

Scottish Arts Council National Lottery Distribution Fund Account

**Statement of Account Prepared Pursuant to
Section 35 of the National Lottery etc Act 1993**

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Accounts – National Lottery Fund

Foreword

History

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. Our 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 Executive Education Department, by the National Lottery, and from income generated by its own activities.

We produce 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 Executive 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.

Freedom of information

The Scottish Arts Council is subject to the Freedom of Information Act which came into effect from 1 January 2005.

The Scottish Arts Council is obliged to act in a spirit of openness, to provide information (unless exempt) within 20 working days, to provide advice and assistance to applicants and, proactively, to publish information under its Publication Scheme.

Results

Income and Expenditure Account

The Council's share of proceeds from the National Lottery Fund during the year to 31 March 2005 was £19.144 million (2003/04 £18.166 million). Interest and other income of £0.091 million (2003/04 £0.064 million) brought the total income to £19.235 million (2003/04 £18.230 million).

Grants paid and committed and arts services during 2004/05 totalled £16.843 million compared with £24.257 million in 2003/04.

Management and administration costs decreased from £1.631 million in 2003/04 to £1.553 million in 2004/05.

The National Lottery Fund is providing services directly to the arts, such as information, education, marketing and research, therefore we thought it more appropriate to identify the expenditure related to these activities. A total of £1.168 million (2003/04 £1.461 million) covering these areas has been separately identified.

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

The net result for the year is a surplus of £0.839 million (2003/04 deficit £7.653 million). This is largely the result of the previous year's over-commitments amounting to £3.200 million, soft and other commitments which cannot be taken into this account increasing to £8.644 million (2003/04 £6.041 million) and additional income of £1 million being received during the year.

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 £8.644 million (2003/04 £6.041 million) taken late in the financial year are

not recorded in this account. They are, however, disclosed in note 14. 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 situation 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.

Balance Sheet

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.

The account shows total net assets of £13.843 million (2003/04 £13.004 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 2005 the balance held under the stewardship of the National Lottery Distribution Fund attributable to the Scottish Arts Council National Lottery Fund was £37.448 million (2003/04 £41.964 million). During the year to 31 March 2005 £23.660 million (2003/04 £25.761 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 and work

commencing and coming to a conclusion. Although we are taking steps to reduce this time lag it is likely to remain at a high level for the foreseeable future as we are still committing substantial sums to capital projects which can take up to four years to complete and therefore four 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

	2005 £'000
Arts Development	181
Audience Development	378
Visual Arts	106
	665

These figures do not include funds which have been agreed in principle but have not been fully committed. There has been a decrease in unallocated balances from the previous year (2003/04 £0.812 million).

Review of activities

In 2004/05 the Council budgeted to distribute the fund available on the following basis:

	2005 £'000
Arts Development	
Arts Development	4,330
Crafts	245
Dance	475
Drama	620
Literature	520
Music	990
Visual Arts	860
Strategic Development	
Audience Development	980
Capital	8,250
Education	330
	17,600

Although the grant decisions made during the year were close to the budgeted amounts, the firm commitments of grant awards which can be taken into this account total £16.592 million. The balance of funds available refers to soft commitments and decisions taken at the end of the year which, because of accounting principles, cannot be included in this account.

A list of grants awarded during the year is available on our website.

Assets

The net book value of fixed assets at the year end was £nil (2003/04 £nil). This figure represents computer and office equipment and furnishings fully depreciated.

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 Council, the Scottish Executive 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 the Arts

Following on from the First Minister's speech on St Andrew's Day 2003, the Scottish Executive announced the details of a Cultural Policy statement on 22 April 2004, which outlined an agenda for reviewing the cultural sector and the associated institutions and agencies involved. In the spirit of the First Minister's speech, the Cultural Commission undertook the review and has looked at how cultural rights and entitlements can be addressed. The Commission considered how these cultural rights could be achieved

through legislation which would be considered by Parliament in 2007.

In line with the Scottish Executive's policy of redistributing government jobs across Scotland the Scottish Arts Council may be relocated in the future. Any decision will be influenced by the result of the Review.

Chairman

The Chairman demitted office on 31 May 2004 to head the panel responsible for the 'Review of the Arts' and was replaced in the short term by Dale Idiens who was the Vice Chairman. The process of appointing a replacement took place and Richard Holloway was appointed as Chairman with effect from 12 February 2005.

Single lottery distributors

The Department for Culture Media and Sport (DCMS) has been discussing the possibility of creating a single lottery distributor. Should DCMS choose to adopt this course of action it would be a significant risk to the way in which the Council funds the arts.

