

# **Scottish Arts Council**

**National Lottery Distribution Fund  
Annual Report and Accounts  
for the year ended  
31 March 2010**



Scottish **Arts** Council

**Scottish Arts Council**  
**National Lottery Distribution Fund**  
**Annual Report and Accounts**  
**for the year ended 31 March 2010**

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

**Ordered by the House of Commons to be printed  
9 December 2010**

**Laid before the Scottish Parliament by the Scottish  
Ministers December 2010**

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Any enquiries regarding this publication should be sent to us at Creative Scotland, 12 Manor Place, Edinburgh EH3 7DD.

ISBN: 9780102952322

Printed in the UK for The Stationery Office Limited  
on behalf of the Controller of Her Majesty's Stationery Office

12/10

Printed on paper containing 75% recycled fibre content minimum.

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**DIRECTORS AND OFFICERS**

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

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

**SCOTTISH ARTS COUNCIL  
CHIEF EXECUTIVE**

**James Urquhart Tough**

**SCOTTISH ARTS COUNCIL  
INTERIM CHIEF EXECUTIVE**

**Morag Arnot**

**CREATIVE SCOTLAND BOARD**

**Sandy Crombie  
Robin MacPherson  
Gwilym Gibbons  
Gary West  
Ruth Wishart  
Steven Grimmond  
Barclay Price  
Gayle McPherson  
Peter Cabrelli**

**CREATIVE SCOTLAND CHIEF EXECUTIVE**

**Andrew Dixon**

**PRINCIPAL PLACE OF BUSINESS**

**12 Manor Place  
Edinburgh EH3 7DD**

**SECRETARIES AND LEGAL ADVISORS**

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

**BANKERS**

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

**AUDITORS**

**Scott-Moncrieff  
Exchange Place 3  
Semple Street  
Edinburgh EH3 8BL**

## **DIRECTOR'S REPORT**

### **Background**

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

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

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

### **National Lottery Fund**

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

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

### **Principal activities**

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

### **Summary of Scottish Arts Council highlights in 09/10**

During the period under review, Scottish Arts Council has been able to continue to develop its support for culture in Scotland, by investing £16.247 million in the arts sector.

There have been three notable challenges in the reporting year which the have been met with good grace, energy and skill by the staff team.

Firstly the change process that will bring into being Creative Scotland has increased in scale and intensity as the year progressed. Our staff have made important contributions to this often behind the scenes but done with skill and enthusiasm. The work with the Culture Alliance on Creative Scotland's 'Perspectives' on-line discussions, and our delivery of the Innovation Fund are typical of this commitment.

The second challenge is intrinsically linked to the first; to maintain a high level of business

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continuity in support of the arts sector during the transition period. A strong example of our success in this regard has been the design of the next round of Flexible Funding, an £8 million investment programme agreed by our Joint Board that ensures the ongoing creative dynamic that will serve a wide range of audiences, arts forms and places. And business as usual has not meant stasis. The development this year of a Carbon Management Plan and the ground breaking 'AmbITion' programme exemplify an organisation that has continued to look forward.

The third challenge sits within the wider economic challenges that continue to unfold. There are several dimensions to this that are evident in the reporting year. There is an ongoing requirement to deliver efficiencies and in meeting the challenges we have secured £73,000 reduction in internal costs which was re-deployed in support of artists. In relation to the impact of the economic circumstances on the arts sector we delivered the Resilience Programme which invested in new approaches and partnerships that will be needed to sustain the sector. The programme aimed to help the country's key arts bodies to help themselves during turbulent times. The impact of this investment will be felt in the coming year.

This has been an important year in the journey towards Creative Scotland. This Report describes how we have tackled that in a professional, skilled and ambitious manner. It is again a testimony to the commitment and expertise of the team. It also reflects the achievements which belong to the artists and arts organisations we support.

Artists Taking the Lead, a UK-wide competition for the London 2012 Cultural Olympiad, encouraged artists from a range of disciplines to use the nation as a blank canvas for inspirational commissions that will showcase Scotland's creativity to the world. Teaming up with the other arts councils, we invested National Lottery funds to support an art commission – Scotland-based artist Craig Coulthard's *Forest Pitch*, a football pitch hidden deep in a forest – one of 12 across the UK.

