

Scottish Screen

Annual Report 2005/06

Statement of Account Prepared Pursuant to
Section 26(3),(3A), & (4) of the National Lottery Act 1993

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October 2006

**Scottish Screen
National Lottery Distribution Fund Account and Report
Statement of Account Prepared Pursuant
to Section 26(3),(3A), & (4) of the National Lottery Act 1993**

Directors Report

Scottish Screen was formed in 1997 and is the National Body responsible for distribution of public funds towards the support of the development a sustainable screen industry in Scotland and to support Scotland's screen culture.

Scottish Screen's activities in support of the screen industry are financed by annual grant-in-aid from the Scottish Executive, by the National Lottery and from income generated by its own activities.

Under the National Lottery etc. Act 1993 (as amended), Scottish Screen is appointed to distribute National Lottery funds for expenditure on film production in Scotland, in accordance with its powers as a Non Departmental Public Body.

Under the Financial Directions issued by the Scottish Ministers all distributing bodies must prepare separate statements of accounts relating to these activities. An Annual Report for the National Lottery activity, as required by the Financial Directions, is incorporated within this Annual Report and Accounts.

The accounts have been prepared in a form directed by the Scottish Ministers in accordance with Section 35 of Part II of the National Lottery etc. Act 1993.

National Lottery Distribution Fund

At 31 March 2006 the balance held under the stewardship of the National Lottery Distribution Fund available to Scottish Screen was £4.742 million (2005, £4.750 million). During the year to 31 March 2006 £2.901 million (2004-2005, £0.226 million), was called down from the Distribution Fund for the payment of approved awards and administration of Scottish Screen's Lottery Fund. The drawdown figure for 2004/05 is significantly lower than 2005/06. This being due to the finalisation of the transfer of funds from the Scottish Arts Council to Scottish Screen in December 2003 of £2.491 million, resulting in a reduced requirement to drawdown funds in 2004/05. Of the balance of funds held at NLDF a total of £1.669 million (2005, £4.105 million), was committed to film projects. The unallocated balance is added to future budgets for later allocation.

Review of Activities

Firm commitments of awards totalling £2.986 million (2004-2005, £4.829 million), were made during the year in support of a range of film production projects.

Firm commitments made during the year included:

Feature Films

Sigma Films Ltd	<i>Hallam Foe</i>	500,000
Crab Apple Films Ltd	<i>Clever</i>	438,305
Slate Films (North) Ltd	<i>Last King of Scotland</i>	350,000
Advance Party Films	<i>Red Road</i>	290,833
Makar Productions Ltd	<i>True North (aka Dragnet)</i>	<u>205,000</u>
		1,784,138

Outline of Procedures

To achieve their remit Scottish Screen's board and panels include individuals with experience of both the Scottish and world-wide screen industries. As a result of this, potential conflicts of interest may arise. Scottish Screen has strict procedures for directors and panel members to register and declare their interests and to exclude themselves from considering any issues which may present a conflict. The related parties transactions are given at note 13 to the financial statements.

Board of Directors and senior management

The directors who held office during the year were:

Ray Macfarlane (Chair)	Karen Hogarty
Dinah Caine	Charles Lovatt (appointed 1 July 2005)
April Chamberlain	Danny Meaney (appointed 1 July 2005)
Donald Emslie	Barbara McKissack
Richard Findlay	Malcolm Ritchie
Paul Harris (appointed 1 July 2005)	Iain Smith
Kay Henning	Paul Zealey (appointed 1 July 2005)

On the 18th April 2005 Ken Hay joined Scottish Screen as Chief Executive Officer.

The Lottery Panel external advisors during the year were:

Bill Allan	Sharon Menzies
Henry Eagles	Claire Mundell
Hilary Davis	Andrew Orr
Laurence Gornall	Nicola Pierson
Shirley Henry	Roger Shannon
Matthew Justice	

During the year 2005/06, decisions on lottery awards between £25,000 and £500,000 were taken by Scottish Screen's Lottery Panel advisors which comprised of individuals with experience of both the Scottish and world-wide film industry. Awards of up to £25,000 were approved by Officers on delegated authority from the Board of Scottish Screen. Awards of over £500,000 required the approval of Scottish Screen's Board of Directors.

A register of panel members' interests is held at Scottish Screen's registered office. If a panel member wishes to bring a project forward for funding they are required to declare an interest and absent themselves from the relevant meeting. Also to avoid any potential conflict of interest it is a condition of

employment that Scottish Screen's staff are required not to work on any of their projects for the duration of their contract.

As part of the organisational review undertaken during 2005/06, a wider review of Lottery processes was undertaken. The wider review was not only to review the recently implemented system for effectiveness in line with its defined objectives, but also to review the areas supported and the current system with the view to expanding the best practices adopted in the Lottery application and decision making processes across the entire organisation. The result of this extensive exercise was the disbandment of the Lottery external advisors panel and in light of this we would like to extend sincere thanks to all members, both recent and past for their invaluable contribution.

Fixed Assets

No fixed assets are held solely for Lottery use. A percentage of depreciation is recharged from Scottish Screen to the Lottery accounts.

Pensions

Details of the treatment of pension liabilities, is included within the accounting policy notes and in note 4 to the accounts.

Project Monitoring and Evaluation

Post award, all projects are monitored by the designated Officer and Business Affairs to ensure compliance with contractual agreements, Lottery funding only being released on completion of designated milestones. Officers are in regular contact with relevant production companies to ensure that the production /development process is proceeding as planned.

2005/06 was the second full year for the evaluation process which Scottish Screen developed in 2003/04. This system evaluates each funding strand, based on the collation of key quantitative and qualitative measurables. The evaluation forms are issued to award recipients, at designated times to best reflect the 'life' of projects and ensure optimum capture of evaluation material. The completion and return of the evaluation material within specified timescales is stipulated as a contractual requirement. The collected material is collated to enable review of the effectiveness of award and scheme structures and also to provide key reference material. Data Protection Act requirements are fulfilled in the undertaking of this process.

As part of the launch of the further revised investment process, the initial stage of which was launched at the end of May, we extended our diversity monitoring section on race equality, the results of which we will be reporting to the DCMS and will be included in next years Annual report.

Appointment of Auditors

The annual accounts are audited by Audit Scotland, as appointed by the Auditor General for Scotland. The fee for audit services for 2005/06 was £11,700. No non-audit work was undertaken by the auditors during the financial year.

Equal Opportunity in Employment and Disabled Employees

Scottish Screen is committed to providing a workplace and an environment that attracts and retains the best people. The group's policy and practice is to encourage the employment of disabled persons (or persons becoming disabled whilst employed), their recruitment, training, career development and

promotion. Scottish Screen is an Investor in People and an equal opportunities employer and has monitoring procedures in place to ensure continual compliance in this area. During the year Scottish Screen achieved re-accreditation of Disability 2 Ticks and continues to work towards full compliance of the Disability Equality Duty which comes into force in December 2006.

Employee Consultation

During the year, the group maintained the practice of keeping employees informed about current activities and progress and encouraged employee involvement through formal communication channels, of open staff meetings, staff development sessions and the distribution of information in written and electronic formats including the company intranet.

Payment of creditors

Scottish Screen's policy is to pay creditors within thirty days of a valid invoice or within alternative terms agreed at the point of transaction. During the year ended 31 March 2006, 77% of invoices were paid within the terms of the payment policy (2005, 54%). These percentages were calculated using the date stated on the invoice as opposed to the date the invoice was received.



