final certificate of balance by the NLDF (2008 cost £28.192 million).

9. Cash at bank and in hand

	2009 £'000	2008 £'000
Cash at bank and in hand	21	1,534

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

10. Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Scottish Arts Council - General Fund	735	660
Sundry Creditors	13	34
Hard Commitments: amounts falling due within one year	27,336	15,212
	<u>28,084</u>	<u>15,906</u>

There are no creditors falling due after more than five years

11. Provisions for liabilities and charges

	2009 £'000	2008 £'000
Opening balance	119	0
Arising during the year	0	119
Closing balance	<u>119</u>	<u>119</u>

The Council commissioned a leading firm of building consultants to report on the likely cost of dilapidations for Council's offices at 12-14 Manor Place, Edinburgh. The report estimated that the total cost for these dilapidations would be in the region of £362,000 and the above figure represents the lottery share of this cost.

12. Hard commitments

	2009 £'000	2008 £'000
Provision for hard commitments		
Hard commitment provision at 1 April 2008	15,539	19,442
Hard commitments during year	27,895	14,171
Amount paid in year	(15,046)	(17,812)
Grants withdrawn	(506)	(262)
	<u>27,882</u>	<u>15,539</u>
Hard commitment provision at 31 March 2009		
Due within one year	27,336	15,212
Due after more than one year	<u>546</u>	<u>327</u>

There are no hard commitments falling due after more than five years

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

13. Financial Instruments

	2009	2008
	£'000	£'000
Financial Assets		
Market Value of NLDF Investment	29,014	28,130
Sterling	21	1,534
	29,035	29,664
Financial Assets by Category		
Market Value of NLDF Investment	29,014	28,130
Sterling	21	1,534
	29,035	29,664
Financial Liabilities by Category		
Scottish Arts Council GIA Account	735	660
Other Creditor	13	34
Grant Creditor Falling Due Within One Year	27,336	15,212
Grant Creditor Falling Due After One Year	546	327
Dilapidations	119	119
	28,749	16,352

14. General fund

	2009	2008
	£'000	£'000
As at 1 April 2008	13,312	12,403
Increase/(decrease) in fund for the year	(13,026)	909
As at 31 March 2009	286	13,312

15. Soft commitments

	2009	2008
	£'000	£'000
Balance at 1 April 2008	1,205	5,664
Amounts committed in year	27,921	9,712
	29,126	15,376
Transferred to hard commitments	27,895	14,171
Awards made but not yet accepted at 31 March 2009	1,231	1,205

In addition to the recorded soft commitments the Council approved grant awards of £1.215 million (2007/08 £0.236 million) within the year for which offers had not been issued at 31 March 2009.

16. Losses

Thor Leisure Limited

We made an award of £450,000 to Thor Leisure Limited under our Capital Building Scheme towards total costs of £1,197,470. The project was to create a two-screen cinema, which would serve Thurso and Caithness in the north-east of Scotland.

Thor became the subject of an insolvent liquidation posing a potential loss of lottery funds, however, we are confident that the new owners will continue to operate the cinema for many years to come.

At 31 March 2009 the cinema was still operating, therefore, no actual loss has been suffered to date. Providing the cinema continues to provide a service to the area around Thurso until 2025 the Lottery grant will have achieved its goal.

Lemon Tree Aberdeen

In April 1999 the Scottish Arts Council's Lottery Fund awarded a grant to the Lemon Tree of £451,011 towards the total cost of £601,348 to purchase equipment, upgrade the theatre and make improvements to the artists' accommodation.

In October 2007 after a long period of difficulties the Lemon Tree Aberdeen went into liquidation and a liquidator was appointed to administer the assets and liabilities of the organisation.

Aberdeen City Council who own the building, purchased the equipment from the liquidator and have entered into a new lease with Aberdeen Performing Arts, who are an independent trust providing similar services to those provided by the Lemon tree.

Because of the intervention of Aberdeen City Council this arts venue will continue to serve the local community and therefore the grant will have achieved its goal.

17. Related Party Transactions

The Scottish Arts Council administers the Scottish Arts Council's National Lottery Distribution Fund.

For the purposes of this Account, the Scottish Arts Council National Lottery Distribution Fund and the Scottish Arts Council General Fund are regarded as related parties. During the year, there were material transactions between the two funds.

As a matter of policy and procedure, the Scottish Arts Council maintains registers of interest which are publicly available. Council, Committee members, specialist advisors and staff declare any direct interest in grant applications made to the Scottish Arts Council's National Lottery Distribution Fund. Members of Council and Committees exclude themselves from all relevant grant appraisals, discussions and decision processes.