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:

Lead Officer	£0-£10,000
Lead Officer and Head of Department	£10,001-£249,999
Creative Arts Committee	£250,000-£999,999
Performing Arts Committee	£250,000-£999,999
Capital Committee	£250,000-£999,999
Council	£1,000,000-(and over)

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

Appointment of auditors

The annual accounts are audited by an auditor appointed by the Auditor General for Scotland. His report is presented on pages 9 and 10.

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'.

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

The 'Investors in People' standard, which the Council currently adheres to, has been awarded for a period to January 2008 with a review scheduled for March 2006.

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 Council has been successful in 89% of cases with a further 4% being paid within 35 days. The majority of the remaining 7% were the subject of some dispute and were only settled once a resolution was achieved.

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

Statement of Corporate Governance

The Scottish Arts Council, a body governed by Royal Charter, is not formally required to comply with the Combined Code of Best Practice in Corporate Governance. However as a publicly funded body the Council believes it should meet the highest standards of corporate governance and accordingly complies voluntarily with key aspects of the combined code.

Members of the Scottish Arts Council have been appointed by the Scottish Ministers for specific terms of office, and apart from the Chairman, are unpaid. Council members work within a specific ethical code. The Council meets in formal session approximately six times a year, and it monitors the work of the Director and his staff. Overall policy is determined by the Council itself, as are the key points of strategy, the staff structure and major aspects of resource allocation in the annual budget round.

The Annual Report provides information about the Council's overall financial position. Objective and professional relations are maintained with the auditor appointed by the Auditor General for Scotland who acts as auditor of both the Arts Council's general account and its lottery distribution account. The Council has established an Audit Committee with specified terms of reference. The Council has an internal audit facility provided by an independent firm of accountants and is also subject to occasional inspection by audit and accounting staff from appropriate sections of the Scottish Executive.

Council members 2004/05

In the normal course of events Council members are appointed for a term of three years.

Council

James Boyle, Chairman (resigned 31/5/04)

Dale Idiens, Acting Chairman (1/6/04 to 11/2/05)
(term expired 31/3/05)

Richard Holloway, Chairman (appointed 12/2/05)

Joanna Baker

Elizabeth Cameron (term expired 31/3/05)

Arthur Cormack

Bob Downes

Steven Grimmond

Jennifer Hawksworth

Arthur Herman

Roy McEwan

Annie Marris

Louise Mitchell

John Mulgrew

John Scott Moncrieff (term expired 31/3/05)

Richard Smith (resigned 31/7/04)

Benjamin Twist

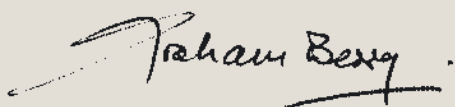
Four new members were appointed with effect from 1/4/05

Jennifer Waterton

Rab Noakes

James McSharry

Jane Jeffrey



Graham Berry
Accountable Officer
7 October 2005

Statement of the Council's and the Director'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 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 Executive Education Department has designated the Director of the Scottish Arts Council as Accountable Officer for the Council's Lottery Fund. His relevant responsibilities as Accountable Officer, including his 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 Executive.

Statement on the system of internal control

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

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the Council'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 Council's policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

As Accountable Officer, I also have accountability for reviewing the effectiveness of the system of internal control.

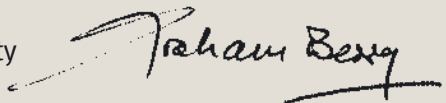
The Council's Audit Committee monitors risk management and internal control on a regular basis during the year. A risk register has been compiled with input from members of staff and these risks have been ranked in order of priority. An officer has been tasked with the maintenance of the risk register and regular update reports are communicated to the Audit Committee. Whilst existing risks are being effectively managed, improvement is needed to the way new risks are identified to ensure the risk register is truly dynamic. Following the appointment of new internal auditors (Scott Moncrieff) a high level review of risk and the risk management processes took place in December 2004. As a result of this exercise a revised risk register was prepared and was put before Council in February 2005 where it was approved.

The Council receives a copy of the Audit Committee minutes together with oral comments from the Chairman of the Committee relating to matters of internal control and we require regular reports from managers on the steps they are taking to manage risk in their areas of responsibility including progress reports on key projects.

The Council's internal auditors submit regular reports which include the audit manager's independent opinion on the adequacy and effectiveness of the Council's systems of internal control together with recommendations for improvement.

The Council will publish an Annual Report and Accounts in the autumn of 2005.

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



Graham Berry
Accountable Officer
7 October 2005

Independent Auditor's Report

To the members of the Scottish Arts Council, the Scottish Parliament, the Auditor General for Scotland and the Houses of Parliament

Scottish Arts Council National Lottery Fund

I have audited the financial statements on pages 11 to 24 under the National Lottery, etc, Act 1993. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 15 and 16.

