

Scottish Arts Council

**National Lottery Distribution Fund
Annual Report and Accounts
for the year to
31 March 2008**

THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND
ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR TO
31 MARCH 2008

PREPARED PURSUANT TO SECTION 35
OF THE NATIONAL LOTTERY ETC ACT 1993

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Ministers December 2008

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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 OBE
Rab Noakes
Iain Smith OBE
Benjamin Twist**

ACTING 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**

DIRECTORS' REPORT

Background

The Scottish Arts Council is the national body responsible for 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. Its purpose is to develop and improve the knowledge, understanding and practice of the arts; to increase the accessibility of the arts to the public and to advise and co-operate with other bodies and organisations with similar interests.

The Council's 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 own activities.

It produces two separate Annual Accounts, this one covers the activities supported by the National Lottery. A separate account is produced for those activities supported by the 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.

Council Members in 2007/08

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.

Joint Board

Richard Holloway (Chairman)
Dinah Caine OBE
Donald Emslie
Steven Grimmond
Charles Lovatt
Ray Macfarlane

Barbara McKissack
James McSharry
John Mulgrew
Rab Noakes
Iain Smith
Benjamin Twist

Accounting for pensions

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.

Employee consultation

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 Unite with which it has established a procedural agreement; representatives of management and union meet regularly.

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

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 13 to 15. The fee for this service was £27,240 (2006/07 £24,000), which relates solely to the provision of statutory audit services.

During the year there was also non-audit work (internal audit service), which was carried out by these auditors. The fee for this work amounted to £25,000 of which £8,250 was charged to the Lottery Fund.

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, and
- 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.

Freedom of information

The Scottish Arts Council is subject to the 'Freedom of Information (Scotland) Act 2002', 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.

Richard Holloway
Chairman

1 September 2008

MANAGEMENT COMMENTARY

Income and Expenditure Account

The Council's share of proceeds from the National Lottery Fund during the year to 31 March 2008 was £16.737 million (2006/07 £16.884 million). Interest and other income of £0.184 million (2006/07 £0.158 million), brought the total income to £16.921 million (2006/07 £17.042 million).

Grants paid and committed, net grant commitments and arts services during 2007/08 totalled £14.986 million (see notes 3 and 4) compared with £19.403 million in 2006/07.

Management and administration costs decreased from £1.189 million in 2006/07 to £1.041 million in 2007/08.

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 £1.077 million (2006/07 £1.097 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 an increase in fund of £0.909 million (2006/07 decrease in fund of £3.550 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 £1.441 million (2006/07 £5.828 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 15 refers to a number of situations where 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 of two other similar situations, the Lemon Tree Aberdeen and An Tuireann Arts Centre, are noted in note 15.

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.

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Balance Sheet

The account shows total net current assets of £13.639 million (2006/07 £12.845 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 2008 the balance held under the stewardship of the National Lottery Distribution Fund (NLDF) attributable to the Scottish Arts Council National Lottery Fund was £28.130 million (2006/07 £31.769 million). During the year to 31 March 2008 £20.376 million (2006/07 £19.632 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 2007/08 budget)

	2008 £'000
Arts Development	4,856
Audience Development	397
Crafts	10
Dance	48
Drama	11
Education	305
Equalities	19
Music	37
Visual Arts	4
	<hr/> <hr/> <u>5,687</u>

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 year.

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

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Review of Activities

In 2007/08 the Council budgeted to distribute the funds available on the following basis:

	2008 £'000
<u>Arts Development</u>	
Arts Development	4,723
Crafts	75
Dance	354
Drama	2,246
Literature	435
Music	1,225
Visual Arts	341
<u>Strategic Development</u>	
Audience Development	1,280
Capital	1,500
Education	330
Equalities	891
	<hr/> <hr/>
	13,400

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 £14.171 million (see note 14). 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.

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 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.

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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.

Lottery distributors working group

The Scottish Arts Council is a member of the Lottery Distributors working group which meets regularly to discuss current Lottery issues and areas where improvements can be made.