Members of Council, Committees, specialist advisors and staff have a declared interest in the grant awards listed below. The amounts represent both hard and soft commitments (see note 1.2 for definition).

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

Council/Committee Member/Specialist Advisor/Staff	Office held	Organisation	Grant Award £
Council			
Dinah Caine OBE	Director	Scottish Screen	7,619
Donald Emslie	Director	Scottish Screen	7,619
Steve Grimmond	Director	Arts & Theatre Trust Fife	5,000
	Director	Byre Theatre	30,000
	Director	Scottish Screen	7,619
	Director	Artists Collective Gallery Limited	38,504
Dr Richard Holloway	Chair	Scottish Screen	7,619
Charles Lovatt	Director	Scottish Screen	7,619
Ray Macfarlane	Vice Chair	Scottish Screen	7,619
Barbara McKissack	Director	Scottish Screen	7,619
Jim McSharry	Director	Scottish Screen	7,619
John Mulgrew OBE	Chair	Learning and Teaching Scotland	300,000
	Director	Scottish Screen	7,619
Rab Noakes	Director	Scottish Screen	7,619
Iain Smith	Director	Scottish Screen	7,619
Benjamin Twist	Director	Hebrides Ensemble	17,182
	Member of overseeing committee	Macrobert Arts Centre	712,500
	Director	Scottish Screen	7,619
Lottery Committee			
Neil Gillespie	Director	Lighthouse	3,906
Philip Long	Committee Member	Edinburgh Art Festival	41,000
Charles Lovatt	Director	Scottish Screen	7,619
Benjamin Twist	Director	Hebrides Ensemble	17,182
	Member of overseeing committee	Macrobert Arts Centre	712,500
	Director	Scottish Screen	7,619

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

Council/Committee Member/Specialist Advisor/Staff	Office held	Organisation	Grant Award £
Specialist Advisors: Audience			
Christopher Elvery	Contractor	Theatre Cryptic	17,363
Hannah Rudman	Consultant	The Booth	50,000
	Consultant	The Audience Business	216,356
	Consultant	IC: Innovative Craft	124,700
	Contractor	Arts Council England	175,000
Specialist Advisors: Crafts			
Eileen Gatt	Teacher	Dundee University	112,500
Sara Keith	Visiting Lecturer	Duncan of Jordanston College of Art	5,000
Helen Voce	Employee	Dumfries and Galloway Council	5,000
Specialist Advisors: Dance			
June Adamson	Employee	University of Edinburgh	500
Jean Cameron	Director	Glasgay Festival (Gala Scotland)	50,000
Dawn Hartley	Education Manager	Scottish Dance Theatre	30,000
Lucy Mason	Chief Executive	Dance Base	129,597
	Board Member	Magnetic North Theatre Productions	24,750
Janice Parker	Freelance	Artlink Edinburgh and Lothians	28,530
Stephen Slater	Remuneration Senior Producer	Culture & Sport Glasgow Ltd Tramway	537,672 537,672
Ian Spink	Board Member	Ydance	36,450
	Unpaid Dance Programme Advisor	SOUND Festival at Woodend Barn	33,000
David Williams	Director	Suspect Culture Theatre Company	26,950

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

Council/Committee Member/Specialist Advisor/Staff	Office held	Organisation	Grant Award £
Specialist Advisors Drama			
Chloe Dear	Contractor	Edinburgh Mela Limited	111,093
Tim Licata	Freelance Work	Hearts & Minds	12,500
Stephen Slater	Senior Producer	Culture & Sport Glasgow (Tramway)	537,672
Stephen Stenning	Employee	UZ Events	88,908
Specialist Advisors: Education			
Dawn Hartley	Education Manager	Scottish Dance Theatre	30,000
Ian Mills	Board Member	Drake Scotland	147,062
	Chairman	Scottish Amateur Music Association	5,000
Wendy Niblock	Board Director	Magnetic North Theatre Productions	24,750
Laura Tyrrel	Director	Catherine Wheels Theatre Company	30,000
	Employee	West Lothian Council	10,000
Specialist Advisors: Literature			
Joanna Bremner Smith	Director	Wee Stories Theatre For Children	156,000
Graham Caie	Board Member	SLD (Scottish Language Dictionaries)	64,924
Polly Clark	Freelance Contractor	Cove Park Arts Centre	24,975
Robert Jamieson	Senior Lecturer	University of Edinburgh	500
Judy Moir	Shareholder	Canongate Publishing	300
Specialist Advisors: Music			
Murray Buchanan	Director	Citizen's Theatre	11,057
	Director	Scottish Book Trust	227,300
	Director	Sounds of Progress	1,258