Ken Hay
Chief Executive &
Accountable Officer

Date 1st September 2006

Management Commentary

Scottish Screen has now been operational as a National Lottery Distributor for six years. As part of our commitment to transparency and consistency in approach in the distribution of Lottery funds, a comprehensive review of our activities and processes was undertaken to ensure we continue to meet the needs of the sectors we are supporting as they evolve, and after a lengthy consultation with our stakeholders in the Scottish production community, the new system was implemented in March 2005, providing a new expeditious and more transparent Lottery Funding application and decision making process. As part of our commitment to continual review we committed to review this new system at the end of 2005.

During 2005/06 the new Chief Executive instigated a full organisational review of all activities within Scottish Screen to ensure they reflected the needs of the sector. Regulatory, technological and public policy developments have created a range of opportunities to significantly grow the sector, industrially, educationally and culturally. The potential is for more people to create, share and consume Scottish originated screen product than ever before and provide more communities across the country with the opportunity to access and appreciate a broader range of screen product from across the world. Scottish Screen's role (and in the future, Creative Scotland) is in driving the development and implementation of the strategy that will attempt to deliver this.

A key part of the organisational review was to widen the planned Lottery system review to include not only the recently implemented Lottery processes but also to review the areas supported and to revise the systems, to enable the best practices adopted in the Lottery application and decision making processes to be employed across the entire organisation, thus creating a standardised means of 'access' for organisations and individuals coming to Scottish Screen for financial support, and ensuring consistency and transparency in our application, evaluation and decision making processes.

Another important change to the Lottery area was the expansion of the areas of support. To continue our commitment to supporting content development and production, but to expand this support to include a wider range of areas within the screen industries:

- Content development
- Content production
- Short film production
- Exhibition
- Distribution
- Festivals
- Audience development
- Capacity building
- Production pilot fund for TV series
- Future fund
- Market led development
- Talent bursary initiative
- Slate development initiative
- Company development

These areas of support are to be developed and launched throughout 2006/07. At the time of this report the following areas having already been opened to application and new investment guidelines launched;

- Content development
- Content production
- Short film production

- Distribution
- Festivals
- Audience development

While the new processes are streamlined and rigorous, they are also simplified to ensure that the decision making process is transparent and consistent. The method of release of these investment 'pots' will be a combination of those open throughout the year and, as appropriate, those with annual deadlines for application – this being determined by the type of investment and the timescales operating within our sector. The timescales operating within our sector have also influenced the revised timetable for our investment meetings.

Although we have only recently launched the new system we will be continuing to review it for effectiveness, and have already started to reflect feedback received from the sector. Our aim in this exercise is to ensure that Lottery funds have the maximum level of impact within our areas of responsibility. As a result of the extensive review exercise, the Lottery external advisors panel was disbanded. We do however recognise that external input still remains an important element of the process and this will be incorporated as appropriate.

As always Scottish Screen will continue to work closely with the UK Film Council as well as with our sister bodies in Wales and Northern Ireland and the regional screen agencies. It is agreed that co-ordination of approach and policy is of vital importance and during the year and Scottish Screen therefore participated in the regular '4 Nations' meetings with these bodies.

Scottish Screen is working closely with the Scottish Executive and the Scottish Arts Council in laying the groundwork, in respect of the announcement in January by the Minister of Culture, Tourism and Sport, of the Government's intention to merge Scottish Screen and the Scottish Arts Council to become part a new body, Creative Scotland. Scottish Screen's priority in this being to ensure that Creative Scotland fully addresses the very specific needs of the screen industries and that both the sector and the wider Scottish Economy benefit from this important development.

Position of SSNLDF at the end of the year

Income and Expenditure Account

Scottish Screen's share of proceeds from the National Lottery Fund during the year to 31 March 2006 was £2.673 million. (2004-2005, £2.622 million). A total of £0.287 million (2004-2005, £0.702 million) was recouped from projects funded in previous years. Interest and return on investments of £0.229 million (2004-2005, £0.189 million) brought the total income to £3.189 million (2004-2005, £3.540 million).

Commitments entered into during 2005-06 totalled £2.986 million. (2004-05, £4.829 million). Expenditure on staff and other operating costs was £0.445 million (2004-2005, £0.475 million). De-commitments during 2005-06 of prior year awards amounted to £2.670 million (2004-2005, £1.163 million). Staff and overhead costs were recharged from Scottish Screen's grant in aid funded statements on the basis of staff time spent on lottery activities during the year.

The net result for the period is a surplus of £2.178 million, (2004-2005, deficit of £0.601 million). This balance will be offset against commitments made to projects in future years.

Balance Sheet

The total net assets of £3.073 million (2004-05, £0.645 million), are represented by a general fund balance for future commitments.

Environmental

As part of the Environmental Performance initiative launched by Ross Finnie, Minister of Environment and Rural Development, on 26 August 2004, Scottish Executive Agencies and Public Bodies were instructed to put in place environmental policies, procedures and targets. Scottish Screen has taken this on board and has committed to reducing the environmental impact of our operations and to promote resource efficiency. Scottish Screen is committed to the continual improvement of our environmental performance recognising the contribution that this will make to the wider sustainability agenda for Scotland, the strategy of which was launched in December 2005 - 'Choosing our future'.

This commitment has been made by the senior management of Scottish Screen who acknowledge their responsibilities in delivering our environmental policy and recognise the importance of engaging all staff in its implementation.

In delivering our commitment we are ensuring that we;

- Comply with all relevant legislation and the principles of the "Greening Government" policy.
- Adopt and promote more energy and resource efficient practices.
- Recognise that waste disposal has an environmental impact and cost and therefore seek to prevent it where possible.
- Recognise that the nature of our business requires the occasional use of hazardous substances and therefore endeavour to minimise their use by actively seeking alternatives where possible.
- Seek to minimise the impact that transport has on the environment, in particular recognising its contribution to global climate change, and therefore support more sustainable modes of travel.
- Recognise the importance of Scotland's biodiversity and seek ways of conserving and enhancing it.
- Encourage and influence businesses, organisations and individuals we work with across Scotland to adopt more sustainable business practices and protect the environment.
- Provide all the necessary resources for the effective delivery of this policy.
- Openly measure, audit, review and report on our progress.

To ensure this commitment is effectively progressed we have a member of staff who has volunteered to act as the dedicated Environmental Co-ordinator and who manages the activities of the Environmental Working Group. The Group consists of representatives from across the organisation, thereby ensuring awareness of our environmental commitment throughout Scottish Screen.

Social and community

Scottish Screen is committed to ensuring participation within the screen industries and appreciation of screen content is as diverse as possible.

Internally Scottish Screen has recently regained its re accreditation for Disability 2 Ticks and approval as a Disability Symbol user and during the next 12 months we will continue to meet the standard 5 commitments as well as work to:

- increase awareness of disability 2 ticks amongst existing staff by creating an information section on the company intranet on disability 2 ticks, as well as;
- undertake disability discrimination training for all staff

In our recruitment process we monitor applications from disabled people and have a commitment, which we have enacted, to interview any applicant who meets the basic requirements for the post.

We have an equal opportunities policy which is available to all staff on our company intranet site. As part of our staff development programme this year we will be including training and awareness raising for all staff on the area of equal opportunities and diversity and access.

As an organisation, within our external activities we have developed a model of training for fast track introduction to the TV and film industry for under represented individuals of black and ethnic minority backgrounds. We have been doing this in partnership with Pan African Arts and Ankur production, to help address the low percentage participation of these groups within the screen industries.

Within our Education activities, the Moving Image professional development programme in Edinburgh, trains teachers in several groups of schools, one of those groups being special needs schools. Also as part of this project we are currently developing a website - movingimageeducation.com. In this site we will be seeking to address issues of compliance, in line with recognised access standards. Also in the past we have supported and screened film projects with special schools and for our film submission in 2002 to the National Debate on Education we interviewed to camera, 2 special schools regarding moving image education.