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 Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Council, the Director and Auditor

As described on page 7 the Council and the Director are responsible for the preparation of the financial statements and for ensuring the regularity of expenditure and receipts. The Council and Director are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Lottery, etc, Act 1993 and directions made thereunder and 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 Foreword is not consistent with the financial statements, if the Scottish Arts Council has not kept proper accounting records, or if I have not received all

the information and explanations I require for my audit.

I review whether the statement on page 8 complies with the Scottish Executive's guidance on statements on the system of internal control. I report if, in my opinion, it does not comply with the guidance, or if the statement is misleading or inconsistent with other information I am aware of from my audit. I am not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Scottish Arts Council's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Foreword and consider whether it is consistent with the financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinions

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts shown in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Scottish Arts Council and Director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Scottish Arts Council's National Lottery Fund circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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.

Opinions

Financial statements

In my opinion the financial statements give a true and fair view of the state of affairs of the Scottish Arts Council's National Lottery Distribution Fund at 31 March 2005 and of the surplus in Lottery funds, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Lottery, etc, Act 1993 and directions made thereunder.

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.



Arwel Roberts

Director, Central Government
Audit Scotland
18 George Street
Edinburgh, EH2 2QU
12 October 2005

Income and Expenditure for the year ended 31 March 2005

	Notes	2005 £'000	2004 £'000 Re-stated
Income			
National Lottery Fund proceeds		19,144	18,166
Other income	2	91	64
		19,235	18,230
Expenditure			
Grants paid and committed during the year	3	5,697	7,681
Net grant commitments	3.2	9,978	15,115
Arts services	4	1,168	1,461
Management and administration costs	6	1,553	1,631
		18,396	25,888
Surplus/(deficit) on operating activities		839	(7,658)
Notional interest		0	5
Increase/(decrease) in fund		839	(7,653)

All the results of the fund relate to continuing activities.

Statement of total recognised gains and losses for the year ended 31 March 2005

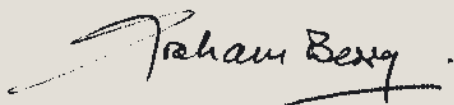
The Fund has no recognised gains and losses other than those included in the results above and therefore no separate statement of total recognised gains and losses has been prepared.

The notes on pages 15 to 24 form part of these accounts, the schedule on page 25 is for information only.

Balance sheet as at 31 March 2005

	Notes	2005 £'000	2004 £'000
Fixed assets			
Tangible assets	7	0	0
Current assets			
Investments – balances held in NLDF	8	37,448	41,964
Debtors	9	15	0
Bank	10	428	201
		37,891	42,165
Creditors			
Amounts falling due within one year	11	22,808	26,831
Net current assets			
Amount falling due after one year	12	1,240	2,330
Total assets less total liabilities		13,843	13,004
Represented by:			
General fund	13	13,843	13,004
		13,843	13,004

The notes on pages 15 to 24 form part of these accounts, the schedule on page 25 is for information only.



Graham Berry
Accountable Officer
7 October 2005

Cash flow statement for the year ended 31 March 2005

	Notes	2005 £'000	2004 £'000
Net cash inflow/(outflow) from operating activities	i	138	(1,036)
Returns on investment and servicing of finance			
Interest receivable		89	58
Increase/(decrease) in funds	ii	227	(978)

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

	2005 £'000	2004 £'000
Net surplus/(deficit)	839	(7,653)
Less interest receivable	(89)	(58)
Operating surplus/(deficit)	750	(7,711)
Depreciation charges	0	1
Decrease in investment with NLDF	4,516	7,595
(Increase)/decrease in debtors	(15)	66
(Decrease)/increase in creditors due within one year	(4,023)	299
(Decrease) in creditors due outwith one year	(1,090)	(1,286)
Net cash inflow/(outflow) from operating activities	138	(1,036)

(ii) Analysis of change in net funds

	At 1 April 2004	Cash flow £'000	At 31 March 2005
Cash at bank	201	227	428
NLDF	41,964	(4,516)	37,448
	42,165	(4,289)	37,876

The notes on pages 15 to 24 form part of these accounts, the schedule on page 25 is for information only.

Reconciliation of movement of funds for the year ended 31 March 2005

	Balances held in NLDF £'000	Balances at Scottish Arts Council £'000	Provision for grant awards £'000	2005 Total £'000	2004 Total £'000
Opening balances	41,964	(862)	(28,098)	13,004	20,657
NLDF income	19,144	0	0	19,144	18,166
Draw down of funds	(23,660)	23,660	0	0	0
Interest on cash balances	0	89	0	89	58
Other operating income	0	2	0	2	6
Grants paid	0	(19,935)	0	(19,935)	(24,826)
Decrease in grant creditors	0	0	4,260	4,260	2,030
Expenditure	0	(2,721)	0	(2,721)	(3,087)
Closing balances	37,448	233	(23,838)	13,843	13,004

The notes on pages 15 to 24 form part of these accounts, the schedule on page 25 is for information only.