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
Creative Arts Committee (until 28 June 2007)	£250,000	£999,999
Performing Arts Committee (until 28 June 2007)	£250,000	£999,999
Capital Committee (until 28 June 2007)	£250,000	£999,999
Lottery Committee (from 29 June 2007)	£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 maintains a register of interests which is disclosed in note 16.

Payment of creditors policy

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.

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

The Council has been successful in 94.34% of cases with a further 1.69% being paid within 35 days. The majority of the remaining 3.97% were the subject of some dispute and were only settled once a resolution was achieved.

James Urquhart Tough
Acting Chief Executive and Accountable Officer

1 September 2008

REMUNERATION REPORT

Chairman and Director's Remuneration

Name	2008	2007
	Salary Including Performance Pay £	Salary Including Performance Pay £
Richard Holloway Chairman Joint Board (with effect from 1/2/07)	21,402	13,984
James Tough Acting Chief Executive (with effect from 1/3/07)	77,882	6,250
Graham Berry Chief Executive (until 28/2/07)	0	124,317

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 the year.

A sum representing 33% 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 31/3/08 and related lump sum £	Real increase in pension and related lump sum at age 65 as at 31/03/08 £	Cash Equivalent Transfer Value at 31/3/08 £	Cash Equivalent Transfer Value at 31/3/07 £	Real Increase in Cash Equivalent Transfer Value
Richard Holloway Chairman	0	0	0	0	0
James Tough Acting Chief Executive (with effect from 1/3/07)	110,219	17,496	375,269	258,163	107,296

The above pension information has been subject to audit.

The Acting Chief Executive is 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.

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The Chairman is not a member of the Arts Council Retirement Plan (1994).

The Chief Executive and the Acting Chief Executive are ordinary members 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.

The current members of the remuneration committee are Richard Holloway (chair), Ray Macfarlane, Donald Emslie, John Mulgrew, Charles Lovatt and Steve Grimmond. The remuneration committee meets on an ad hoc basis when 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. However, the remuneration committee did not specifically consider the Acting Chief Executive's remuneration during this period.

The Acting Chief Executive's salary was reviewed in accordance with his substantive post. However, during the period of acting up he receives an additional allowance.

**James Urquhart Tough
Acting Chief Executive and Accountable Officer**

1 September 2008

**STATEMENT OF THE COUNCIL'S AND THE ACTING 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 ON 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 2008 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 Audit Committee reviews all of this to ensure the adequacy and timeliness of action.

More generally, the organisation is committed to a process of continuous development and improvement: developing systems 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 and up to the signing of the accounts the organisation has:

Managed the process of Flexible Funding, building on the learning gained from the Strategic Review, in particular the further and ongoing development of the Quality Framework and a review and update to our appeals process.

Given that transition to Creative Scotland is a major change to the organisation, as Accountable Officer, I have initiated a review of the financial procedures and controls particularly in the area of the Transition budget, to ensure those financial monitoring and control systems are appropriate. 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.

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
Acting Chief Executive and Accountable Officer

1 September 2008

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 Scottish Arts Council National Lottery Distribution Fund for the year ended 31 March 2008 under the National Lottery etc Act 1993. These comprise the Income and Expenditure Account and Statement of Total Recognised Gains and Losses, 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, Acting Chief Executive and auditor

The Council and Acting Chief Executive 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 Acting Chief Executive are also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Council's and Acting 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 Act 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 only 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 and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Council and Acting Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most 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.

Opinions

Financial statements

In our opinion

- the financial statements give a true and fair view, in accordance with National Lottery etc Act 1993 Act and directions made thereunder by the Scottish Ministers, of the state of affairs of the body as at 31 March 2008 and of its increase in fund, total 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 Act 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.