Shetland Arts began work on a new £12 million music, cinema and education centre. Space to Face, a restorative justice and arts programme involved artists working with young people who have committed offences. Their artworks are presented as gifts to those they have harmed by their actions. This partnership with the Community Mediation Team, the Social Work department and the Children's Reporter is a first for Scotland.

We produced our first Carbon Management Plan in partnership with the Carbon Trust. The plan is designed to deliver carbon reductions in line with the Scottish Government's Greener Scotland. The Scottish Arts Council was selected in 2009, amidst strong competition, to take part in this ambitious programme. The Plan commits us to a target of reducing CO2 by 15% by 2014 and underpins potential financial savings of around 10%.

Our Inspire fund was an £8 million National Lottery investment aimed at generating more, wider and better participation in the arts. Projects this year have included Big Man Walking; Central Station, an ambitious online project; and Drake Music's Figurenotes project, the revolutionary music notation system developed in Finland, which aims to transform access to music for people of all ages and abilities.

Inspiring Communities helped connect people communities and creativity. Projects, from Dumfries to Invergordon, represent an innovative range of approaches and included Music at the Brewhouse's landmark festival for children; an audiovisual dance theatre project for young men from West Dunbartonshire who will work with Matthew Bourne; and

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the Scottish Book Trust bringing the best children's authors to a wider audience through virtual events broadcast live over the internet.

The Scottish Project went live. This is a four-year programme of culture, learning and sport which will celebrate the London 2012 Olympic and Paralympic Games, leaving a lasting cultural legacy for Scotland. Legacy Trust UK and the Scottish Arts Council have invested just over £4 million. The Scottish Project includes a development programme for street arts and physical theatre; a touring exhibition on sport, medicine and culture; a celebration of Glasgow's multicultural communities and a volunteering programme inviting everyone to connect with the Olympic Games.

Creative Scotland 09 Ltd unveiled its eagerly anticipated business model in October 2009, setting out the structure and operational design of the new cultural development body. The new organisation was described as demonstrably different from its predecessors – talent focused and hugely ambitious for Scotland and for its artists. Creative Scotland will work with, and for, artists and creative practitioners, reinforcing its role as a catalyst for the nation's cultural ambitions.

### **Council Members in 2009/10**

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

The Chairman and those Board Members who formerly served as Council members reached the end of their term of office on 31 January 2010. However, permission was received from the Privy Council to extend their term until the establishment of Creative Scotland on 1 July 2010.

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



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**Scottish Arts Council Joint Board**

Richard Holloway (Chairman)	Barbara McKissack
Dinah Caine OBE (resigned 2 February 2010)	James McSharry
Donald Emslie	John Mulgrew OBE
Steven Grimmond	Rab Noakes
Charles Lovatt	Benjamin Twist
Ray Macfarlane	

**Creative Scotland Board**

Sandy Crombie (Chairman)	Barclay Price
Robin MacPherson	Gayle McPherson
Gwilym Gibbons	Peter Cabrelli
Gary West	Ruth Wishart
Steven Grimmond	

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

The responsibility for the day-to-day management of the Scottish Arts Council is delegated to the Chief Executive and the Senior Management Team. On establishment of Creative Scotland on July 1<sup>st</sup>, 2010 revised governance arrangements took effect with ultimate decision-making responsibility transferring to the Creative Scotland Board.

**Employee arrangements**

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

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

**Sustainability and the Environment**

The Scottish Arts Council is committed to an environmentally-friendly approach in the pursuit of its objectives and activities. A Carbon Management plan has been developed in 09/10, with a view to offering the progress and achievements to Creative Scotland as a platform for Creative Scotland to engage the creative minds in our organisation and sector to tackle environmental issues.

We produced our first Carbon Management Plan in partnership with the Carbon Trust. The plan is designed to deliver carbon reductions in line with the Scottish Government's Greener Scotland. The Scottish Arts Council was selected in 2009, amidst strong competition, to take part in this ambitious programme and will collect an award for its progress from Scottish Government and the Carbon Trust. The Plan commits us to a

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target of reducing CO<sub>2</sub> by 15% by 2014 and underpins potential financial savings of around 10%.