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

Council/Committee Member/Specialist Advisor/Staff	Office held	Organisation	Grant Award £
Brian Cope	Artistic Director	Drake Music Scotland	147,062
Fiona Dalgetty	Director	Feis Rois	15,000
Helen Jamieson	Non - exec Director	Enterprise Music Scotland	213,732
	Freelance	Music At Paxton	7,000
Helen Jamieson	Freelance	National Youth Orchestra of Scotland	3,000
Hugh Macdonald	Board Member	Theatre Cryptic	17,363
Charlie Maynes	Education Support Officer	Dundee City Council	4,500
Ian Mills	Board Member	Drake Scotland	147,062
	Chairman	Scottish Amateur Music Association	5,000
Jim Park	Employee	North Lanarkshire Council	47,036
John Wilson	Employee	East Ayrshire Council	7,000
Specialist Advisors: Visual Arts			
Jenny Brownrigg	Board Member	Fife Contemporary Arts and Crafts	16,538
	Editorial Advisory Board Member	Map Magazine	940
	Curator	University of Dundee	112,500
Susan Christie	Contractor	Hi-Arts	120,000
	Contractor	Highland Council	32,000
Maureen Finn	Contractor	Learning and Teaching Scotland	300,000
Alexia Holt	Director	Cove Park Arts Centre	24,975
Kirsteen Macdonald	Member	University of Stirling Special Collections and Heritage Advisory Group	118
	Employee	Stirling Council	25,000
	Board Member	Engage	28,750
Rosita McKenzie	Director	Edinburgh Sculpture Workshop	2,393,425

Grant awards may differ from the grant expenditure due to timing differences.

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

17. Intra-government balances

Included within the creditors figure are the following intra government balances

	2009	2008
	£'000	£'000
Creditors		
Central government bodies	65	54
Local authorities	3,016	6,157
NHS boards	201	55

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

FIVE YEAR SUMMARY

	Year Ended 31-Mar 2009 £'000	Year Ended 31-Mar 2008 £'000	Year Ended 31-Mar 2007 £'000	Year Ended 31-Mar 2006 £'000	Year Ended 31-Mar 2005 £'000
Grant income	16,949	16,737	16,884	19,442	19,144
Other income	157	184	158	111	91
Total income	17,106	16,921	17,042	19,553	19,235
Support to the arts	29,205	14,986	19,403	15,916	16,843
Net operating costs	927	1,026	1,189	1,527	1,553
Surplus/(Deficit)	(13,026)	909	(3,550)	2110	839

NATIONAL LOTTERY STATEMENT OF COMPLIANCE 2008/09

This report forms part of the information which the Scottish Arts Council is required to publish under the terms of the National Lottery Act 1993.

A full list of all grants accounted for in 2008/09 can be found on our website:
<http://www.scottisharts.org.uk/1/funding/pastgrantsawarded.aspx>

Grants over £100,000

We are required by the Act to report on grants made in excess of £100,000. 30 such grants were made in the year.

The Scottish Arts Council has followed the Statement of Financial Requirement in its management and control of lottery funding. Its systems and practice have been verified through external audits, as well as rigorous internal audit.

To meet our strategic priorities, published in our National Lottery Strategy, we operated a number of schemes in the year. (Table 1).

Tables 2 and 3 show the lottery awards in the year banded by value. Table 2 shows that 57.92% of our grants were for amounts of less than £10,000.

Table 1
Lottery applications and awards by budget type 2008/09

	Number of App's *	Amount Requested (£)*	% by Number	Number of Awards **	Amount Awarded (£)**	% by Number
Advancement	0	0	0.00	1	40,000	0.17
Equalities	78	758,643	5.89	46	573,634	7.55
Arts Development	704	10,948,844	53.18	193	6,110,203	31.69
Audience & Organisational Development	76	2,307,791	5.74	51	1,578,392	8.37
Awards for All	312	2,130,364	23.56	221	846,172	36.29
Capital Partner – Olympic Legacy Trust	127	18,038,187	9.59	66	15,223,820	10.84
Trust	12	3,259,766	0.91	3	3,255,693	0.66
Professional & Creative Development	15	616,729	1.13	27	266,835	4.43
TOTAL	1324	38,060,324	100	608	27,894,749	100.00