Within our content production and development areas we have provided development and production support to a range of projects which have reflected disability issues. In two projects Afterlife and Touch the Sound, a feature and a documentary film, respectively, the key cast where themselves people with disabilities, the star of Afterlife being a talented young actress with downs syndrome while the documentary project followed the work of the world renowned percussionist Evelyn Glennie.

Moving forward in 2006/07 we will be implementing the Cinema Access project, which seeks to make grants available to cinemas and cinema operators throughout Scotland to support the installation of captioning and audio-description equipment. This will build upon work in this area to date, allowing greater access to films for people with sensory impairments and is in line with our commitment to enable all sectors of the community to participate in and enjoy film culture. We are working with both the RNID and RNIB on this project.

A key partner in this work is the Local Authorities throughout Scotland and we will be seeking to further develop our relationships and partnership with them throughout 2006/07.

Remuneration report

Ken Hay (aged 41) was appointed Chief Executive on the 18 April 2005

	2005-06 £000s	2004-05 £000s
Emoluments of the Chief Executive		
Remuneration:	62	-
Other taxable benefits	-	-
Pension scheme contributions	<u>9</u>	-
	<u>71</u>	-

Alyson Hagan (aged 37) was appointed as Acting Chief Executive on 1 September 2004 to 17 April 2005

	2005-06 £000s	2004-05 £000s
Emoluments of the Acting Chief Executive, Alyson Hagan		
Remuneration:	3	38
Salary for period		
Other taxable benefits	-	-
Pension scheme contributions	<u>1</u>	<u>4</u>
	<u>4</u>	<u>42</u>

The Chief Executive is an ordinary member of the organisation's pension scheme. Information on pension accrued as at 31 March 2006, together with the increase for the year, is unavailable.

The directors of Scottish Screen are unpaid and received no remuneration or taxable emoluments during the year.

Remuneration Committee:

Ray MacFarlane - Chair
Donald Emslie
Richard Findlay

All senior management's remuneration, excluding the Chief Executive's, falls within the organisational pay grades. Remuneration increases are subject to attainment of satisfactory performance and are submitted to the Scottish Executive for approval through Scottish Screen's annual Pay Remit. The Chief Executive's performance is considered by the Remuneration Committee and submission for formal approval of increase in remuneration is sent to the Scottish Ministers.

Individual objectives are set for all senior management, by the Chief Executive and for the Chief Executive by the Chair, on behalf of the remuneration committee. The objectives set for individuals are directly linked to the organisational objectives as stated in the Operational plan for the year. Satisfactory performance by attainment of set objectives is decided via one to meetings with the Chief Executive for the senior manager and by the Chair for the Chief Executive. An initial meeting is held at a half way point during the year to determine progress to date with the final review meeting being held at the end of year, at that point the Chief Executive and Chair conclude whether satisfactory performance has been attained, by senior management and the Chief Executive, respectively.

The Chief Executive is eligible to receive an additional performance related payment in the form of an annual, one off non-pensionable bonus. The award of any such payment in any year being entirely at the discretion of the Board and will be determined on the appraisal carried out of the Chief Executive's performance in the previous appraisal year and his attainment of stretching targets and criteria. The maximum bonus payable being 5% of the Chief Executive's gross salary and is subject to approval of the Scottish Ministers.

The Chief Executives and senior management's contracts are on a permanent basis reflecting legislation regarding fixed term contracts. All senior management are on a written notice period of one month,

excluding the Chief Executive's of six months. All terminations of contracts will comply with contractual conditions. There are no conditions within any contracts regarding payments on termination.

Details of company directorships and significant interests held by members of the Board which may raise potential conflicts:

April Chamberlain	- is a Co-owner and joint Managing Director of The Comedy Unit.
Donald Emslie	- is a Board Member of SMG plc, Scottish Television Ltd and Grampian Television Ltd; of Skillset and a member of the advisory board for Screen Academy.
Barbara McKissack	- was Head of Drama at BBC Scotland until the end of February 2006.
Malcolm Ritchie	- is a Director and Shareholder at Tern TV Productions Ltd and a Advisor and shareholder at Red Kite Animations Ltd.
Iain Smith	- is a Board Member of the UK Film Council.

Full details of related party transactions are stated in note 13 of this report.

No non audit work was undertaken by the auditors during the year.



Ken Hay
Chief Executive &
Accountable Officer

Date

1st September 2006

Statement of Chief Executive and Directors' Responsibilities

Under Section 35 of Part II of the National Lottery etc Act 1993, the Scottish Ministers have directed Scottish Screen to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Scottish Screen and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the accounts direction issued by the Scottish Ministers including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- make judgements and estimates that are reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis

The Accountable Officer of the Scottish Executive Education Department has designated the Chief Executive as Accountable Officer of Scottish Screen. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Scottish Screen's assets, are set out in the Accountable Officer's Memorandum issued by the Scottish Ministers under S26 (3) of the National Lottery, etc, Act 1993.



Ken Hay
Chief Executive and Accountable Officer
Scottish Screen

Statement on internal control

As Accountable Officer and Chief Executive and in conjunction with the Board, we have joint 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 the Accountable Officer is personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. In addition, the Chief Executive is also personally responsible for ensuring compliance with the policy and financial directions issued under section 26 (1), (3), (3a) and (4) of the National Lottery Act 1993 (as amended).

As Accountable Officer the Chief Executive chairs weekly meetings of the senior management of Scottish Screen which effectively delivers on risk management for the organisation. Through a regular, formal process, key risks are identified. These are given a weighting and allocated to specific managers for control. The management of organisational risk is discussed at the senior management team meetings, with risk assessment being a standing agenda item and the risk schedule being updated on an ongoing basis. Risk assessment is a substantive agenda item on a cyclical basis to allow for periodic in depth review. Further details are given below. High level risks, as appropriate, are notified to the Scottish Executive and where appropriate, communicated to Ministers. In the period covering the year 31 March 2006 and up to the signing of the accounts, the frequency of senior management team meetings was increased to weekly with risk assessment becoming a weekly standing agenda item, this being in addition to regular substantive reviews.

The system of internal control is designed to manage to a reasonable level rather than eliminate all 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 and prioritise the risks to the achievement of the organisation's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Scottish Screen for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

The Accountable Officer and Board have ultimate responsibility for the control of all identified organisational risks. To ensure effective daily control, a large proportion of the risks are allocated to members of the senior management team, based on their appropriate skills/knowledge within the area concerned. They have responsibility to ensure that current controls are maintained; initiatives for improvement are successfully undertaken and that any new risks identified within their areas are immediately highlighted to the Accountable Officer/Chief Executive. To fully support the senior management in this process, any newly identified risks; decisions for controls, new initiatives, reviews of risks and controls etc are discussed at the management team meetings and with the Accountable Officer/Chief Executive and further guidance is given before any action is taken. Schemes funded with partner organizations are covered within Scottish Screen's normal risk management procedures.

Scottish Screen is committed to a process of continuous development and improvement: developing systems in response to relevant reviews and developments in best practice in this area. In line with this we committed to undertake a comprehensive review at the end of 2005 of the effectiveness of the new Lottery system which was implemented in March 2005. During 2005/06 the new Chief Executive instigated a full organisational review of all activities within Scottish Screen. A key part of this being to widen the planned Lottery system review to include not only the recently implemented Lottery processes but also to review the areas supported and to revise the systems, to enable the best practices adopted in the Lottery application and decision making processes and controls to be employed across the entire organisation, thus creating a standardised means of 'access' for organisations and individuals coming to Scottish Screen for financial support, and ensuring consistency and transparency in our application, evaluation and decision making processes. Although we have only recently launched the new system we

will be continuing to review it for effectiveness, and have already started to reflect feedback received from the sector.