Notes to the accounts for the year ended 31 March 2005

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, and they meet the requirements of the Companies Act 1985, 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 award commitments under provision for liabilities and charges.

1.3 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

1.4 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 2004/05 by the Director of the National Lottery, which is anticipated in July.
- Completion of the audit of the National Lottery Distribution Fund accounts for 2004/05 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.

1.5 Pension costs

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.

1.6 Notional costs

In line with 'Executive Non-Departmental Public Body Annual Accounts Guidance' issued by HM Treasury, 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.

1.7 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.

1.8 Restatement

The restatement of previous year's figures on the income and expenditure account has been applied to clearly reflect the transfer of costs between management and administration and arts services resulting in a more realistic disclosure of overhead costs.

2 Other income

	2005 £'000	2004 £'000
Interest	89	58
Other income (recoupment)	2	6
	91	64

3 Grants paid and net grant commitment

	2005 £'000	2004 £'000
Annual grants paid and committed	5,697	7,681

3.1 Grants paid

Paid and committed in this year	5,697	7,681
Paid and committed in previous years	14,238	17,145
	19,935	24,826

3.2 Net grant commitments

	2005 £'000	2004 £'000
Hard commitments made during the year	16,592	23,373
Less grants paid and committed	(5,697)	(7,681)
Less grants withdrawn	(917)	(577)
	9,978	15,115

4 Arts services

	2005 £'000 Direct	2005 £'000 Recharged	2005 £'000 Total	2004 £'000 Total Re-stated
Area Development	0	89	89	86
Arts Development	162	106	268	213
Audience Sales & Development	37	24	61	26
Capital	191	0	191	199
Crafts	0	52	52	70
Dance	5	50	55	57
Drama	0	81	81	466
Education	10	0	10	0
Literature	14	81	95	84
Music	0	119	119	88
Policy & Research	0	16	16	14
Visual Arts	50	81	131	158
	469	699	1,168	1,461

5 Employees

	2005 £'000 Direct	2005 £'000 Recharged	2005 £'000 Total	2004 £'000 Total
Total				
Wages and salaries	138	930	1,068	1,083
Social security costs	11	73	84	84
Other pension costs	26	160	186	142
	175	1,163	1,338	1,309

National Lottery activities attract a 50% share of the relevant Scottish Arts Council's payroll costs and 100% of Capital payroll costs.

5.1 Average number of employees

	2005	2004
The average number of employees during the year was:		
Total number of Scottish Arts Council employees	96	97
Attributable to National Lottery activities	48	48.5

All relevant staff costs are apportioned equally between the General Fund and the Lottery Fund.

5.2 Chairman's and Director's Remuneration

Name	2004/05 Salary £	2003/04 Salary £
James Boyle Chairman (1 April – 31 May 2004)	4,369	26,425
Richard Holloway Chairman (12 February – 31 March 2005)	1,563	0
Graham Berry Director	84,368	82,589

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 (2003/04 nil).

A sum representing 50% of the total Chairman and Director's remuneration has been allocated to the National Lottery Fund.

Name	Accrued pension at age 65 as at 31/3/05 and related lump sum £	Real increase in pension and related lump sum at age 65 as at 31/3/05 £	Cash Equivalent Transfer Value at 31/3/05 £	Cash Equivalent Transfer Value at 31/3/04 £	Real increase in Cash Equivalent Transfer Value £
James Boyle Chairman (1 April – 31 May 2004)	0	0	0	0	0
Richard Holloway Chairman (12 February – 31 March 2005)	0	0	0	0	0
Graham Berry Director	32,655	1,466	522,938	424,369	97,374
Plus lump sum of	97,966	4,395			

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

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

The Director is an ordinary member of the Arts Council Retirement Plan (1994). This is a final salary scheme to which members contribute 1.5% of pensionable earnings with pensions normally payable at age 65.

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

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

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

5.3 Pension Scheme

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.

The total pension cost accrued was £186,070 (2003/04 £142,348). The employers' contribution to the scheme was 18.8% (2003/04 14.8%).

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 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 2004/05 are based on an actuarial valuation of the scheme on 1 April 2002 and are charged against the income and expenditure account.