* Applications received between 1 April 2008 and 31 March 2009

** Awards figures for this and other tables represent grant offers made and accepted between 1 April 2008 and 31 March 2009

Table 2
Lottery awards banded by value (number of awards) 2008/09

	No.	% by No.
under £9,999	370	60.76
£10k - £24,999	105	17.24
£25k - £49,999	61	10.02
£50k - £99,999	43	7.06
£100k - £499,999	22	3.61
£500k - £999,999	0	0.00
over £1million	8	1.31
Total	609	100.00

Table 3
Lottery awards banded by value (value of awards) 2008/09

	Value (£)	% by Value
under £9,999	1,587,228	5.69
£10k - £24,999	1,567,743	5.62
£25k - £49,999	1,945,899	6.97
£50k - £99,999	2,730,628	9.79
£100k - £499,999	5,001,153	17.93
£500k - £999,999	0	0.00
over £1million	15,062,098	54.00
Total	27,894,749	100.00

Policy Directions

Under the National Lottery etc Act 1993, the Secretary of State for Scotland issued policy directions which the Scottish Arts Council must take into account in distributing National Lottery funds. These are set out below with a short explanation of how the Directions have been met.

The references below relate to the National Lottery Act 1993 as amended by the National Lottery Act 1998.

- 1 The need to ensure that money is distributed under section 25(1) for projects which promote the public good or charitable purposes and which are not intended primarily for private gain.**

This is one of the key criteria against which all applications are assessed. Every organisation which received a grant in the year had to demonstrate that its proposal would benefit the public by providing new or improved opportunities for the enjoyment of the arts.

- 2 The need to ensure that it considers applications which relate to the complete range of activities falling within section 22(3)(a) and in respect of which it has the power to distribute money.**

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

The Scottish Arts Council lottery grants went to the widest range of artforms from drama and visual arts to traditional music and crafts.

a taking into account its assessment of the needs of the arts and its priorities for the time being for addressing them;

In our assessment of applications we have taken into account our strategic view of arts development in Scotland. Our published strategy for lottery funding identifies our priorities in detail.

b taking into account the need to ensure that all parts of Scotland have access to funding;

In all our schemes one of the criteria for support is whether the project helped ensure a fair spread of distribution throughout Scotland. In the year 2008/09 grants were made to organisations in all 32 local authority areas. (See Table 5.) In addition we continue to target those local authorities which have had a relatively low share of funding in the past.

Table 4
Lottery awards by artform department 2008/09

	No. of Awards	Amount Awarded (£)
Arts Development	73	16,065,975
Audience Development	59	1,955,007
Awards for All	221	846,172
Crafts	6	71,128
Creative Industries	5	174,064
Dance	9	862,603
Drama	72	1,511,881
Education	15	583,792
Equalities	60	872,990
Literature	9	329,050
Music	58	1,124,357
Olympiad 2012 2014	4	3,255,693
Policy and Research	1	1,799
Visual Arts	17	240,238
Total	609	27,894,749

c taking into account the scope for reducing economic and social deprivation at the same time as creating benefits for the arts.

We recognise the significance of the arts in social and economic regeneration and many of our awards were to projects which were partially directed at one or both of these outcomes. In addition, we operate a scheme targeted at all Social Inclusion Partnership areas in Scotland.

3 The need to promote access to the arts for people from all sections of society;

The Scottish Arts Council believes that the arts should be open to everybody, regardless of class, socio-economic circumstance, race, or age. In all our major schemes we prioritised projects directed at those who had limited access to the arts due to:

- disability;
- socio-economic factors (eg ethnicity); and
- geographic factors.

Our social inclusion scheme targeted at all Social Inclusion Partnership areas in Scotland also met this condition.

4 The need to promote knowledge and appreciation of the arts by children and young people;

As in previous years we operated a successful fund directed specifically at supporting arts projects for and by young people. Projects supported provided young people with a deeper understanding of the arts recognising them as being both present and future arts audiences.

5 The need to further the objectives of sustainable development;

Through our lottery grants made in the year we helped ensure that:

- existing arts buildings had a renewed life;
- environmental good practice continued to be an important criterion in arts building projects;
- only those projects which evidenced a viable future or clear exit strategy were supported;
- arts organisations were helped to achieve sustainable futures through audience and sales development, planned change, etc;
- local distinctiveness was valued and local community cultural identity strengthened;
- the creativity of people, particularly, children and young people was fully engaged.

6 The needs of projects relating to crafts;

Grants made directly to support crafts activity during the year totalled £71,128. In addition, a number of Capital expenditure awards were made to organisations which have crafts activity.