As standard all Board members, external panel members and staff must complete a declaration of interests and related parties statement, which are held at Scottish Screens registered office stating their involvement with other organisations, with which Scottish Screen interacts. To date within the Lottery investment decision making process, if an external panel member wishes to bring a project forward for funding they are required to declare an interest and absent themselves from the relevant meeting. Also to avoid any potential conflict of interest it is a condition of employment that Scottish Screen's staff are required not to work on any of their projects for the duration of their contract.

As Accountable Officer, the Chief Executive, in conjunction with Board, has responsibility for reviewing the effectiveness of the system of internal control. His review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the managers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letters and other reports. He has been advised on the results of the review of the effectiveness of the system of internal control by the Audit Committee and appropriate action is in place to address weaknesses and ensure continuous improvement of the system in place.

The organisation's internal auditors submit reports on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement, with the review of Lottery funding and spending undertaken in 2005/06 resulting in a positive affirmation that the arrangements in place were in accord with good practice. All recommendations from the Audit process are responded to by management, the recommendations and responses for implementation being rigorously reviewed by the Audit Committee before being either approved or amended, for implementation. The findings from Audit are then reported to the Board

To address the requirements of the Financial Directions for project monitoring and evaluation, Scottish Screen currently monitors all projects. This is undertaken by designated Officers and Business Affairs, who ensure compliance with contractual agreements on an ongoing basis with Lottery funding only being released on completion of designated milestones. Evaluation forms are issued to award recipients, at designated times, chosen to best reflect the 'life' of projects and ensure optimum capture of evaluation material. The completion and return of the evaluation material within a specified timescale is stipulated as a contractual requirement. The collected material is collated to enable review of the effectiveness of investment and scheme structures and also to provide key reference material. The summary report can be found at the end of this document. Data protection requirements are fulfilled in the undertaking of this process. Ongoing monitoring of agreed recoupments, of course, continues as normal. Monitoring and evaluation requirements will be developed for the new areas of investment launched in 2006/07.

A Business Risk Assessment Register is in place which identifies the organisation's risks, categorised as 'Business Critical', Important Risks and Other Risks. A control strategy has been established for each of the significant risks and the register is reviewed and updated to reflect any changes in potential risks and or developments of the controls in place. Risk management is a standing agenda item at weekly senior management meetings and risk management is fully incorporated into the corporate planning and decision making processes of the organisation.



Ken Hay
Chief Executive & Accountable Officer



Ray MacFarlane
Chairman

Independent Auditor's Report

I have audited the financial statements of the Scottish Screen National Lottery Distribution Fund for the year ended 31 March 2006 under the National Lottery etc. Act 1993. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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 the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Directors, Chief Executive and auditor

The Directors and Chief Executive are responsible for preparing the annual report and the financial statements in accordance with the National Lottery etc. Act 1993 and directions made thereunder by the Scottish Ministers. The Chief Executive is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Accountable Officer's Responsibilities.

My responsibility is to audit the financial statements 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.

I report my 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. I 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. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the body has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the body's compliance with the Scottish Executive's guidance. I report if, in my opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

I 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 Management Commentary and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my 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. An 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 Directors 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.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements 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 my opinion I 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

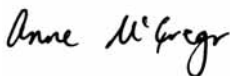
Financial statements

In my opinion

- the financial statements give a true and fair view, in accordance with the 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 2006 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- 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.

Regularity

In my 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.



Signature

Date

28th September 2006

Anne McGregor
Senior Audit Manager
Audit Scotland
7th Floor, Plaza Tower
East Kilbride
G74 1LW

Income and expenditure account
for the year ended 31 March 2006

	<i>Notes</i>	2005-06 £000s	2004-05 £000s
Income			
National Lottery Fund proceeds		2,673	2,622
De-Commitment of SAC Awards	2a	-	27
Other income	2b	<u>516</u>	<u>891</u>
		<u>3,189</u>	<u>3,540</u>
Expenditure			
Award commitments	3a	2,986	4,829
De-commitment of prior year awards	3b	(2,670)	(1,163)
Staff costs	4	246	247
Other Operating costs	5	<u>199</u>	<u>228</u>
		<u>761</u>	<u>4141</u>
Surplus on ordinary activities		2,428	(601)
Notional interest payable		<u>8</u>	<u>37</u>
Surplus on ordinary activities		2,420	(638)
Reversal of notional interest payable		<u>8</u>	<u>37</u>
Increase in Fund		<u>2,428</u>	<u>(601)</u>

All the results of the Fund relate to continuing activities.

Statement of recognised gains and losses

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

The notes on pages 20 to 27 form part of these financial statements.

Balance sheet
as at 31 March 2006

	Note	2005-2006 £000s	2004-2005 £000s
Current assets			
Balance held in NLDF	6	4,742	4,750
Debtors	7	159	46
Bank	8	<u>308</u>	<u>245</u>
		<u>5,209</u>	<u>5,041</u>
Creditors:			
amounts falling due within one year	9	<u>2,136</u>	<u>4,396</u>
 Net current assets		 <u>3,073</u>	 <u>645</u>
 Total assets less current liabilities		 <u>3,073</u>	 <u>645</u>
 Represented by:			
General reserve	10	<u>3,073</u>	<u>645</u>



Ken Hay
Chief Executive

Date 1st September 2006

Cash flow statement

	2005-06 £000s	2004-05 £000s
Net cash inflow/(outflow) from operating activities	54	(1,633)
Returns on investments and servicing finance		
Interest received	9	30
Increase/(Decrease) in cash in the period	<u>63</u>	<u>(1,603)</u>

Notes to the cash flow statement

(1) *Reconciliation of operating surplus to net cash inflow*

Operating (deficit) surplus	2,428	(601)
Bank interest	<u>(9)</u>	<u>(30)</u>
	2,419	(631)
Decrease/(Increase) in debtors	(113)	211
Decrease/(Increase) in NLDF balances	8	(2,555)
(Decrease)/Increase in creditors	<u>(2,260)</u>	<u>1,342</u>
Net cash flow from operating activities	<u>54</u>	<u>(1,633)</u>

(2) *Analysis of changes in net funds*

	1 April 2005 £000s	Movement	31 March 2006 £000s
Cash at bank and in hand	245	63	308
Bank overdrafts	<u>-</u>	<u>-</u>	<u>-</u>
	245	63	308
NLDF	<u>4,750</u>	<u>(8)</u>	<u>4,742</u>
Total	<u>4,995</u>	<u>55</u>	<u>5,050</u>

The notes on pages 20 to 27 form part of these financial statements.

Reconciliation of movement in funds for the year ended 31 March 2006

	Balances held in NLDF	Balances At Scottish Screen	Provisions for grant awards	Total
	£000s	£000s	£000s	£000s
Opening Balance	4,750	139	(4,244)	645
NLDF proceeds	2,673	-	-	2,673
Drawn down funds	(2,901)	2,901	-	-
Investment returns	220	-	-	220
Interest on cash balances	-	9	-	9
Other operating income	-	287	-	287
Grants paid	-	(2,580)	-	(2,580)
(Increase)Decrease in grant creditors	-	-	2,264	2,264
Expenditure	-	(445)	-	(445)
Closing Balance	4,742	311	(1,980)	3,073

The notes on pages 20 to 27 form part of these financial statements.

Notes to the accounts for the year ended 31 March 2006

1. Accounting Policies

(a) 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 and they meet the requirements of the Financial Reporting Manual (FRm) 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.