5.4 Actuarial valuation

The most recent triennial actuarial valuation of the Fund was carried out on 1 April 2002 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, the Fund actuary recommended that participating employers, including the Scottish Arts Council, should contribute at the rate of 18.8% of pensionable salary from 1 April 2004. This recommendation was accepted by the Trustees of the Fund and subsequently adopted by all participating employers including the Scottish Arts Council. The subsequent triennial actuarial valuation is

due to take place on 31 March 2005 the results of which will not be available until the following year end. Should any future increase to the employers contribution be recommended by the scheme actuary it is likely that the trustees will propose implementing such increase with effect from 1 April 2006.

The contribution from employees remains unchanged.

6 Management and administration costs

	2005 £'000 Direct	2005 £'000 Recharged	2005 £'000 Total	2004 £'000 Total Re-stated
Management and administration				
Accommodation	0	118	118	173
Administration costs	78	349	427	444
Auditor remuneration	24	0	24	22
Depreciation	0	86	86	80
Notional interest	0	0	0	5
Other finance costs	0	10	10	39
Other staff costs	0	108	108	83
Publicity and promotions	0	119	119	128
Staff development	0	26	26	22
Staff salaries	0	635	635	635
	102	1,451	1,553	1,631

7 Tangible fixed assets

	Fixtures/ Fittings £'000	IT Equip £'000	Total £'000
Cost or revaluation			
As at 1 April 2004	35	19	54
Disposals	0	(4)	(4)
As at 31 March 2005	35	15	50
Depreciation			
As at 1 April 2004	35	19	54
On Disposals	0	(4)	(4)
As at 31 March 2005	35	15	50
Net Book Value at 31 March 2005	0	0	0
Net Book Value at 31 March 2004	0	0	0

8 Investments

	2005 £'000	2004 £'000
National Lottery Distribution Fund	37,448	41,964
	37,448	41,964

The fund is stated at the lower of cost or market value. At 31 March 2005 the fund is shown at market value. If it had been included at cost, the figure would have been £37.589 million. In line with our accounting policy, the cost of investments as at 31 March 2004 as previously reported has not moved following the issue of a final certificate of balance by the NLDF (2004 cost £42.485 million).

9 Debtors

	2005 £'000	2004 £'000
Sundry debtors	15	0
	15	0

10 Cash at bank and in hand

	2005 £'000	2004 £'000
Cash at bank and in hand	428	201

11 Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Scottish Arts Council – General Fund	120	1,043
Sundry Creditors	90	20
Grants outstanding less than one year	22,598	25,768
	22,808	26,831

There are no creditors falling due after more than five years.

12 Provision for liabilities and charges

Provision for hard commitments

	2005 £'000	2004 £'000
Hard commitment provision at 1 April 2004	28,098	30,128
Hard commitments during year	16,592	23,364
Amount paid in year	(19,935)	(24,826)
Grants withdrawn	(917)	(568)
Hard commitment provision at 31 March 2005	23,838	28,098
Due within one year	22,598	25,768
Due after more than one year	1,240	2,330

There are no creditors falling due after more than five years.

13 General fund

	2005 £'000	2004 £'000
As at 1 April 2004	13,004	20,657
Increase in fund for the year	839	(7,653)
As at 31 March 2005	13,843	13,004

14 Soft commitments

	2005 £'000	2004 £'000
Balance at 1 April 2004	4,677	9,956
Amounts committed in year	17,125	18,094
	21,802	28,050
Transferred to hard commitments	16,592	23,373
Awards made but not accepted at 31 March 2005	5,210	4,677

In addition to the recorded soft commitments the Council approved grant awards of £3.434 million (2003/04 £1.364 million) within the year for which offers had not been issued at 31 March 2005.

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 2005 the cinema was still operating reducing the potential loss to £360,000.

16 Related Party Transactions

The Scottish Arts Council administers the Scottish Arts Council's National Lottery 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 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 members, Specialist Advisors and staff declared interests:

Name	Office held	Organisation	Grant award £
Council			
Bob Downes	Director	Scottish Ensemble	117,250
Richard Smith	Director/Vice Chair	Dance Base	576
Benjamin Twist	Contractor/Board Member	Hebrides Ensemble	42,750
Committee			
Arthur Cormack	Director	Fèisean nan Gàidheal	75,000
	Board Member	Cleas Ltd	4,000
	Former Board Member	An Tuireann Arts Centre	11,157
	Employee	Scottish Enterprise	150,000
June Allison Edgar	Board Member	Tron Theatre Ltd	28,470
Kathy McArdle	Director	Lemon Tree	3,349
Margaret O'Connor	Employee	East Lothian Council	8,110
	Advisor	Brunton Theatre Trust	20,714
Benjamin Twist	Contractor/Board Member	Hebrides Ensemble	42,750
Specialist Advisor			
Ron Butlin	Member	Scottish Poetry Library	55,574
Anita Clark	Employee	Aberdeen City Council	22,500
John Corbett	Employee	Strathclyde University	4,500
	Board Member	Scottish Language Dictionaries	14,172
Morag Deyes	Employee	Dance Base Ltd	576
Roanne Dods	Board Member	Licketyspit Theatre	45,586
Judith Doherty	Chief Executive	Grid Iron	81,800
Bob Downes	Director	Scottish Ensemble	117,250
June Allison Edgar	Employee	Scottish Enterprise	150,000
	Director	Tron Theatre Ltd	28,470
Graham Fagan	Employee	Dundee University	700
David Gardner	Employee/Director	Shetland Arts Trust	53,850
Lorraine Grant	Employee	Aberdeenshire Council	5,500
Clare Hanna	Employee	Dumfries and Galloway Council	67,264
Dorothy Hogg	Employee	Edinburgh College of Art	25,000
Lisa Kapur	Board Member	An Tuireann Arts Centre	11,157
	Board Member	Ankur Arts	41,400
A King	Member	WASPS	96,885
Hamid van Koten	Employee	Dundee University	700
K Macdonald	Member	Engage Scotland Development Group	15,000
	Employee	Stirling Council	50,767
Carol Main	Director	Live Music Now!	25,000
	Freelance Journalist	The List magazine	2,094
	Chairman	Hebrides Ensemble	42,750
	Vice Chair	Voluntary Arts Scotland	4,700
Lucy Mason	Director	Edinburgh Festival Fringe	1,665
	Chief Executive	Dance Base Ltd	576
Catherine McInerney	Member	Licketyspit Theatre	45,586
	Board Member	Scottish Poetry Library	55,574
Jacqueline McKay	Employee	North Edinburgh Arts Ltd	34,675
	Board Member	Tabularasa Dance Company	1,426
Elizabeth McLean	Employee	Fruitmarket Gallery	125,064
Mike Miller	Council Member	Scottish Publishers Association	100,000

Name	Office held	Organisation	Grant award (£)
Specialist Advisor			
Valerie Munro	Employee	Aberdeen City Council	22,500
	Employee	Lemon Tree	3,349
Ilyana Nedkova	Spouse of Director	New Media Scotland	700
Ian Pirie	Consultant	Glasgow School of Art	34,500
Christine Rew	Employee/Chair	Aberdeen City Council	22,500
Tony Reekie	Board Member	Hearts & Minds	13,060
Nigel Richard	Treasurer	Indian Music & Dance Collective	17,272
James Robertson	Member	Scottish Poetry Library	55,574
Suhayl Saadi	Member	Scottish Asian Arts Academy	5,000
	Contractor	Black & White Publisher	13,500
Magdalena Schamberger	Executive Director	Hearts & Minds	13,060
	Employee	Dance Base	576
Sarah-Jane Selwood	Employee	Edinburgh College of Art	25,000
Andy Shearer	Freelance Music Programmer	Lemon Tree	3,349
Ann Marie Shillito	Employee	Edinburgh College of Art	25,000
	Board Member	Visual Associations	17,300
Joanna Bremner Smith	Co-ordinator	Scottish Storytelling Centre	5,250
David Todd	Employee	Scottish Ensemble	117,250
	Member	Live Music Now!	25,000
Benjamin Twist	Contractor/Board Member	Hebrides Ensemble	42,750

17 Intra-government balances

	2005 £'000	2004 £'000
Creditors		
Central government bodies	54	113
Local authorities	7,562	9,445
NHS trusts	133	263
Other creditors	15,935	19,340
	23,684	29,161

Five Year Summary

	Year Ended 31/03/05 £'000	Year Ended 31/03/04 £'000	Year Ended 31/03/03 £'000	Year Ended 31/03/02 £'000	Year Ended 31/03/01 £'000
Grant income	19,144	18,166	20,730	23,754	23,016
Other income	91	64	130	548	681
Total income	19,235	18,230	20,860	24,302	23,697
Support to the arts	16,843	24,257	22,972	10,844	14,973
Net operating costs	1,553	1,626	2,294	1,829	1,704
Surplus/(deficit)	839	(7,653)	(4,406)	11,629	7,020

National Lottery Statement of Compliance

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

A full list of all grants accounted for in 2004/05 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. 23 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 78% of our grants were for amounts of less than £10,000.