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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

2 September 2008

THE SCOTTISH ARTS COUNCIL
 NATIONAL LOTTERY DISTRIBUTION FUND ANNUAL REPORT AND ACCOUNTS
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Income and Expenditure Account for the year ended 31 March 2008

	Notes	2008 £'000	2007 £'000
Income			
National Lottery Fund proceeds		16,737	16,884
Other income	2	184	158
		<u>16,921</u>	<u>17,042</u>
Expenditure			
Grants paid and committed during the year	3	5,986	5,172
Net grant commitments	3.2	7,923	13,134
Arts services	4	1,077	1,097
Management and administration costs	6	1,041	1,189
		<u>16,027</u>	<u>20,592</u>
Surplus/(Deficit) on operating activities		894	(3,550)
Notional interest		15	0
		<u>909</u>	<u>(3,550)</u>
Increase/(Decrease) in fund			
All the results of the fund relate to continuing activities			

Statement of total recognised gains and losses for the year ended 31 March 2008

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 19 to 31 form part of these accounts, the schedule on page 32 is for information only.

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Balance Sheet as at 31 March 2008

	Notes	2008 £'000	2007 £'000
Fixed Assets			
Tangible fixed assets	7	<u>0</u>	<u>0</u>
Current Assets			
Investments - balances held in NLDF	8	28,130	31,769
Bank	9	<u>1,534</u>	<u>384</u>
		29,664	32,153
Liabilities			
Creditors: Amounts falling due within one year	10	<u>15,906</u>	<u>19,308</u>
Net current assets		13,758	12,845
Provisions for liabilities and charges	11	<u>119</u>	<u>0</u>
		<u>13,639</u>	<u>12,845</u>
Represented by:			
Grants: Amounts falling due after one year	12	327	442
General fund	13	<u>13,312</u>	<u>12,403</u>
		<u>13,639</u>	<u>12,845</u>

James Urquhart Tough

Acting Chief Executive and Accountable Officer

1 September 2008

The notes on pages 19 to 31 form part of these accounts, the schedule on page 32 is for information only.

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Cash Flow Statement for the year ended 31 March 2008

	Notes	2008 £'000	2007 £'000
Net cash inflow/(outflow) from operating activities	i	1,029	128
Returns on investment and servicing of finance			
Interest receivable		121	103
Increase/(decrease) in funds	ii	1,150	231

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

	2008 £'000	2007 £'000
Net surplus/(deficit)	909	(3,550)
Less interest receivable	(121)	(103)
Operating surplus/(deficit)	788	(3,653)
Depreciation charges	0	0
Decrease in investment with NLDF	3,639	2,748
(Increase)/decrease in debtors	0	9
(Decrease)/increase in creditors due within one year	(3,283)	1,410
(Decrease) in creditors due outwith one year	(115)	(386)
Net cash inflow/(outflow) from operating activities	1,029	128

(ii) Analysis of change in net funds

	At 1 April 2007	Cash- flow	At 31 March 2008
Cash at bank	384	1,150	1,534
NLDF	31,769	(3,639)	28,130
	32,153	(2,489)	29,664

The notes on pages 19 to 31 form part of these accounts, the schedule on page 32 is for information only.

Notes to the accounts for the year ended 31 March 2008

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 (FRoM) 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

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 2007/08 by the Director of the National Lottery.
- Completion of the audit of the National Lottery Distribution Fund accounts for 2007/08 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.

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2 Other income

	2008 £'000	2007 £'000
Interest	121	103
Other income (recoupment)	63	55
	<u>184</u>	<u>158</u>

3 Grants paid and net grant commitment

	2008 £'000	2007 £'000
Annual grants paid and committed	<u>5,986</u>	<u>5,172</u>

3.1 Grants paid

Paid and committed in this year	5,986	5,172
Paid and committed in previous years	11,826	12,025
	<u>17,812</u>	<u>17,197</u>

3.2 Net grant commitments

Hard commitments made during the year	14,171	19,224
Less grants paid and committed	(5,986)	(5,172)
Less grants withdrawn	(262)	(918)
	<u>7,923</u>	<u>13,134</u>

4 Arts services

	2008 £'000 Direct	2008 £'000 Recharged	2008 £'000 Total	2007 £'000 Total
Art Development	118	48	166	276
Audience Sales & Development	0	34	33	60
Capital	257	0	257	223
Crafts	0	43	44	57
Dance	60	39	98	94
Drama	0	70	71	83
Education	0	34	34	44
Equalities	59	18	77	0
Literature	23	55	78	80
Music	66	55	121	95
Visual Arts	48	50	98	85
	<u>631</u>	<u>446</u>	<u>1,077</u>	<u>1,097</u>