(b) Accruals convention

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

Accounting for funding awards

As required by the Scottish Ministers, a distinction is made in respect of National Lottery Fund awards between *hard commitments*, where Scottish Screen has made a firm offer of grant which (together with the appropriate conditions) has been accepted by the recipient and the *soft commitments* where Scottish Screen has agreed to fund a project and made an offer but the offer has not yet been formally accepted.

Hard commitments are recognised in the income and expenditure account, whereas soft commitments are disclosed by way of a note. Due to the nature of the projects supported it is not possible to reliably identify creditors over 12 months, therefore all hard commitments payable are prudently recognised in the balance sheet as current liabilities.

Scottish Screen's policy is that of making prudent pre-commitments of anticipated NLDF receipts. During 2005/06 due to fund balances and the implementation of a new meeting timetable with increased frequency of meetings to every 6 weeks, we reduced pre-commitment periods to the end of the month of the meeting. We will continue to monitor our pre-commitment periods and adjust as required. The pre-commitment level used is revised throughout the year based on the ongoing analysis of the NLDF monthly statements.

Project development awards

Scottish Screen makes awards which are for the development of projects to progress them to production. Some or all of these awards may be repayable in the event of a project reaching completion. Income is only accrued when the repayment conditions are fulfilled.

(c) Tangible fixed assets and depreciation

No fixed assets are held solely for Lottery use. A percentage of depreciation is recharged from Scottish Screen to the Lottery accounts representing assets bought in 2004/05 held in Scottish Screen.

(d) National Lottery Distribution Fund

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

- Completion of the Statement of Assurance of Payments due to the National Lottery Distribution Fund for 2005/06 by the National Lottery Commission.
- Completion of the audit of the National Lottery Distribution Fund accounts for 2005/06 by the National Audit Office.

The NLDF balance is brought to account at the lower of cost and market value.

(e) Pension costs

Pension costs for Scottish Screen staff are recharged to the Lottery Distribution Fund for staff employed on lottery related activities. Scottish Screen is an admitted body of the Strathclyde Pension Fund, a defined benefit scheme whose assets are held independently, being invested in managed funds. The pension fund is valued by actuaries, the rates of contribution payable being determined by the Trustees on the advice of the actuaries. Contributions to the pension fund are calculated so as to provide the cost of providing pensions over the period during which admitted bodies benefit from the employees services.

(f) Notional costs

In line with the accounts guidance issued by HM Treasury, notional costs in relation to the cost of capital have been charged to the income and expenditure account.

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.

2a De-commitment of SAC Awards

No awards made by SAC, were withdrawn during 2005/06, by Scottish Screen, under the authorisation of the Delegation Agreement between SAC and Scottish Screen.

2b Other income

	2005-06 £000s	2004-05 £000s
Investment income	220	159
Bank interest	9	30
Award repayments	<u>287</u>	<u>702</u>
	<u>516</u>	<u>891</u>

3a Award Commitments (hard)

	2005-06 £000s	2004-05 £000s
Features	2,016	3,650
Shorts	131	247
Project Development	143	159
Short film production schemes	223	399
Supplementary funding	115	15
Script Development	358	218
Distribution	-	<u>141</u>
	<u>2,986</u>	<u>4,829</u>

3b De-commitment of prior year awards (hard)

This represents a total of £2.670 million of awards relating to prior year (hard) commitments, which were de-committed during 2005-06 (2004-05, £1.163 million).

4 Staff costs

	2005-06 £000s	2004-05 £000s
Staff costs during the year		
Wages and salaries	205	204
Social security costs	16	19
Other pension costs	<u>25</u>	<u>24</u>
	<u>246</u>	<u>247</u>

All staff costs are recharged from Scottish Screen grant-in-aid funded activities on the basis of staff time spent on lottery related activities. Scottish Screen's total payroll costs for the year to 31 March 2006 were £1,513,000, the average number of staff employed during the year was 45.5. The amount recharged in respect of the National Lottery Distribution Fund's share of Scottish Screen's payroll costs was 16% (2004-05, 17%).

	Number	Number
	2005-06	Restated 2004-05
Average number of persons employed on NLDF activities (FTE) during year ended 31 March 2006	9	8

Scottish Screen Lottery does not operate its own pension scheme but participates in a defined benefit scheme, Strathclyde Pension Fund, provided by Scottish Screen for all its employees. The scheme is funded by payments from Scottish screen and its employees to a trust administered fund, independent of

Scottish Screen's finances. Contributions to the scheme are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the company.

Further details on Scottish Screen's pension scheme can be found in Scottish Screen's Annual Report and Accounts 2005/06. No asset or liability for Scottish Screen's pension scheme is held within these accounts.

5 Other operating expenses

	2005-06 £000s Direct	2005-06 £000s Recharged	2005-06 £000s Total	2004-05 £000s Direct	2004-05 £000s Recharged	2004-05 £000s Total
Legal & professional fees	76	-	76	67	-	67
Rent & overheads	-	48	48	-	48	48
Depreciation	-	3	3	-	3	3
Office administration	7	5	12	2	8	10
IT costs	-	-	-	1	-	1
Auditors' remuneration	12	-	12	12	-	12
Staff expenses	14	-	14	27	-	27
Panel expenses	4	-	4	6	-	6
Irrecoverable VAT	16	-	16	16	-	16
Script assessment	13	-	13	11	-	11
Consultancy fees	<u>1</u>	<u>-</u>	<u>1</u>	<u>27</u>	<u>-</u>	<u>27</u>
	<u>143</u>	<u>56</u>	<u>199</u>	<u>169</u>	<u>59</u>	<u>228</u>

6 Balance held in NLDF

	2006 £000s	2005 £000s
Brought forward at 1 April	4,750	2,195
Income received from Lottery	2,673	2,622
Investment Income	252	177
Funds Drawn Down	<u>(2,901)</u>	<u>(226)</u>
Carried forward at 31 March	<u>4,774</u>	<u>4,768</u>
Share of unrealised losses	<u>(32)</u>	<u>(18)</u>
Closing market Value at 31 March	<u>4,742</u>	<u>4,750</u>

7 Debtors

	2006 £000s	2005 Restated £000s
Trade debtors	105	-
Recoupment debtors	52	42
Sundry debtors	<u>2</u>	<u>4</u>
	<u>159</u>	<u>46</u>

8 Cash at bank

	2006 £000s	2005 £000s
Cash at bank	<u>308</u>	<u>245</u>

9 Creditors

	2006 £000s	2005 £000s
Awards outstanding (hard commitments)	1,980	4,244
Accruals & sundry creditors *	<u>156</u>	<u>152</u>
	<u>2,136</u>	<u>4,396</u>

*Sundry creditors balance includes £ 63,372 (2004–05 £63,372) relating to Scottish Arts Council awards

10 General reserve

	2006 £000s	2005 £000s
Balance at 1 April	645	1,246
Change in fund in year	<u>2,428</u>	<u>(601)</u>
Balance at 31 March	<u>3,073</u>	<u>645</u>

11 Soft commitments

	2006 £000s	2005 £000s
Balance at 1 April	211	205
Awards withdrawn	(200)	-
Accepted in year	(11)	(205)
Amounts committed in year*	<u>302</u>	<u>211</u>
Balance at 31 March	<u>302</u>	<u>211</u>

*Awards made but not accepted at 31 March 2006

12 Hard commitments

	2006 £000s	2005 £000s
Balance at 1 April	4,244	2,935
De-commitment of prior year awards	(2,670)	(1,163)
Committed in year	2,986	4,829
Paid in year	<u>(2,580)</u>	<u>(2,357)</u>
Balance at 31 March	<u>1,980</u>	<u>4,244</u>

13 Related party transactions

Scottish Screen administers the Scottish Screen National Lottery Distribution Fund

Scottish Screen is regarded as a related party by the Scottish Screen National Lottery Distribution Fund. During the year, Scottish Screen's National Lottery Fund had material transactions with Scottish Screen.