As part of this initiative, performance will be monitored through the use of the following key performance indicators; CO<sub>2</sub> per employee and CO<sub>2</sub> per square meter. Project metrics include financial savings per annum, CO<sub>2</sub> emissions reduction and percentage contribution to the overall 15% target reduction by 2014.

### **Equal opportunity in employment and disabled employees**

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

### **Appointment of auditors**

The annual accounts are audited by Scott-Moncrieff who were appointed by the Auditor General for Scotland. Their report is presented on pages 20 to 22. The fee for this service was £30,610 (2008/09 £28,677), which relates to the provision of statutory audit services.

During the period under review, internal audit services were tendered competitively and Deloitte LLP were appointed as Internal Auditors, for the Scottish Arts Council in the first instance and subsequently for Creative Scotland.

### **Disclosure of information to auditors**

So far as the Accountable Officer is aware:

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

### **Financial Instruments**

IAS 32 requires disclosure of financial instruments 'that are complex or play a significant medium to long-term role in the financial risk profile that the Scottish Arts Council faces in undertaking its activities. Cash requirements for Lottery expenditure are met by drawing down against monthly forecasts of need from the balances held on behalf of the Scottish Arts Council by the National Lottery Distribution Fund. At 31 March 2010, the fund balance was £23.306 million, at which point there were £24.227 million of grant commitments yet to be paid out.

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

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

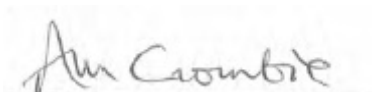
In accordance with the National Lottery Act 1998, National Lottery income receivable by the Scottish Arts Council is passed by the National Lottery Distribution Fund to the Commissioners for the Reduction of National Debt who invest the income in a narrow band of low risk assets such as government bonds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

Our exposure to foreign currency risk is negligible.

**Freedom of information and Personal Data related incidents**

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

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



**Sir Sandy Crombie  
Chairman  
22 September 2010**

## **MANAGEMENT COMMENTARY**

### **Income and Expenditure Account**

The Council's share of proceeds from the National Lottery Fund during the year to 31 March 2010 was £19.206 million (2008/09 £16.922 million). Interest and other income of £0.687million (2008/09 £0.134 million), brought the total income to £19.893 million (2008/09 £17.056 million).

This Gross Income reflects NLDF sales and investment income and also other sources of Lottery income such as the Legacy Trust UK partnership funding. This presentation of income reporting shows a significant variance to budget, the latter being completed on the basis of NLDF income net of the Olympic displacement. Financial year 2009/10 was the first full year impact of Olympic displacement to the value of £3.358 million.

Grants paid and committed, net grant commitments and arts services during 2009/10 totalled £16.247 million (see notes 4 and 5) compared with £28.365 million in 2008/09.

Management and administration costs decreased from £0.922 million in 2008/09 to £0.816million in 2009/10.

The National Lottery Fund is providing services directly to the arts, such as information, education, marketing and research; therefore we consider it more appropriate to identify the expenditure related to these activities. A total of £1.123 million (2008/09 £0.976 million) covering these areas has been separately identified.

The net result for the year is a decrease in fund of £0.55 million (2008/09 was a decrease in fund of £13.048 million).

In line with best practice in this area, Creative Scotland will utilize sound financial management principles and processes to manage and monitor all budgets. In recognition of timing differences, between commitment and grant payment, which cause marked fluctuations in the reported results of a particular year, there will be appropriate controls across the life-cycle of the investment process, from conception through commitment to payment.

One example of investment and decision-making processes which cross financial years is partnership funding with Legacy Trust UK which is a five year investment programme investing in at least 5 projects. Multi-year awards are made to organisations to allow those organisations a strategic planning horizon for optimal project delivery. This is presented in the Annual Report and Accounts as a cumulative net commitment of £3.264 million. While partnership funding is contractually agreed for the 5 year period, drawdown of partnership income is based on project milestones which is a cumulative £1.261million as at March 31<sup>st</sup>, 2010 and cash-flow is analysed to ensure sufficient income levels to meet cumulative payments as at year-end.