7 The need for money distributed under section 25(1) to be distributed to projects only where they are for a specific, time-limited purpose;

A significant proportion of National Lottery funds is allocated to Capital expenditure projects which are non-recurring. The balance of funds is allocated through a wide range of schemes designed to achieve strategic objectives and

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

policy. All these schemes offer funds for a time-limited period only and applicants are required to demonstrate a viable future or a clear exit plan.

8 The need in all cases, for applicants to demonstrate the financial viability of the project for the period of the grant;

Financial viability and quality of management are two key criteria applied to all lottery applications. Only projects which show a reasonable prospect of being financially viable are supported.

b The need, where capital funding or setting-up costs are sought, for a clear business plan beyond the period of the grant incorporating provision for associated running and maintenance costs;

Submission of a viable business plan is a requirement of all major capital expenditure grant applications. Only those which demonstrate this will be successful in the assessment process. Applicants for building-related work are also required to provide a sustainable maintenance plan to ensure that the desired outcomes can continue to be delivered for the estimated life of the project.

Table 5
Lottery grants by local authority area 2008/09

Local Authority	Number of Awards	Amount Awarded (£)
Aberdeen City	18	6,013,075
Aberdeenshire	22	305,445
Angus	5	88,290
Argyll and Bute	14	71,436
Clackmannanshire	2	9,043
Dumfries and Galloway	14	137,300
Dundee City	10	55,180
East Ayrshire	7	31,280
East Dunbartonshire	5	27,000
East Lothian	7	119,641
East Renfrewshire	4	17,000
Edinburgh City	126	6,808,350
Falkirk	3	70,000
Fife	18	94,519
Glasgow City	137	3,772,682
Highland	64	839,887
Inverclyde	2	2,745,540
Midlothian	6	33,970
Moray	4	21,600
North Ayrshire	5	19,120
North Lanarkshire	12	89,532
Orkney Islands	8	64,435
Perthshire and Kinross	15	395,992
Renfrewshire	6	61,047

The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009

Scottish Borders	14	223,674
Shetland Isles	6	2,149,000
South Ayrshire	4	20,000
South Lanarkshire	15	127,007
Stirling	9	2,411,699
West Dunbartonshire	7	26,320
West Lothian	4	490,000
Western Isles	7	57,601
Outside Scotland	29	498,084
Total	609	27,894,749

- c The need, in other cases, for consideration to be given to likely availability of other funding to meet any continuing costs for a reasonable period after completion of the period of the lottery award, taking into account the size and nature of the project, and for lottery funding to be used to assist progress towards viability beyond the period of the grant wherever possible;**

Consideration is given in awarding major capital expenditure grants to future viability. Costs associated with closure during re-building and start-up costs are eligible for support as are costs to re-establish viability of the organisation.

Our capital funding strategy makes further provision for ensuring future viability.

- 9 The desirability of supporting the development of long-term financial and managerial viability of organisations in the arts. In taking this into account the Arts Council shall have regard to Policy Direction 8 (see previous);**

We continue to operate our Advancement and Organisational Development Programmes which aim to promote, implement and sustain lasting change through strengthening of operational effectiveness.

- 10 The need to require an element of partnership funding and/or contribution in-kind from other sources, commensurate with the reasonable ability of different kinds of applicants, or applicants in different areas, to obtain such support;**

We continue to develop and implement a sympathetic approach to partnership funding including acceptance of voluntary contributions. Our policy reflects the nature of the organisation and the circumstances within which it operates.

While remaining flexible, we have put in place clear directions on the partnership funding required. The amount of partnership funding required varied between programmes and according to the size of the project.

11 The desirability of working with other organisations, including other distributors, where this is an effective means of delivering elements of its strategy;

The Scottish Arts Council continues to work with a range of partners from Social Inclusion Partnership organisations to Local Enterprise Companies with whom a creative industries scheme was developed. The cross-distributor scheme Awards for All, which aims to support principally voluntary and community activity, continues to operate successfully.

Table 6
Lottery distribution account administration costs

	2009 £'000	2008 £'000
Travelling, subsistence and entertaining	5	8
Publicity and promotions	49	49
Postage	4	9
Agency staff	17	20
Professional fees	16	13
Office sundry	292	402
Staff	518	517
Depreciation	26	23
	927	1,041

12 The need to ensure that the Scottish Arts Council's powers of solicitation under Section 25(2) (a) are used in conjunction with the pursuit of strategic objectives.