Table 1
Lottery applications and awards by budget type 2004/05

	Applications*			Awards**		
	No. of application	Amount requested (£)	% by No.	No. of awards	Amount awarded (£)	% by no.
Access and Participation	108	3,079,579	4.7	18	427,701	1.3
Advancement and Organisational Development	25	935,594	1.1	34	1,018,911	2.4
Arts and Disability	16	280,912	0.7	15	294,536	1.1
Arts Development	874	6,579,130	37.7	479	3,930,602	33.9
Audience Development	77	1,261,077	3.3	31	816,369	2.2
Awards for All	365	1,414,378	15.8	284	1,026,355	20.1
Capital	130	30,177,211	5.6	48	5,251,585	3.4
Children and Young People	117	3,293,727	5.0	30	792,031	2.1
Creative Industries	1	50,000	0.0	4	162,000	0.3
Creative Links Programme	10	270,100	0.4	12	511,223	0.8
Creative Scotland Awards	109	3,259,050	4.7	10	300,000	0.7
Cultural Diversity	26	367,249	1.1	24	334,244	1.7
Gaelic Arts Development	1	80,000	0.0	4	320,000	0.3
International Working	0	0	0.0	0	0	0.0
New Work	16	232,213	0.7	23	398,425	1.6
Partners Residency Fund	25	588,326	1.1	6	125,600	0.4
Professional Development	417	543,903	18.0	388	487,041	27.4
Social Inclusion and Local Authority Partnerships	0	0	0.0	4	395,202	0.3
Total	2,317	52,412,449	100.0	1,414	16,591,825	100.0

* Applications received between 1 April 2004 and 31 March 2005

** Awards figures for this and other tables represent grant offers made and accepted between 1 April 2004 and 31 March 2005

Table 2
Lottery awards banded by value (number of awards)
2004/05

	No.	% by No.
under £9,999	1,103	78.0
£10k - £24,999	162	11.5
£25k - £49,999	84	5.9
£50k - £99,999	42	3.0
£100k - £499,999	21	1.5
£500k - £999,999	1	0.1
over £1million	1	0.1
Total	1,414	100.0

Table 3
Lottery awards banded by value (value of awards)
2004/05

	Value (£)	% by value
under £9,999	3,035,445	18.3
£10k - £24,999	2,493,304	15.0
£25k - £49,999	2,634,415	15.9
£50k - £99,999	2,701,744	16.3
£100k - £499,999	2,883,922	17.4
£500k - £999,999	537,995	3.2
over £1million	2,305,000	13.9
Total	16,591,825	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 2004/05 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.

- 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:

Table 4
Lottery awards by artform department 2004/05

	No. of awards	Amount awarded (£)
Area Development	115	1,187,550
Arts Development	92	2,600,112
Audience Development	64	1,815,280
Awards for All	284	1,026,355
Capital	48	5,251,585
Crafts	62	244,783
Dance	70	509,133
Drama	127	1,133,196
Education	18	545,073
Literature	89	560,918
Music	239	1,097,754
Visual Arts	206	620,086
Total	1,414	16,591,825

- 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.

8a 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.

8b The need, where capital funding or setting-up costs are sought, for a clear business plan beyond the period of the grant incorporating provision for associated running and maintenance costs;

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

Table 5
Lottery grants by local authority area 2004/05

	No. of awards	Amount awarded (£)
Aberdeen City	32	256,056
Aberdeenshire	36	268,394
Angus	14	37,025
Argyll and Bute	52	419,205
Clackmannanshire	4	70,920
Dumfries and Galloway	44	257,353
Dundee City	42	321,688
East Ayrshire	6	22,850
East Dunbartonshire	7	47,405
East Lothian	19	114,118
East Renfrewshire	7	108,800
Edinburgh City	360	3,761,233
Falkirk	8	174,859
Fife	43	302,945
Glasgow City	339	3,261,157
Highland	110	3,473,989
Inverclyde	7	52,231
Midlothian	13	162,700
Moray	14	78,871
North Ayrshire	13	576,891
North Lanarkshire	22	150,726
Orkney Islands	10	32,171
Perthshire and Kinross	24	390,634
Renfrewshire	18	341,693
Scottish Borders	23	190,797
Shetland Isles	11	137,825
South Ayrshire	12	43,893
South Lanarkshire	31	383,943
Stirling	29	257,872
West Dunbartonshire	10	33,255
West Lothian	9	84,820
Western Isles	18	427,672
Scotlandwide	27	347,834
Total	1,414	16,591,825

delivered for the estimated life of the project.

8c The need, in other cases, for consideration to be given to likely availability of other funding to meet any continuing costs for a reasonable period after completion of the period of the lottery award, taking into account the size and nature of the project, and for lottery funding to be used to assist progress towards viability beyond the period of the grant wherever possible;

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

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

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

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

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

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

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

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

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

Table 6**Lottery distribution account administration costs**

	2004/05	2003/04
	£'000	£'000
	restated	restated
Travelling, subsistence and entertaining	10	11
Publicity and promotions	124	127
Postage and telephone	44	43
Agency staff costs	57	36
Professional fees	68	25
Office sundry	517	674
External assessment and monitoring	12	0
Staff	635	635
Depreciation	86	80
Direct grant administration	0	0
Film recoupment transferred to Scottish Screen	0	0
Notional interest	0	5
Total	1,553	1,631

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, which is about to enter its seventh year. Ongoing informal evaluation is undertaken regularly by the various decision-making groups engaged by Council.