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. Timing differences also emerge as a result of movement from prior year adjustments for example in relation to offers not formally accepted by the year-end. Grant decisions totalling £1.905 million (2008/09 £2.446 million) taken late in the financial year are not recorded in this account

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because they have not been formally accepted. (They are, however, disclosed in note 16.) The lower level of offers, for which there was no formal acceptance in 09/10, (£0.541 million lower than the previous year) has an adverse impact on the net movement on the fund as it is a cumulative adjustment. The apparent deficit on operating activities is caused by the presentation of accounts where expenditure reflects a mix of brought forward balances with related prior-year income and commitments relating to current year and future year income.

There is an overall increase in net cash flow from operating activities in 09/10 of £0.862 million (in contrast to a net decrease of £1.590 million in 08/09).

The Scottish Arts Council incurs costs which are shared between activities funded from the grant-in-aid and activities funded from the National Lottery. Costs are apportioned between the two activity areas on a full cost basis in accordance with good accounting practice, and on the basis of time spent on the relevant activities or the estimated consumption of the relevant resource, as appropriate. Where costs cannot be attributed directly to one account or the other they are allocated at 69:31 (08/09 68:32) between the NDPB and NLDF activities.

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

## **Balance Sheet**

Under IFRS presentation of the accounts, the new format of the Balance Sheet is different to information previously presented on the Balance Sheet presentation under UK GAAP. There is changed presentation of what was previously presented as provisions for a below-the-line movement in reserves is now presented as an above-the-line adjustment which materially impacts the net asset position.

Under UK GAAP, previous presentation of 08/09 net assets was £0.832m and this has been IFRS restated to £0.300 million for the same period.

As previously described under Income and Expenditure, there is contractually committed income of £1.909 million for partnership funding over a 5 year period remaining to be drawn-down dependant on project milestones which is not reflected in the draft statements.

## **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 2010 the balance held under the stewardship of the National Lottery Distribution Fund (NLDF) attributable to the Scottish Arts Council National Lottery Fund was £23.306 million (2008/09 £29.049 million). During the year to 31 March 2010 £24.949 million (2008/09 £15.225 million) was called down from the Distribution Fund for the payment of approved awards and administration of the Council's National Lottery Fund. Because most of the grants made to date are in support of major projects whose life extends well beyond the financial year in which the award decision is made, there is a considerable time lag between grants being offered, work commencing and coming to a

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conclusion. Although steps are being taken to reduce this time lag it is likely to remain at a high level for the foreseeable future. Substantial sums were committed to capital projects which can take several years to complete and therefore several years for the final payments to be made. The majority of funds held, invested on behalf of the Scottish Arts Council by the NLDF, are allocated to specific projects.

Although the grant decisions made during the year were close to the budgeted amounts, the hard commitments of grant awards which can be taken into this account total £16.953 million (see note 13). The balance of funds available refers to soft commitments and decisions taken near the end of the year which, because of accounting principles, cannot be included in this account.

### **Going Concern**

The accounts have been prepared on the going concern basis. Whilst the establishment of Creative Scotland is expected to lead to the transfer of Scottish Arts Council's assets, liabilities and operations to this new successor body and the ultimate dissolution of the Scottish Arts Council as an entity. Part 4, section 42 (1) (b) (i) of the Public Services Reform (Scotland) Act 2010 states that "all property, including rights and liabilities of the Scottish Arts Council subsisting immediately before that date are transferred to and vest in Creative Scotland"

The timescales for any such transfer are dependant on a range of external factors beyond the Scottish Arts Council's control, although an establishment of July 1<sup>st</sup> 2010 is anticipated. The Joint Board is committed to continuity of service to the sector through this period of change and is of the opinion that the going concern basis remains appropriate, and that this position most accurately presents a true and fair view of the financial results.

### **Future Developments**

#### *General*

When Lottery Funds were first introduced the emphasis was entirely on support of capital expenditure projects. Later years saw the introduction of support for activity, firstly through the New Direction Programme. This trend has continued with the Council transferring more resources from capital expenditure towards activity based projects. All grant decisions are taken in accordance with a general Lottery Strategy agreed with the Council, the Scottish Government and DCMS. This strategy is now wholly integrated with the Council's corporate plan which covers all of its activities.