The Scottish Arts Council has introduced a clear internal procedure for dealing with solicited applications. To date this procedure has not been invoked. Promotion of solicited applications is likely to become a feature in coming years as strategic application of funds in pursuit of Council and National Cultural Strategy objectives comes into play.

13 The Scottish Arts Council should take such information as it considers necessary to make decisions on each application, including independent expert advice when required;

Application forms for all Scottish Arts Council lottery programmes request such information as is necessary to take decisions. We take advice in considering applications from external advisers, local authorities, industry bodies and other partners as appropriate. We also take advice from relevant committees and panels, particularly the Lottery Capital Committee.
Monitoring and evaluation

Monitoring of specific projects benefiting from lottery funding is an ongoing process. Projects are selected for monitoring on a sample basis but large-scale projects involving building works are all monitored. This is effected both by the appointment of external experts to advise and inform the Council and by our

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

own staff. The monitoring process is designed to ensure that projects are implemented in the way intended; that the expected range of participants and or audience is reached; that the policy directions and conditions of grant governing the use of lottery funds are adhered to; that the promised public benefit is delivered and represents value for money.

Evaluation of a programme might occur at the conclusion of a pilot phase or during the course of operation of a programme and after its conclusion. Such evaluation informs development of funding programmes and assists us in measuring whether our own objectives are being achieved.

Our Capital Expenditure Programme has benefited from such an evaluation process and the Advancement Programme, which experienced a recent interim evaluation, is about to be reviewed in a similar way.

**Table 7
Lottery awards over £100,000 accounted for in 2008/09**

Audience Business, The	Towards the cost of enabling The Audience Business to pilot integrated online ticketing and related e-marketing campaigns	100,000
Ankur Arts Productions	Towards the cost of Flexible Funding 2009/10	100,000
Birds of Paradise Theatre Company	Towards the cost of Flexible Funding 2009/10	100,000
Festival City Theatres Trust	Towards the cost of support for adventurous and quality programming at the Edinburgh Festival and Kings Theatres	105,000
Aberdeenshire Council	Towards the cost of establishing Audiences North East Scotland, an agency to further improve public engagement	135,000
Source (MMM) Ltd	Towards the cost of encouraging collaborative working and shared services with arts and cultural organisations.	150,000
Ankur Arts Productions	Towards the cost of Pangaa - a project involving young people from Glasgow's minority communities in an artistic adventure	158,828
Wee Stories Theatre For Children	Towards the cost of Flexible Funding 2009/10	160,000
Scottish Book Trust	Towards the cost of operating the Live Literature funding scheme in 2008/2009.	164,500
Scottish Storytelling Forum	Towards the cost of additional costs incurred on the Scottish Storytelling Centre's building project.	167,400
Arts Council England	Towards the cost of Scottish Arts Council's contribution to Cross Border Touring Fund 2008/09	175,000
Audiences East Scotland	Towards the cost of growing arts audiences in East Scotland via collaboration between ten performing and visual arts organisations	190,870
Out Of The Blue Arts & Education Trust	Towards the cost of refurbishment of Out of the Blue Drill Hall to provide additional accessible studio and workshop space.	194,479

**The Scottish Arts Council
National Lottery Distribution Fund Annual Report and Accounts
for the year ended 31 March 2009**

Aberdeen City Council	Towards the cost of a site specific spectacle, inspiring participation between the arts and extreme sports	225,000
Enterprise Music Scotland Limited	Towards the cost of Flexible Funding 2009/10	225,000
West Lothian Council	Towards the cost of refurbishment and upgrading of Linlithgow Burgh Halls	250,000
Learning & Teaching Scotland	Towards the cost of a 2 year partnership project between SAC and LTS.	300,000
Edinburgh International Festival Society	Towards the cost of ensuring the Edinburgh International Festival 2008 is able to present a full artistic programme in all key venues	350,000
Culture and Sport Glasgow	Towards the cost of the Reach strand of The Scottish Project (Legacy Trust UK Scottish regional project)	382,535
Imagineate	Towards Starcatchers project specialising in the creation and exploration of theatre performances for very young children aged 0-4	442,541
Puppet Animation Scotland Limited	Towards Scottish communities preparing an explosion of street arts activity to celebrate the 30' Big Man walking into their area	450,000
Eden Court (INSPIRE)	Towards the cost of a season of dance, staged on water, in four landscapes - galvanized by and for people in the Highlands	475,000
Scotland And Medicine; Collections And Connections	Towards the cost of the Reach strand of the Scottish Project (Legacy Trust UK Scottish regional project)	600,000
MacRobert Arts Centre	Towards mPOWER - inspiring young people to realise their creative potential and ambition culminating in a spectacular festival mFEST	712,500
Arches Theatre	Towards the cost of Reach strand of The Scottish Project (Legacy Trust UK Scottish regional project)	830,000
Volunteer Development Scotland	Towards the cost of 'People Making Waves'.	1,443,158
Shetland Arts Development Agency	Towards the cost of a project to create a purpose-built cinema and music venue in Lerwick	2,120,000
Edinburgh Sculpture Workshop Limited	Towards the cost of a project to create a purpose-built sculpture facility in Britain	2,370,900
Greenock Arts Guild	Towards the cost to extend and redevelop existing premises to provide a custom-built arts facility	2,685,540
Peacock Visual Arts Limited	Towards the cost of a project to develop a major centre for public participation in the arts in the historic Castlegate	4,300,000
Total		20,063,251