During the year ended 31 March 2006 the following transactions took place between Scottish Screen's National Lottery Distribution Fund and related parties, principally directors or lottery panel members.

April Chamberlain is a Co-owner and joint Managing Director of The Comedy Unit. During the year ended 31 March 2006 Scottish Screen supported **Bad Brown Owl** as part of the **Tartan Smalls** short film scheme in collaboration with BBC Scotland. Scottish Screen National Lottery Fund awarded this project £20,000 in July 2005 and a supplementary award to assist with distribution costs in January 2006 totaling £750.

Donald Emslie is a Board Member of SMG plc, Scottish Television Ltd and Grampian Television Ltd, and is a board member of Skillset and a member of the advisory board for Screen Academy. During the year ended 31 March 2006, Scottish TV and Grampian TV funded with Scottish Screen 2 schemes **This Scotland and New Found Films** to the sums of £70,350 and £308,800 respectively. Scottish Screen National Lottery Fund also made Supplementary Awards to three of the selected **This Scotland** projects to assist with distribution costs - the projects supported were **Catching the Tide (Goat Media Ltd)**, **Gold Fever (Autonomi Ltd)** and **Kerry's Story (Cormorant Film & TV Productions Ltd)** and they each received £750 in February 2006.

In addition Scottish Screen National Lottery Fund provided supplementary funding for the two jointly commissioned **New Found Films – Gamerz (Pure Magic Films Ltd)** and **Night People (Mead Kerr Ltd)**: **Gamerz** £19,850 and **Night People** £19,785 in June 2006 to assist with new digital generation in order to premiere the films and this new format at the Edinburgh International Film Festival in August 2005.

Scottish Screen National Lottery Fund awarded project development finance totalling £12,750 to **Ethel MacDonald (Pelicula Films Ltd)** in April 2005 and this project received co-development support from SMG. The project further received feature film funding support in November 2005 from Scottish Screen National Lottery Fund to the sum of £82,226 and SMG were also a co-investor.

A Scottish Screen National Lottery Fund development award of £10,000 was made to **Granny Flat (Made Up North Productions Ltd)** in September 2005. This project was originally developed by Scottish Screen through the first round of **New Found Films** and made it to the final shortlist in 2002.

Barbara McKissack was Head of Drama at BBC Scotland until the end of February 2006. During the year ended 31 March 2006, BBC Scotland funded **Tartan Shorts** and **Tartan Smalls** production schemes in collaboration with Scottish Screen to the sum of £1,703 and £432 respectively. Scottish Screen National Lottery Fund also made Supplementary Awards to each of the selected **Tartan Shorts** and **Tartan Smalls** projects to assist with distribution cost - the projects were **Run (Autonomi Ltd)**, **End of the Sentence (Brazen Hussies Ltd)** and **Sweetie (Sprocketeers Ltd)** and they each received £1,500 in February 2006. The **Tartan Smalls** projects, which received distribution support were **Bad Brown Owl (The Comedy Unit)**, **Meat the Campbells (Plum Films Ltd)** and **Winning Streak (Flechette Ltd)** and the each received £750 in February 2006.

Scottish Screen National Lottery Fund awarded feature film funding support totalling £82,226 to **Ethel MacDonald (Pelicula Films Ltd)** in November 2005 and BBC Scotland was also a co-investor in this documentary film. BBC Scotland also invested in the Gaelic feature film, **The Inaccessible Pinnacle (Young Films Ltd)** and Scottish Screen National Lottery Fund awarded £150,000 feature film funding in February 2006. During the financial year BBC Scotland provided funding, as a presale for transmission, to **The Flying Scotsman (Flying Scotsman Films Ltd)**, Scottish Screen National Lottery Fund having in prior years committed funding to this project. BBC Films in London were co-investors on **Red Road (Red Road Films Ltd)** and Scottish Screen National Lottery Fund awarded £290,833 feature film funding in June 2005 followed by a supplementary award of £15,577 in October 2005. Another feature film, **True North (Makar Productions Ltd)** was also supported by BBC Films in the financial year 2005 - 06 of which Scottish Screen National Lottery Fund invested £205,000 feature film funding in October 2005 and a supplementary award of £15,579 in February 2006.

The **GMAC Short Film Scheme (GMAC)** was awarded £75,000 by Scottish Screen National Lottery Fund in July 2005 and BBC Scotland was a funding partner in this scheme.

During the Financial Year 2005 - 06 BBC Scotland committed to the 2nd stage of the low budget feature scheme entitled **Fast Forward Features** in collaboration with BBC, Content International and Scottish Screen National Lottery Fund. A total of 8 projects were originally shortlisted and awarded £1,000 each in June and July 2005. As the development process continued this number was cut to 6 in October 2005 and a further £3,500 awarded to each project. The final development phase resulted in the 6 projects being cut to 3 in January 2006 when a further £1,200 was awarded to each project. A Scottish Screen National Lottery Fund development award of £19,450 was made to **The Man Who Walks (4Way Pictures Ltd)** in February 2006. This project was originally developed to revised 2nd draft script through the 1st stage of **Fast Forward Features** in October 2004, however, the project did not progress to the next phase.

Malcolm Ritchie is a Director and Shareholder at Tern TV Productions Ltd and a Advisor and Shareholder at Red Kite Animations Ltd.

Scottish Screen National Lottery awarded £25,000 to **Raven's Wing (Tern TV Productions Ltd)** in July 2005.

Iain Smith is a Board Member of the UK Film Council. Scottish Screen National Lottery Fund awarded supplementary funding of £2,000 in January 2006 to **The Festival (Young Pirate Productions Ltd)**, the film was co-funded with the UK Film Council. The **GMAC Short Film Scheme (GMAC)** was awarded £75,000 Scottish Screen National Lottery support in July 2005 and the UK Film Council, was a funding partner in this scheme. The short film **Skypark (GMAC)** was awarded £10,000 Scottish Screen National Lottery support in January 2006 and was also co-financed by the UK Film Council. Scottish Screen National Lottery Fund awarded £290,833 to **Red Road (Red Road Films Ltd)** in June 2005 of which the UK Film Council was a co-investor. A further supplementary award of £15,577 was made to Red Road by Scottish Screen National Lottery support in October 2005.

Henry Eagles, of SMG, Scottish TV and Grampian TV is a member of Scottish Screen's Lottery Panel. During the year ended 31 March 2006, Scottish TV and Grampian TV funded with Scottish Screen 2 schemes **This Scotland and New Found Films** to the sum of £70,350 and £308,800, respectively. Scottish Screen National Lottery Fund also made Supplementary Awards to three of the selected **This Scotland** projects to assist with distribution costs; **Catching the Tide (Goat Media Ltd)**, **Gold Fever (Autonomi Ltd)** and **Kerry's Story (Cormorant Film & TV Productions Ltd)** and they each received £750 in February 2006. In addition Scottish Screen National Lottery Fund provided supplementary funding for the two jointly commissioned **New Found Films – Gamerz (Pure Magic Films Ltd)** and **Night People (Mead Kerr Ltd)**; **Gamerz** £19,850 and **Night People** £19,785 in June 2006 to assist with new digital generation in order to premiere the films and this new format at the Edinburgh International Film Festival in August 2005. Scottish Screen National Lottery Fund awarded project development

finance totalling £12,750 to **Ethel MacDonald (Película Films Ltd)** in April 2005 and this project received co-development support from SMG. The project further received feature film funding support in November 2005 from Scottish Screen to the sum of £82,226 and SMG were also a co-investor. Scottish Screen National Lottery development award of £10,000 was made to **Granny Flat (Made Up North Productions Ltd)** in September 2005. This project was originally developed through the first round of **New Found Films** and made it to the final shortlist in 2002.