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

#### *Review of Lottery Distribution*

Following a review of the distribution of lottery funds, the Minister for Culture announced that the existing arrangements will continue for existing Lottery distributors (and in the case of the Scottish Arts Council, also its successor body) for the ten years beyond 2009. This vote of confidence in existing distributors is welcome and means that Creative

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Scotland, once constituted, will likely receive the shares of lottery income previously received by the Scottish Arts Council and Scottish Screen.

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

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

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

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

### **Outline of Procedures**

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

Grant decisions are also taken under delegated authority as follows:

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

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

The Scottish Arts Council maintains a register of interests which is disclosed in note 19.

### **Payment of Payables Policy**

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

It is the policy of the Scottish Arts Council that creditors should be paid within the credit terms of the supplier. In the normal course of events this should happen within 10 days of receipt of invoice. This is in line with the policy stated in the Scottish Public Finance Manual (SPFM) effective at December 1st, 2008 which had 10 days as its stated target for average time taken to pay creditors. Prior to December 1<sup>st</sup>, 2008 the SPFM's stated target was a target of 30 days as the average time to pay creditors.

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The Council tracks the key performance indicator for average time taken to pay creditors and implemented the SPFM revised target of 10 days with effect from 1<sup>st</sup> July 2009. For the period 1<sup>st</sup> April 2009 to 30<sup>th</sup> June 2009, in 96% of cases, the KPI target of 30 days was successfully met, with a further 2% being paid within 35 days. The majority of the remaining 2% were the subject of some dispute and were only paid once a resolution was achieved.

For the period 1<sup>st</sup> July 2009 to 31<sup>st</sup> March 2010, in 85% of cases, the revised KPI target of 10 days was successfully met, with a further 6% being paid within 15 days. The majority of the remaining 9% were the subject of some dispute and were only paid once a resolution was achieved.

**Employee attendance performance**

The Council monitors a key performance indicator relating to sickness absence data. For 2009/10, the number of days sickness recorded was 5.1 days per employee.

A handwritten signature in dark ink, appearing to be 'Andrew Dixon', enclosed within a large, hand-drawn oval loop.

**Andrew Dixon  
Chief Executive and Accountable Officer  
22 September 2010**



## **REMUNERATION REPORT**

The Chairman and the Chief Executive are appointed by the Scottish Government and their remuneration is reviewed by the Council's Remuneration committee, although determined by Scottish Government.

The remuneration arrangements for the Chief Executive comply with the Scottish Government Public Sector Pay Policy for Senior Appointments. The pay proposal for the Chief Executive is set out on the template for single year pay proposals and submitted to the Scottish Government Finance Pay Policy unit, once reviewed by the Council's Remuneration Committee.

The Scottish Government Public Sector Pay Policy for Senior Appointments states the remuneration package for Chief Executives includes the potential to earn a bonus. There is a robust and objective methodology in place for assessing performance and translating that into bonus arrangements.

	<b>2009/10 Salary</b>	<b>2008/09 Salary</b>
<b>Name</b>	<b>£</b>	<b>£</b>
<b>Richard Holloway</b> Chairman Joint Board	<b>22,560</b>	21,824
<b>James Urquhart Tough</b> Chief Executive	<b>88,272</b>	80,998

The above salary information has been subject to audit.

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

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

A sum representing 31% of the total Chairman and Chief Executive's remuneration has been allocated to the National Lottery Fund.

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<b>Name</b>	<b>Accrued pension at age 65 as at 31/3/10 and related lump sum</b>	<b>Real increase in pension and related lump Sum at age 65 as at 31/3/10</b>	<b>Cash Equivalent Transfer  Value at 31/3/10</b>	<b>Cash Equivalent Transfer  Value at 31/3/09</b>	<b>Real Increase In Cash Equivalent Transfer Value</b>
<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Richard Holloway</b> Chairman	0	0	0	0	0
<b>James Urquhart Tough</b> Chief Executive	133,387	11,026	473,253	370,368	86,589

The above pension information has been subject to audit.