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5 Employees

	2008 £'000 Direct	2008 £'000 Recharged	2008 £'000 Total	2007 £'000 Total
Wages and salaries	185	661	846	1,063
Social security costs	15	49	64	82
Other pension costs	45	152	197	240
	<u>245</u>	<u>862</u>	<u>1,107</u>	<u>1,385</u>

5.1 Average number of employees

	2008	2007
The average number of employees during the year was:		
Total number of Scottish Arts Council employees	109.0	107.0
Attributable to National Lottery activities	36.0	44.0
The average full time equivalent number of employees	99.0	97.0

National Lottery activities attract a 33% 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 £196,630 (2006/07 £262,239). The employers contribution to the scheme was 25.4% (2006/07 – 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 2007/08 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 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 £7.3 billion.

As it is a multi-employer scheme, we are unable to identify our share of the underlying assets and liabilities. Consequently, the Scottish Arts Council have accounted for the scheme as if it were a defined contribution scheme, in accordance with Financial Reporting Standard 17.

There has 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

	2008 £'000	2008 £'000	2008 £'000	2007 £'000
	Direct	Recharged	Total	Total
Management and Administration				
Accommodation	117	85	202	105
Administration costs	0	136	136	189
Auditor remuneration	27	0	27	24
Auditor remuneration for non-audit work	0	8	8	13
Depreciation	0	23	23	31
Notional interest	15	0	15	0
Other finance costs	1	13	14	17
Other staff costs	0	36	36	55
Publicity and promotions	0	49	49	73
Staff development	0	14	14	16
Staff salaries	0	517	517	666
	<u>160</u>	<u>881</u>	<u>1,041</u>	<u>1,189</u>

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7 Tangible Fixed Assets

	Fixtures/ Fittings £'000	IT Equipment £'000	Total £'000
Cost or Revaluation			
As at 1 April 2007	35	15	50
Disposals	0	0	0
As at 31 March 2008	35	15	50
Depreciation			
As at 1 April 2007	35	15	50
On Disposals	0	0	0
As at 31 March 2008	35	15	50
Net Book Value at 31 March 2008	0	0	0
Net Book Value at 31 March 2007	0	0	0

8 Investments

	2008 £'000	2007 £'000
National Lottery Distribution Fund	<u>28,130</u>	<u>31,769</u>

The fund is stated at the lower of cost or market value. At 31 March 2008 the fund is shown at market value. If it had been included at cost, the figure would have been £28.192 million. In line with our accounting policy, the cost of investments as at 31 March 2007 as previously reported has not moved following the issue of a final certificate of balance by the NLDF (2007 cost £37.754 million).

9 Cash at bank and in hand

	2008 £'000	2007 £'000
Cash at bank and in hand	<u>1,534</u>	<u>384</u>

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10 Creditors: amounts falling due within one year

	2008 £'000	2007 £'000
Scottish Arts Council - General Fund	660	290
Sundry Creditors	34	18
Hard Commitments: amounts falling due within one year	15,212	19,000
	<u>15,906</u>	<u>19,308</u>

There are no creditors falling due after more than five years

11 Provisions for liabilities and charges

	2008 £'000	2007 £'000
Opening balance	0	0
Arising during the year	119	0
Closing balance	<u>119</u>	<u>0</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

	2008 £'000	2007 £'000
Provision for hard commitments		
Hard commitment provision at 1 April 2007	19,442	18,333
Hard commitments during year	14,171	19,224
Amount paid in year	(17,812)	(17,197)
Grants withdrawn	(262)	(918)
	<u>15,539</u>	<u>19,442</u>
Hard commitment provision at 31 March 2008		
Due within one year	15,212	19,000
Due after more than one year	<u>327</u>	<u>442</u>

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

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13	General fund	2008	2007
		£'000	£'000
	As at 1 April 2007	12,403	15,953
	Increase/(decrease) in fund for the year	909	(3,550)
	As at 31 March 2008	<u>13,312</u>	<u>12,403</u>
14	Soft commitments	2008	2007
		£'000	£'000
	Balance at 1 April 2007	5,664	6,636
	Amounts committed in year	9,712	18,252
		<u>15,376</u>	<u>24,888</u>
	Transferred to hard commitments	14,171	19,224
	Awards made but not yet accepted at 31 March 2008	<u>1,205</u>	<u>5,664</u>

In addition to the recorded soft commitments the Council approved grant awards of £0.236 million (2006/07 £0.164 million) within the year for which offers had not been issued at 31 March 2008.