Matthew Justice, of Lunar Films Ltd a member of Scottish Screen's Lottery Panel and is an Executive Producer on **Hallam Foe (Sigma Films Ltd)** which received £500,000 feature film funding from Scottish Screen National Lottery Fund in July 2005.

Claire Mundell is a director of Synchronicity Films; a Board Member of the Glasgow Film Theatre and a member of Scottish Screen's Lottery Panel. A Scottish Screen National Lottery development award of £5,000 was made to **White Fang (Synchronicity Films Ltd)** in February 2006.

Laurence Gornall a member of Scottish Screen's Lottery Panel and was an employee of ContentFilms Plc until June 2005 before moving to The Works UK Distribution Ltd, however, ContentFilms are one of the partner organisations involved in the low budget feature scheme entitled **Fast Forward Features** in collaboration with BBC Scotland, BBC Films and Scottish Screen National Lottery Fund. A total of 8 projects were originally shortlisted and awarded £1,000 each in June and July 2005. As the development process continued this number was cut to 6 in October 2005 and a further £3,500 awarded to each project. The final development phase resulted in the 6 projects being cut to 3 in January 2006 when a further £1,200 was awarded to each project.

Hilary Davis, of Beyond Films Ltd is a member of Scottish Screen's Lottery Panel. Beyond Films Ltd are distributing **True North (Makar Productions Ltd)** which Scottish Screen National Lottery Fund invested £205,000 feature film funding in October 2005 and a supplementary Scottish Screen National Lottery Fund award of £15,579 in February 2006.

SCOTTISH SCREEN

National Lottery Distribution Fund

List of awards made during the year ended 31 March 2006

Decision body	Applicant	Project Title	Project Type	Award
Hard Commitments				
	Slate Films (North) Ltd	Last King of Scotland	Features	350,000
	Advance Party Films Ltd	Red Road	Features	290,833
	Sigma Films Ltd	Hallam Foe	Features	500,000
	Makar Productions Ltd	True North (aka Dragnet)	Features	205,000
	Película Films Ltd	An Anarchist's Story (aka Ethel MacDonald)	Features	82,226
	Crab Apple Films Ltd	Clever	Features	438,305
	Young Films Ltd	The Inaccessible Pinnacle	Features	150,000
				2,016,364
	Black Camel Picture Co	Breathe	Project Development	12,500
	Película Films Ltd	An Anarchist's Story (aka Ethel MacDonald)	Project Development	12,750
	Connect Film Ltd	Amini	Project Development	15,000
	4 Way Pictures Ltd	The Meat Trade	Project Development	24,800
	Made Up North Productions Ltd	Granny Flat	Project Development	10,000
	Película Films Ltd	Promised Land	Project Development	4,000
	Autonomi Ltd	Peshmarga	Project Development	5,000
	Makar Productions Ltd	All Summer I Thought Of You	Project Development	9,000

	Makar Productions Ltd	All Summer I Thought Of You	Project Development	13,065
	Maverick TV Ltd	Way To Go	Project Development	12,500
	AKA Pictures Ltd	Feet Up	Project Development	10,010
	Crab Apple Films Ltd	Leonard	Project Development	1,000
	Brocken Spectre Ltd	White Male Heart	Project Development	13,000
				142,625
	Sugar Tree Productions Ltd	Accidents	Shorts	9,978
	Mandragora Productions Ltd	Contorted Hazel	Shorts	23,555
	Brocken Spectre Ltd	Born to Run (aka Fraserburgh)	Shorts	13,000
	Sandford Films Ltd	Teenage Warhol	Shorts	12,500
	GMAC	Me and Her (aka Skypark)	Shorts	10,000
	Poetry In Motion Ltd	Icicle Melt	Shorts	29,000
	Corruption Films Ltd	The Last Regal King Size	Shorts	17,500
	Lichen Films Ltd	The Tattie Hokers	Shorts	7,000
	Ko Lik Films Ltd	Ujbaz Izbeneki Has Lost His Soul	Shorts	9,000
				131,533
	Remote Pictures Ltd	Cloth of Gold	Script Development	21,550
	Plum Films Ltd	Foreign Exchange	Script Development	1,000
	Tall Stories Ltd	I Cycled Into The Arctic Circle	Script Development	5,615
	Raindog Ltd	Wasted	Script Development	3,420
	Mead Kerr Ltd	New Year	Script Development	12,000
	Tern TV Production Ltd	Raven's Wing	Script Development	25,000

	Velocity Optics Ltd	Star (aka Russian Dolls)	Script Development	25,000
	Edge City Films Ltd	Lore	Script Development	9,000
	Ko Lik Films Ltd	Out Of The Woods	Script Development	14,985
	City Gate Productions Ltd	Boy Wonder	Script Development	5,000
	Gabriel Films Ltd	Stevenson Under the Palm Trees	Script Development	20,000
	Axis Animation Ltd	Jekyll & Hyde	Script Development	20,000
	Crab Apple Films Ltd	Teenage Kicks	Script Development	5,000
	Sigma Films Ltd	Under The Skin	Script Development	25,000
	Glasshouse Films Ltd	UD	Script Development	24,900
	Muckle Hen Productions Ltd	Family Planning	Script Development	14,790
	Catherine Bailey Ltd	Flip	Script Development	10,500
	Ink Animations Ltd	Gone	Script Development	20,100
	Glasshouse Films Ltd	Sextet	Script Development	8,000
	Edge City Films Ltd	50 Days North	Script Development	6,000
	Aficionado Films Ltd	Absolute	Script Development	7,200
	Lansdowne Productions Ltd	Global Worlds	Script Development	7,500
	Lichen Films Ltd	The Impossible Dream	Script Development	10,000
	Synchronicity Films Ltd	White Fang	Script Development	5,000
	Simon Stephenson	Horse Patrol	Script Development	1,000

	Simon Stephenson	Horse Patrol	Script Development	4,000
	4 Way Pictures (Scotland) Ltd	The Man Who Walks	Script Development	1,000
	4 Way Pictures (Scotland) Ltd	The Man Who Walks	Script Development	4,000
	Effingee Productions Ltd	Fool Moon	Script Development	1,700
	Simon Stephenson	Horse Patrol	Script Development	1,700
	Hopscotch Films Ltd	Touch (aka Mandy)	Script Development	1,700
	Edge City Films Ltd	A Road Less Travelled	Script Development	1,700
	Jack Dickson	The Female Of The Species	Script Development	1,000
	Matt Pinder	No More Good Causes	Script Development	1,000
	Gurprett Bhatti	Pound Shop Boys	Script Development	1,000
	Wish Film Productions Ltd	Southside	Script Development	1,000
	Plum Films Ltd	Two Way Split	Script Development	1,000
	Helen Fitzgerald	The West Highland Way	Script Development	1,000
	Carl Oprey	M62	Script Development	1,000
	Young Miracle Films Ltd	The Runner	Script Development	1,000
	Angela M Murray	At The End Of the Day	Script Development	1,000
	Clare Saxby	Three of Us	Script Development	1,000
	Carl Oprey	M62	Script Development	3,500
	Gurprett Bhatti	Pound Shop Boys	Script Development	3,500