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

The Chairman is not a member of the Arts Council Retirement Plan (1994). The Chief Executive is an ordinary member of the Arts Council Retirement Plan (1994). This is a final salary scheme to which members before July 2009 contribute 1.5% and members from 1 July 2009 contribute 3.5% of pensionable earnings with pensions normally payable at age 65.

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

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

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

### **Remuneration Committee**

Richard Holloway (Chairman)  
Donald Emslie  
Charles Lovatt

Ray Macfarlane  
John Mulgrew OBE  
Steven Grimmond

The Remuneration committee meets at least twice a year, with additional meetings as required in Glasgow or Scottish Arts Council offices in Edinburgh. The Remuneration committee has delegated responsibility for recruiting and setting the remuneration for the

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Chief Executives of the Scottish Arts Council and Scottish Screen. Since his appointment as Chief Executive in November 2008, the Remuneration committee reviewed the proposed salary arrangements which were presented to Scottish Government for approval.

A handwritten signature in dark ink, appearing to be 'A. Dixon', enclosed within a large, horizontal oval shape.

**Andrew Dixon  
Chief Executive and Accountable Officer  
22 September 2010**

## **STATEMENT OF COUNCIL'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES**

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

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

In preparing the accounts the Council is required to:

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

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

## **STATEMENT OF INTERNAL CONTROL**

### **Scope of Responsibility**

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

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

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

### **Purpose of the System of Internal Control**

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

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. Given the unique circumstances during a period of major transition, the Audit Committee assessed if the business-as-usual risk management procedures were fit-for-purpose and compensating controls were identified.

The process within the organisation accords with the SPFM and has been in place for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts and accords with guidance from the Scottish Ministers.

### **Risk and Control Framework**

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

As Accountable Officer I am assisted in the management of risk by formal structures of Internal Audit, Risk Management and the work of the Audit Committee. The Risk Register was subject to regular review and subsequently supplemented by an independent analysis of transition-related risks. The annual cycle of Internal Audit work informs

improvements to operating systems. During the period under review, internal audit services were tendered competitively and Deloitte were appointed as Internal Auditors, for the Scottish Arts Council in the first instance and subsequently for Creative Scotland. The Risk Register has been used to inform internal audits assessment of corporate risk and to prioritise areas of internal audit scrutiny and review. Given the unique circumstances of transition, a degree of flexibility was built into the Annual Workplan to allow for the contingency of addressing transition-related issues. The Audit Committee reviews the systems of internal control to ensure the adequacy and timeliness of action.

More generally, the organisation is committed to a process of continuous development and improvement, developing procedures in response to any relevant reviews and developments in best practice. I can confirm that I have undertaken a review of the internal control arrangements in my area of responsibility. In particular, in the period covering the year to 31 March 2010 and up to the signing of the accounts the organisation addresses the following areas;

- The ongoing development of risk management and business continuity planning in response to organisational change and economic circumstances, is expected to increase the effectiveness of management systems for the achievement of the organisations objectives. Maintaining continuity of service to the sector in a period of change is of paramount importance.
- I have provided assurance to the Deputy Director of Scottish Government's Culture Division, to inform her assurance to the Principal Accountable Officer that I confirm controls in my area have been, and are, working well.

### **Review of Effectiveness**

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

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

The system of internal control includes routine revision of policy and procedures to ensure they remain current. These policies and procedures are in turn subject to a rolling cycle of Internal Audit review which is reported to Audit Committee. Appropriate action is in place to address any weaknesses identified and to ensure the continuous improvement of the system.

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

A handwritten signature in dark ink, appearing to read 'Andrew Dixon', enclosed within a large, horizontal oval loop.

**Andrew Dixon  
Chief Executive and Accountable Officer  
22 September 2010**

**Independent auditors' report to the members of Creative Scotland, the Auditor General for Scotland and the Scottish Parliament**

We have audited the financial statements of Scottish Arts Council National Lottery Distribution Fund for the year ended 31 March 2010 under the National Lottery etc Act 1993. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. We have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

**Respective responsibilities of the board, Chief Executive and auditor**

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

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

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

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



transactions is not disclosed.