15 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 2008 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.

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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.

An Tuireann Arts Centre

In October 1996 Scottish Arts Council's Lottery Fund awarded a grant to An Tuireann Arts Centre of £392,053 towards the total cost of £528,934 for the refurbishment of the galleries and café and the creation of workspaces.

In October 2007 An Tuireann Arts Centre went into liquidation and a liquidator was appointed to administer the assets and liabilities of the organisation.

The latest correspondence from the liquidator indicates that there will be insufficient fund to make any payments to the creditors.

16 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).

Council/Committee Member/Specialist Advisor/Staff Council	Office held	Organisation	Grant Award £
Richard Holloway	Director	Centre for Contemporary Arts	£300
Donald Emslie	Chair	Royal Lyceum Theatre	£360
Steve Grimmond	Director	Byre Theatre	£8,495
Robert Noakes	Contractor	Dumfries and Galloway Arts	£306,696

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Benjamin Twist	Board Member	Macrobert Arts Centre	£76,722
	Contractor	Pitlochry Festival Theatre	£649,818
	Contractor	North Edinburgh Arts	£29,686

**Specialist Advisors:
 Crafts**

Eileen Gatt	Lecturer	University Of Dundee	£500
Sara Keith	Lecturer	University Of Dundee	£500
Sandra Wilson	Lecturer	University Of Dundee	£500
Stephen Slater	Employee	Tramway	£6

**Specialist Advisor:
 Dance**

Dawn Hartley	Employee	Scottish Dance Theatre	£5,041
David Williams	Ex Board Member Board Member	Glasgow Grow Audiences Suspect Culture	£84,844 £42,015
Emma Jones	Employee	West Lothian Council	£250,000
Ian Spink	Contractor Consultant	Aberdeen City Council Lemon Tree	£50,547 £180,000
Lucy Mason	Board Director Chief Executive	Licketyspitt Dance Base	£6,841 £58,750
Tracey Hawkes	Contractor	Edinburgh City Council	£42,201

**Specialist Advisor:
 Drama**

Alex Patience	Employee	Lighthouse	£1,880
Chole Dear	Contractor	Iron-Oxide Productions	£2,000
Laura Tyrrell	Officer Director	West Lothian Council Catherine Wheels Theatre	£250,000 £11,492
Sylvia Dow	Board Member	Licketyspitt Theatre	£6,841
Stephen Stenning	Chief Executive Advisor	Aberdeen International Youth Scottish Youth Theatre	£10,735 £639

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Tim Licata	Practitioner/Doctor	Hearts & Minds	£8,061
	Close Relationship	Benchtoours Production	£8,800
Specialist Advisor: Education			
Alan Riach	Employee	University Of Glasgow	£24,000
Specialist Advisor: Literature			
Claire Malcolm	Mentor To Staff	Scottish Poetry Library	£9,860
Graham Caie	Employee	University Of Glasgow	£24,000
	Board Member	Scottish Language	£548
Lucy Jukes	Board	Scottish Book Trust	£208,670
Specialist Advisor: Music			
Helen Jamieson	Board Member	Enterprise Music Scotland	£213,732
	Contractor	National Youth Orchestras	£3,308
	Contractor	Music At Paxton	£6,000
	Consultant	Artlink Central	£45,000
Hugh Macdonald	Chairman	Edinburgh Contemporary	£32,000
Jim Gaitens	Chairman	Highland Print Studios	£39,000
Specialist Advisor: Varts			
Alastair Snow	Project Manager	West Lothian Council	£250,000
	Project Manager	Edinburgh City Council	£42,201
Jenny Brownrigg	Curator	University Of Dundee	£500
Jane Jeffery	Director	An Tuirean Arts Centre	£31,411
Kirsteen MacDonald	Employee	Stirling Council	£40,234
Maureen Finn	Consultant	Stills Gallery	£463
	Contractor	Scottish Book Trust	£208,670
	Consultant	Dumfries & Galloway Arts	£306,696
Rosita Mckenzie	Director	Edinburgh Sculpture	£4,000
	Consultant	City Of Edinburgh Council	£42,201