	Young Miracle Films Ltd	The Runner	Script Development	3,500
	Wish Film Productions Ltd	Southside	Script Development	3,500
	Clare Saxby	Three Of Us	Script Development	3,500
	Jack Dickson	The Female Of The Species	Script Development	3,500
	Carl Oprey	M62	Script Development	1,200
	Wish Film Productions Ltd	Southside	Script Development	1,200
	Young Miracle Films Ltd	The Runner	Script Development	1,200
				357,960
	Media Co Op	My Wee African Village	Short Film Schemes	6,250
	Goat Ltd	Catching The Tide	Short Film Schemes	6,250
	Autonomi Ltd	Gold Fever	Short Film Schemes	6,250
	Demus Productions Ltd	The Great Escape	Short Film Schemes	6,250
	Cormorant Productions & Films Ltd	Kerry's Story	Short Film Schemes	6,250
	The Comedy Unit Ltd	Bad Brown Owl	Short Film Schemes	20,000
	Plum Films Ltd	Meat the Campbells	Short Film Schemes	20,000
	Flechette Ltd	Winning Streak	Short Film Schemes	20,000
	GMAC	GMAC Short Film Scheme	Short Film Schemes	75,000
	Dogtooth Media Ltd	Heavy Metal Jnr	Short Film Schemes	6,250
	Scottish Documentary Institute	Bridging The Gap 3	Short Film Schemes	50,250
				222,750

	Pure Magic Films Ltd	Gamerz	Supplementary	19,850
	Mead Kerr Ltd	Night People	Supplementary	19,785
	Advance Party /Red Road Films Ltd	Red Road	Supplementary	15,577
	Sandford Films Ltd	Teenage Warhol	Supplementary	5,000
	Young Pirate Films Ltd	Festival	Supplementary	2,000
	Pomegranate Films Ltd	The Gift	Supplementary	1,520
	Oxygen Films Ltd	At the End of the Sentence	Supplementary	1,500
	Goat Media Ltd	Catching the Tide	Supplementary	750
	Autonomi Ltd	Gold Fever	Supplementary	750
	Cormorant Productions & Films Ltd	Kerry's Story	Supplementary	750
	Plum Films Ltd	Meat the Campbells	Supplementary	750
	Autonomi Ltd	Run	Supplementary	1,500
	Flechette Ltd	Winning Streak	Supplementary	750
	Brocken Spectre Ltd	Kissing, Tickling & Being Bored	Supplementary	20,000
	Sigma Films Ltd	Trout	Supplementary	20,000
	Nina's Heavenly Delights Ltd	Nina's Heavenly Delights	Supplementary	3,500
	Brazen Hussies Ltd	The Way We Played	Supplementary	750
				114,732
Total of Hard commitments				2,985,964
Soft Commitments				
	Advance Party Films Ltd	Old Dogs	Features	300,000
	The Comedy Unit Ltd	Bad Brown Owl	Supplementary	750
	Sprocketeers Ltd	Sweetie	Supplementary	1,500
Total of Soft commitments				302,250

Other commitments				
	Archive Live		Short Film	100,000
	Black Camel Picture Co	Breathe	Features	375,000
	4 Way Pictures Ltd	The Man Who Walks	Project Development	19,450
	Imagine Pictures Ltd	No Coke	Shorts	5,000
	Indelible Inc Ltd	Hope Street Heist	Script Development	11,000
	Loud Mouse Productions Ltd	Never Enough	Script Development	10,800
	Skyline Productions Ltd	Clearing	Script Development	6,825
	Makar Productions Ltd	True North (aka Dragnet)	Supplementary	15,579
Total of Other commitments				543,654

SCOTTISH SCREEN NATIONAL LOTTERY AWARDS CLOSURE EVALUATION REPORT 2005 - 2006

It is important to note that from February 2006 – June 2006, no new funding applications were submitted due to the moratorium and eventual re-launch of Scottish Screen's Lottery investment process.

Scottish Screen is responsible for the distribution of National Lottery funding for film in Scotland. Production companies may apply for funding strands, which - prior to recent changes in funding categories - included Script Development, Project Development, Short Film Production Funding, Short Film Award Schemes and Feature Film Funding. All Lottery funding strands are subject to strict guidelines at the application stage, and are closely monitored and evaluated throughout the course of the funding and delivery process.

Since the last Evaluation report in 2005, a total of 134 reports have been sent out – this comprises the initial completion evaluation, six monthly and twelve monthly evaluations. 110 (82%) of the forms have been returned to date. Within this total, 45% were phase one and two projects which will require a six monthly update between October and December 2006. The remaining 55% were phase three projects that will require a twelve monthly update between April and June 2007. A spreadsheet detailing the timescale of all project evaluations is available for reference.

Further to this, a total of six projects have completed since the last report. All of these projects have delivered a closure evaluation upon completion, as per delivery requirements for final payment.

SCRIPT DEVELOPMENT

This stage of development was designed to take an early draft of a script or treatment to the next draft stage. Applications were usually made early on in the development process and in the past financial year, projects were awarded between £1,000 and £25,000.

In total, forty Script Development forms have been returned since the last report. This includes twenty-six phase one and two updates and fourteen phase three updates. Thirty-five of the projects are still in development and have yet to reach production stages, with five of this number having been awarded further Lottery funding from Scottish Screen. Nine of the projects are either in turnaround or on hold with the respective production companies and a further five projects have now been shelved.

Whilst no variance was recorded in any of the other categories, out of six projects submitting phase one Script Development reports, four projects showed a variance between intended spend and actual spend. This amounts to a 7% increase on a £93,495 budget despite three of the projects recording a negative variance. High script editor fees, legal fees and travel fees were cited as the reason for this although it should be noted the production company covered excess costs.

In the last financial year, eight projects completed and a total of £358,000 was allocated towards script development, 71% of the combined development budget.

PROJECT DEVELOPMENT

Project Development at this stage allowed producers to approach other funding partners, with the view of going into production. Since the last report, twenty-eight Project Development forms have been returned, ten of which are phase one and two updates; the remaining eighteen being phase three updates. Two of the projects that submitted reports have since been made and have secured or are in the process of securing international distribution deals. Four have been shelved whilst the remainder continue in their development process.

In the last financial year, three projects have completed and funds have been awarded between £24,800 and £1,000 totalling a £143,000 allocation.

SHORT FILM PRODUCTION (including schemes)

The production of short films is rewarding for most people involved, providing valuable experience, both for the key creative team of producer, writer and director and for most of the cast and crew, who are often able to work at a higher grade with more responsibility.

Approximately 40% of the forms returned in this strand related to films produced through one of the short film schemes: Tartan Shorts, This Scotland, Digicult and Cineworks. In the case of the former two schemes, all projects have been broadcast on UK terrestrial television. Many of the films had had success at national and international level with victories at the Bafta Scotland awards and festivals including Houston World Festival, Edinburgh International Film Festival and Berlin International Film Festival - amongst others. In total, forty short film evaluations were returned. Of this number seventeen were phase one and two updates and twenty-three were phase three updates.

In the last financial year a total of £131,000 and £223,000 was awarded for Short Film production and Short Film production schemes, respectively, with budgets ranging from £5,000 to £75,000.

FEATURE PRODUCTION

Eight feature evaluations have been returned, with two phase one and two update and the remaining eight phase three updates. All eight features have been completed and have enjoyed screenings around the world, winning awards at festivals in Edinburgh, Brussels, New York and Moscow. Of this number, one feature completed since the last evaluation round and has already enjoyed its UK release.

In the past financial year, £2,016,000 has been awarded for Feature Production, with awards ranging from £500,000 to £82,226.

SUPPLEMENTARY

Supplementary awards are monitored and evaluated as part of the main project to which the funding relates.

In the past financial year, £114,732 has been awarded for Supplementary, ranging from £750 to £20,000.



SCOTTISH SCREEN

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 Screen 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 (FRM) 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 18 August 2000 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 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 Screen, 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 Screen'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 Screen 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 Screen 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 Screen 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 Screen'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 Screen 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 Screen'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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