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

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

### **Basis of audit opinion**

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. 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 and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the board and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the body's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

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**Opinions**

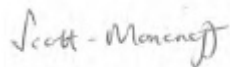
*Financial statements*

In our opinion

- the financial statements give a true and fair view, in accordance with National Lottery etc Act 1993 and directions made thereunder by the Scottish Ministers, of the state of affairs of the body as at 31 March 2010 and of its decrease in funds, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Lottery etc Act 1993 and directions made thereunder by the Scottish Ministers; and
- information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

*Regularity*

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



**Scott-Moncrieff**

Chartered Accountants  
Statutory Auditor  
Exchange Place 3  
Semple St  
Edinburgh  
EH3 8BL

30 September 2010

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**Income and Expenditure Account for the year ended 31 March 2010**

	<b>Notes</b>	<b>2010 £'000</b>	<b>2009 £'000</b>
<b>Income</b>			
National Lottery Fund proceeds		<b>19,206</b>	16,922
Other income	3	<b>687</b>	134
		<b>19,893</b>	<b>17,056</b>
<b>Expenditure</b>			
Grants paid and committed during the year	4	<b>8,698</b>	7,305
Net grant commitments	4.2	<b>6,426</b>	20,084
Arts services	5	<b>1,123</b>	976
2012 Olympic transfer		<b>3,358</b>	840
Management and administration costs	7	<b>816</b>	922
		<b>20,421</b>	<b>30,127</b>
Deficit on operating activities		<b>(528)</b>	(13,071)
Notional interest		<b>(22)</b>	23
Decrease in fund		<b>(550)</b>	<b>(13,048)</b>

All the results of the fund relate to continuing activities

**Statement of changes in taxpayers equity for the year ended 31 March 2010**

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 26 to 45 form part of these accounts, the schedule on page 46 is for information only.

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**Balance Sheet as at 31 March 2010**

	Notes	2010 £'000	2009 £'000	2008 £'000
<b>Non-Current Assets</b>				
Property, plant and equipment	8	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Non-Current Assets</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>Current Assets</b>				
Other Receivables		<b>267</b>	0	0
Cash and cash equivalents	9/10	<u><b>24,195</b></u>	<u>29,070</u>	<u>29,726</u>
<b>Total Current Assets</b>		<b>24,462</b>	29,070	29,726
<b>Total Assets</b>		<b>24,462</b>	29,070	29,726
<b>Current Liabilities</b>				
Trade and other payables	11	<u><b>23,552</b></u>	<u>28,105</u>	<u>15,932</u>
<b>Total Current Liabilities</b>		<b>23,552</b>	28,105	15,932
<b>Non-current assets plus/less net current assets/liabilities</b>		<b>910</b>	965	13,794
<b>Non-Current Liabilities</b>				
Provisions for liabilities and charges	12	<u><b>(122)</b></u>	<u>(119)</u>	<u>(119)</u>
Grants: Amounts falling due after one year	13	<u><b>(1,038)</b></u>	<u>(546)</u>	<u>(327)</u>
<b>Assets less Liabilities</b>		<u><b>(250)</b></u>	<u>300</u>	<u>13,348</u>
<b>Taxpayer' Equity</b>				
Opening balance on the general fund	15	<b>300</b>	13,348	0
Movement		<u><b>(550)</b></u>	<u>(13,048)</u>	<u>0</u>
<b>General fund</b>		<u><b>(250)</b></u>	<u>300</u>	<u>13,348</u>



**Andrew Dixon**  
**Chief Executive and Accountable Officer**

**22 September 2010**

The notes on pages 26 to 45 form part of these accounts, the schedule on page 46 is for information only.

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**Cash Flow Statement for the year ended 31 March 2010**

	Notes	2010 £'000	2009 £'000
Net cash (outflow)/inflow from operating activities	i	862	(1,590)
<b>Returns on investment and servicing of finance</b>			
Interest receivable		6	77
(Decrease)/increase in funds	ii	<u>868</u>	<u>(1,513)</u>

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

	2010 £'000	2009 £'000
Net (decrease)/increase in funds	(550)	(13,048)
Less interest receivable	<u>(6)</u>	<u>(77)</u>
Operating (deficit)	(556)	(13,125)
Decrease/(increase) in investment with NLDF	5,743	(857)
Increase(decrease) in payables due within one year	(4,820)	12,173
Increase in provision for dilapidations	3	0
Increase(decrease) in payables due outwith one year	492	219
Net cash inflow/(outflow) from operating activities	<u>862</u>	<u>(1,590)</u>

**(ii) Analysis of change in net funds**

	At 1 April 2009	Cash- flow	At 31 March 2010
Cash at bank	21	868	889
NLDF	29,049	(5,743)	23,306
	<u>29,070</u>	<u>(4,875)</u>	<u>24,195</u>

The notes on pages 26 to 45 form part of these accounts, the schedule on page 46 is for information only.