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**Specialist Advisor:
Youth Music**

Brian Cope	Employee	Drake Music	£25,000
Fiona Dalgetty	Employee Ex Worker	City Of Edinburgh Council Lochgoilhead Fiddell	£42,201 £7,500
Ian Mills	Chairman	Scottish Amateur Music	£5,000
Josephine Miller	Contractor	Stirling Council	£40,234

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17 Intra-government balances

Included within the creditors figure are the following intra government balances

	2008	2007
	£'000	£'000
Creditors		
Central government bodies	54	82
Local authorities	6,157	6,547
NHS trusts	55	110

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Five Year Summary

	Year Ended 31-Mar 2008 £'000	Year Ended 31-Mar 2007 £'000	Year Ended 31-Mar 2006 £'000	Year Ended 31-Mar 2005 £'000	Year Ended 31-Mar 2004 £'000
Grant income	16,737	16,884	19,442	19,144	18,166
Other income	184	158	111	91	64
Total income	16,921	17,042	19,553	19,235	18,230
Support to the arts	14,986	19,403	15,916	16,843	24,257
Net operating costs	1,026	1,189	1,527	1,553	1,626
Surplus/(Deficit)	909	(3,550)	2,110	839	(7,653)

National Lottery Statement of Compliance 2007/08

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 2007/08 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. 16 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 by Audit Scotland, 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 75.5% of our grants were for amounts of less than £10,000.

Table 1
Lottery applications and awards by budget type 2007/08

	Number of App's *	Amount Requested (£)*	% by Number	Number of Awards **	Amount Awarded (£)**	% by Number
Advancement	2	238,000	0.2	2	238,000	0.3
Arts Development	442	5,336,845	37.3	259	4,150,365	33.4
Audience & Organisational Development	51	1,811,889	4.3	43	1,919,727	5.6
Awards for All	363	2,324,220	30.7	216	899,105	28.0
Capital	37	1,757,713	3.1	24	5,637,427	3.1
Creative Links	0	0	0.0	3	144,910	0.4
Creative Scotland Awards	0	0	0.0	2	60,000	0.3
Equalities	82	1,078,991	6.9	37	751,542	4.8
New Work	3	9,900	0.3	4	16,350	0.5
Professional & Creative Development	203	380,392	17.2	182	354,386	23.6
TOTAL	1,183	12,937,950	100.0	772	14,171,812	100.0

* Applications received between 1 April 2007 and 31 March 2008

** Awards figures for this and other tables represent grant offers made and accepted between 1 April 2007 and 31 March 2008

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Table 2
Lottery awards banded by value (number of awards) 2007/08

	No.	% by No.
under £9,999	583	75.5
£10k - £24,999	96	12.4
£25k - £49,999	46	6.0
£50k - £99,999	31	4.0
£100k - £499,999	14	1.8
£500k - £999,999	0	0
over £1million	2	0.3
Total	772	100.0

Table 3
Lottery awards banded by value (value of awards) 2007/08

	Value (£)	% by Value
under £9,999	1,962,001	13.9
£10k - £24,999	1,462,316	10.3
£25k - £49,999	1,466,947	10.4
£50k - £99,999	1,915,079	13.5
£100k - £499,999	2,882,402	20.3
£500k - £999,999	0	0
over £1million	4,483,067	31.6
Total	14,171,812	100.0

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 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 2007/08 grants were made to organisations in all 32 Scottish local authorities. (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 2007/08**