Table 7
Lottery awards over £100,000 accounted for in 2004/05

Theatre Workshop Edinburgh Limited	Brecht's The Threepenny Opera, which profiles disabled actors in an innovative and dynamic theatre piece	£100,000
Glasgow City Council	offering participatory arts activities on a workshop and outreach basis to improve access to the arts for the excluded	£100,000
nva (Europe) Limited	implement an Advancement plan for change	£100,000
Scottish Ensemble	Advancement plan for change	£100,000
Scottish Publishers Association	increased resources in staff/equipment, setting up a prototype e-commerce site, refurbishing stand and premises	£100,000
Centre for Contemporary Arts (CCA)	plans for organisational development and securing core activity	£100,000
Scottish Ballet Limited	creating an autumn season including a new full-length ballet for Christmas 2006	£100,000
Pròiseact nan Ealan - Gaelic Arts Agency	opera-ballet based on St Kilda with pre-filming and live performance broadcast from the island	£100,000
Nairn Community Centre Development Co. Limited	upgrading the proposed community centre to incorporate a mid-scale arts venue	£118,250
South Lanarkshire Council	two further arts development officers to work as part of existing team	£120,000
Arts Council England	supporting large scale lyric theatre and drama programmes across internal borders of the UK	£120,000
Glasgow City Council Cultural & Leisure Services	establishing GAP: an arts marketing and audience development consortium for Glasgow	£126,000
Scottish Youth Theatre Limited	fit out the Old Sheriff Court building as new premises for Scottish Youth Theatre	£141,581
Scottish Enterprise	business support to Scottish-based arts practitioners and cultural and creative micro-businesses	£150,000
Pròiseact nan Ealan - Gaelic Arts Agency	Gaelic Arts Strategy Development Programme	£150,000
Visible Fictions Theatre Company	implementation of proposed Advancement plan for change	£150,000
Scottish Book Trust	operating Live Literature Scotland in 2004/05	£154,500
Castle Rock Housing Association	refurbishing the former Craigmillar Primary School to create a Social Enterprise Centre and Community Arts Space	£175,000
Out of the Blue Arts & Education Trust	Phase 2 of redevelopment of the Drill Hall	£189,842
Moniack Mhor Limited	project to design and build a residential/communal facility at the Writers' Centre	£240,224
Perth Repertory Theatre Limited	public art installation and architectural lighting feature for the new Perth Concert Hall building	£248,525
North Ayrshire Council - Harbour Arts Centre	project to develop the Harbour Arts Centre	£537,995
Eden Court Highlands Limited	project to refurbish and renovate the Eden Court Theatre	£2,305,000
Total		£5,726,917

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 2004/05 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

	2004/05	2003/04
	Actual	Actual
Average time to process each application (days)	36.5	35.5
Average cost of processing each application (£)	670	660
Total number of applications processed	2,317	2,468

Council 2004/05

Council members are appointed by Scottish Ministers for a period of three years which can be extended for a further three years.

Richard Holloway, Chairman from 12/2/05
Writer and broadcaster; former Bishop of Edinburgh

Dale Idiens, Acting Chairman from 1/6/04 to 11/2/05
(Vice Chairman outwith these dates)

James Boyle, Chairman to 31/5/04
Civil Service Commissioner; freelance journalist

Joanna Baker
Marketing and Public Affairs Director,
Edinburgh International Festival

Elizabeth Cameron
Lord Provost of the City of Glasgow; freelance lecturer
in Communications

Arthur Cormack
Director of Fèisean nan Gàidheal

Bob Downes
Director, BT Scotland

Steven Grimmond
Director Leisure and Arts, Dundee City Council

Jennifer Hawksworth
Director, People and Work Ltd

Arthur Herman
Academic and author of *The Scottish Enlightenment* and
other books

Roy McEwan
Chief Executive, Scottish Chamber Orchestra

Annie Marrs
Student of Art at Dundee University

Louise Mitchell
Director, Glasgow Royal Concert Hall

John Scott Moncrieff
Solicitor; part-time lecturer in Law; Founding Director of Cheek
by Jowl Theatre Company; Former Chairman Traverse Theatre

John Mulgrew
Director of Educational and Social Services, East Ayrshire
Council

Richard Smith to 31/7/04
Head of Performance Management, Royal Bank of Scotland

Ben Twist
Freelance theatre director



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