Administrative efficiency

In accordance with its Financial Directions the Scottish Arts Council monitors its own administrative efficiency. For the year under review two measures have been used. The first measures the average length of time to process an application – ie the number of days from initial receipt of the application to an offer letter being sent out. The second measures the average costs of processing an application – ie our costs (staff and other operating charges less notional interest) divided by the number of applications. (See Table 8.)

The number of lottery applications increased again this year as a result of a continuing movement away from funding capital projects, which have a longer processing time to funding arts projects.

Whilst the Scottish Arts Council attaches great importance to the performance measures above it is recognised that they are crude indicators – for example, whilst the number of applications may vary, costs, as currently measured, are relatively fixed. The Scottish Arts Council recognised the need to refine cost attribution, and the accounts for 2007/08 and 2008/09 reflect a more realistic split of overheads between costs directly involved in running the Scottish Arts Council and costs involved in supporting the arts.

The nature of lottery funding is such that a number of projects take place in years after the year in which funding is agreed. In addition to this many projects extend for a period of more than one year. The effect of this is that administrative work is cumulative and not restricted to grant applications for the year in question only.

Efforts are continually being made to improve administrative efficiency for the future. Following the review of its funding processes in 2002/03, the Council sought feedback from the applicants in 2003/04 through a written survey and also on the application forms themselves. The majority of applicants found the process and forms clearer and simpler to complete. Efforts will continue to be made in this area and online processes are currently being investigated.

Table 8
Lottery applications – performance measures

	2009	2008
	Actual	Actual
Average time to process each applications (days)	44	26
Average cost of processing each applications (£)	718	822
Total number of applications processed	1324	1,183

The increase in average processing days is largely the result of a new funding (Inspire Fund) stream which was introduced during the year. The volume of applications and the fact that that it was a 10 week turnaround has raised the average significantly.



SCOTTISH ARTS COUNCIL

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of Section 35 of Part II of the National Lottery etc. Act 1993, hereby give the following direction.
2. The statement of accounts which, it is the duty of Scottish Arts Council to prepare in respect of its **National Lottery distribution activities** for the financial year ended 31 March 2006, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRoM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. Clarification of the additional disclosure requirements are set out in Schedule 1 attached.
5. The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:
 - 5.1 Fixed assets at their value to the business by reference to current costs; and
 - 5.2 Stocks valued at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.
6. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 17 June 2002 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 31 March 2006

SCHEDULE 1

ADDITIONAL DISCLOSURE REQUIREMENTS

1. This schedule details the non-standard accounting policies, any special treatment needed, and any additional disclosure requirements as agreed by the Scottish Ministers and Scottish Arts Council, in respect of its National Lottery Fund distribution activities.
2. The **Income and Expenditure Account** shall show inter alia:
 - a. the total amount of Lottery proceeds receivable;
 - b. any other income (detailed between bank interest, recoveries of grant and other income);
 - c. the total amount of new Lottery grants paid in the period (i.e. amounts paid in respect of projects which have been approved during the year);
 - d. the change in the provision for net grant commitments;
 - e. the total expenses incurred by the body in respect of its National Lottery distribution activities, separately identifying direct costs and costs initially incurred elsewhere in the organisation and apportioned to the National Lottery distribution activity. The calculation of the costs to Scottish Arts Council's National Lottery activities will be on a full cost recovery basis and should cover all costs that are directly and demonstrably related to Lottery activities.
3. The **Balance Sheet** shall show, inter alia:
 - a. under the heading "Current assets": shown as an investment the balance held on behalf of the body at the National Lottery Distribution Fund;
 - b. under the heading "Represented by":
 - i) the provision for grants committed on a hard basis and falling due for payment after more than one year; (see note 6 below on commitments)
 - ii) the balance on the Income and Expenditure Account.
4. The **Notes to the Accounts** shall, inter alia, include:
 - a. a statement of the accounting policies. This must include a statement explaining the nature of the balances held on the body's behalf in the National Lottery Distribution Fund as follows:

"Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Culture, Media & Sport. However, the share of these balances attributable to Scottish Arts Council is as shown in the Accounts and, at the Balance Sheet date has been certified by the Secretary

of State for Culture, Media & Sport as being available for distribution by the body in respect of current and future commitments.”;

- b. an analysis of the income and expenditure relating to the Lottery;
 - c. an analysis of the “other operating charges” over appropriate subject headings (write-offs, audit fee, leasing charges, travel, subsistence and hospitality (costs for staff and body members should be separately identified));
 - e. the amounts “committed in respect of capital expenditure for administrative purposes”, and “amounts authorised in respect of capital expenditure for administrative purposes but not contracted”;
 - f. the amounts committed in respect of National Lottery grants split between hard and soft commitments identifying the amount falling due (see note 5 below). Where these commitments exceed available resources shown on the Balance Sheet, there should also be a note explaining the rationale for the over-commitment in terms of the benchmark being applied and the assumptions behind it, taking into account any advice received from the Scottish Ministers as appropriate.
5. The nature of the Distributing Bodies' Lottery activities means that they will be making commitments for future expenditure which will need to be shown in the annual financial statements. Commitments should be categorised and shown as follows:

6. **Soft Commitments**

These will occur when there is agreement in principle by Scottish Arts Council to fund a scheme. Once a formal offer and acceptance of the terms and conditions of the grant has been concluded this will become a hard commitment. The total of soft commitments will be shown in a note to the Balance Sheet. Changes in soft to hard commitments which arise after the accounting year end and before publication of the Accounts will not be adjusting events in terms of FRS 21 (Events after the balance sheet date). A tabulation should accompany the Notes to the Accounts and show:

- i) Soft commitments brought forward;
- ii) Soft commitments transferred to hard commitments;
- iii) Soft de-commitments;
- iv) Soft commitments made;
- v) Balance of soft commitments outstanding carried forward.

a) **Hard Commitments**

A hard commitment is analogous to a commitment arising from a legally binding contract, carrying with it an obligation on the distributor to pay the agreed Lottery grant provided only that all the conditions of grant are met, and that the National Lottery continues to operate. For the purposes of recording a charge in the Income and Expenditure Account, a hard commitment arises when a firm offer of a grant from the National Lottery proceeds has been made by Scottish Arts Council and accepted in

writing by the recipient. A firm offer will only be made if there is a reasonable expectation that conditions attached to the offer will be met. A provision for grant commitments should be shown on the Balance Sheet and would be written down as the commitments mature. As part of the notes to the Balance Sheet a tabulation illustrating the changes in hard commitments should be shown as follows:

- i) Hard commitments brought forward;
- ii) Hard commitments met in the last year;
- iii) Hard de-commitments (withdrawal of an offer);
- iv) Hard commitments made;
- v) Balance of hard commitments outstanding carried forward;
- vi) A breakdown of the provision for the grant commitments should be reported separately for each year up to and including 5 years and for over 5 years.

b) De-commitments

i) Soft Commitments

If a soft commitment fails to become hard for any reason and there is no prospect of a formal offer letter being issued and accepted then the soft commitment should be deleted from Scottish Arts Council's records. It will be shown in the table accompanying the notes to the Balance Sheet in the soft de-commitments line.

ii) Hard Commitments

Should a hard commitment fail to become a cash payment within the expected time frame, and there is little possibility of it crystallising, Scottish Arts Council may withdraw the offer formally in writing. A reverse entry to the commitment should then be made in the Income and Expenditure Account. The table in the Notes to the Accounts will correspondingly be reduced.

c) Repayments

The circumstances of a grant repayment are as described in the Statement of Financial Requirements. A repayment will not affect commitment unless the payment is part of a phased scheme for which commitments for later phases have been included in the Balance Sheet. A repayment will be reflected as an adjustment in the Income and Expenditure Account. If a repayment occurs after the year end but before the Accounts have been signed by Scottish Arts Council's Accountable Officer and is material (5% of the total grants paid in the year or £1m which ever is the lower,) it will be necessary to treat the repayment as an adjusting event in terms of FRS 21.

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