	No. of Awards	Amount Awarded (£)
Advancement	2	238,000
Arts Development	30	877,889
Audience Development	43	1,919,727
Awards for All	216	899,105
Capital	6	5,011,316
Crafts	8	32,279
Dance	8	491,872
Drama	157	1,581,593
Education	8	169,560
Equalities	30	628,555
Literature	65	561,829
Music	131	1,174,721
Visual Arts	68	585,366
Total	772	14,171,812

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 £244,783. In addition, a number of Capital expenditure awards was 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 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

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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 2007/08

Local Authority	Number of Awards	Amount Awarded (£)
Aberdeen City	26	501,675
Aberdeenshire	21	159,772
Angus	11	77,040
Argyll and Bute	23	96,723
Clackmannanshire	4	90,000
Dumfries and Galloway	26	407,231
Dundee City	16	162,045
East Ayrshire	6	28,325
East Dunbartonshire	9	1,686,584
East Lothian	9	66,527
East Renfrewshire	7	37,940
Edinburgh City	165	5,388,571
Falkirk	1	1,200
Fife	35	282,326
Glasgow City	185	2,515,470
Highland	66	641,328
Inverclyde	4	17,216
Midlothian	4	14,141
Moray	10	40,631
North Ayrshire	3	11,700
North Lanarkshire	12	43,698
Orkney Islands	6	36,000
Perthshire and Kinross	16	772,428
Renfrewshire	7	28,999
Scottish Borders	21	95,267
Shetland Isles	8	29,926
South Ayrshire	3	10,991
South Lanarkshire	23	77,890
Stirling	13	199,371
West Dunbartonshire	3	8,898
West Lothian	6	250,672
Western Isles	8	55,829
Outside Scotland	15	335,398
Total	772	14,171,812

- 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;

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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**

	2008	2007
	£'000	£'000
Travelling, subsistence and entertaining	8	10
Publicity and promotions	49	73
Postage	9	12
Agency staff	20	27
Professional fees	13	29
Office sundry	402	341
Staff	517	666
Depreciation	23	31
	1,041	1,189

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 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. The Creative Scotland Awards scheme is about to enter its seventh year. Ongoing informal evaluation is undertaken regularly by the various decision-making groups engaged by Council.

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Table 7

Lottery awards over £100,000 accounted for in 2007/08

Highland Council	an artworks commissions programme involving 6 specific projects for Inverness Streetscape	100,000.00
Audience Business, The	supporting research to sustain audience development across Edinburgh's cultural organisations	100,130.00
Aberdeen City Council	Towards the cost of developing the principles of Arts Across the Curriculum in initial teacher education.	104,910.00
Audience Business, The	Towards the cost of supporting research to sustain audience development across Edinburgh's cultural organisations - year 2	110,130.00
Wasps Artists Studios	Towards the cost of system and skills enhancement for the development and delivery of up to 5 new building projects	120,000.00
Wee Stories Theatre For Children	Towards the cost of Flexible Funding 2008/9	156,000.00
Scottish Book Trust	operating Live Literature Scotland in 2007/2008	164,500.00
Arts Council England	Scottish Arts Council's contribution to Cross Border Touring Fund 2007/08	175,000.00
Dumfries and Galloway Arts Association	implementation of a plan for change in accordance with application reference no L200210173	198,000.00
Federation of Scottish Theatre	a national audience development project to increase the capacity of the touring sector	200,000.00
Edinburgh International Festival Society	maintaining the core programme of the Edinburgh International Festival	200,000.00
Enterprise Music Scotland Limited	Towards the cost of Flexible Funding 2008/9	213,732.00
The WASPS Trust	Towards the cost of re-structuring the balance sheet	400,000.00
Pitlochry Festival Theatre	enabling the deficit reduction and to assist the implementation of the Business Plan	640,000.00
Kirkintillochs Initiative Ltd	towards the cost of building the Kirkintilloch Arts and Cultural Centre, the first dedicated cultural facility on the Forth and Clyd	1,654,951.00
City of Edinburgh Council	Towards the cost of improvements and alterations to the Usher Hall	2,828,116.00
Total		7,365,469.00

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 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

	2008	2007
	Actual	Actual
Average time to process each applications (days)	26	36
Average cost of processing each applications (£)	822	686
Total number of applications processed	1,183	2,469

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