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2010

### 1. Accounting Policies

#### 1.1 *Basis of accounting*

The financial statements have been prepared in accordance with the Accounts Direction issued by the Scottish Ministers and have been prepared in accordance with the 2009/10 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate to the particular circumstances of Scottish Arts Council National Lottery Distribution Fund for the purpose of giving a true and fair view has been selected. The accounting policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

The financial statements are prepared under the historic cost convention modified by the revaluation of certain categories of assets.

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

#### 1.2 *Accruals convention*

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

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

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

#### 1.3 *Going Concern*

The accounts have been prepared on the going concern basis. Whilst the establishment of Creative Scotland will lead to the transfer of Scottish Arts Council's assets, liabilities and operations to this new successor body and the ultimate dissolution of the Scottish Arts Council as a charity. Part 4, section 42 (1) (b) (i) of the Public Services Reform (Scotland) Act 2010 states that "all property, including rights and liabilities of the Scottish Arts Council subsisting immediately before that date are transferred to and vest in Creative Scotland"

The Joint Board has been committed to continuity of service to the sector through this period of change and is of the opinion that the going concern basis remains appropriate, and that this position most accurately presents a true and fair view of the financial results.

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**1.4 *Property, plant and equipment***

Property, plant and equipment has 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 property, plant and equipment, at rates calculated to write off the cost, of each asset evenly spread over its expected useful life as set out in the following examples:

Furniture	10 years
Office and IT equipment	4 years

**1.5 *National Lottery Distribution Fund***

Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Culture, Media and Sport. However, the share of these balances attributable to the Council is as shown in the Accounts and, at the Balance Sheet date has been certified by the Secretary of State for Culture, Media and Sport as being available for distribution by the body in respect of current and future commitments.

**1.6 *Pension Costs***

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

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

**1.7 *Notional costs***

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

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

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

**1.8 *Taxation***

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

**1.9 *Changes in accounting policy***

These financial statements have been prepared under International Financial Reporting Standards (IFRS) for the first time and the comparatives have been restated from UK Generally Accepted Accounting Policy (UKGAAP) where required. The reconciliation to IFRS from the previously published UK GAAP accounts is summarised in note 2.

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**2. First time adoption of IFRS**

	<b>General Fund £'000</b>
Taxpayers' equity at 1 April 2008 under UK GAAP	<b>13,312</b>
Adjustment for: IAS 19 – Employee Benefits	<b>36</b>
Taxpayers' equity at 31 March 2009 under IFRS	<b><u>13,348</u></b>
Taxpayers' equity at 1 April 2009 under UK GAAP	<b>286</b>
Adjustment for: IAS 19 – Employee Benefits	<b>14</b>
Taxpayers' equity at 31 March 2009 under IFRS	<b><u>300</u></b>

**3. Other income**

	<b>2010 £'000</b>	2009 £'000
Interest	<b>6</b>	77
Other income (recoupment)	<b>20</b>	57
Legacy Trust	<b>661</b>	0
	<b><u>687</u></b>	<u>134</u>



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**4. Grants paid and net grant commitment**

	<b>2010 £'000</b>	<b>2009 £'000</b>
Annual grants paid and committed	<b>8,698</b>	<b>7,305</b>
<b>4.1 Grants paid</b>		
Paid and committed in this year	<b>8,698</b>	<b>7,305</b>
Paid and committed in previous years	<b>10,081</b>	<b>7,741</b>
	<b>18,779</b>	<b>15,046</b>
<b>4.2 Net grant commitments</b>		
Hard commitments made during the year	<b>16,953</b>	<b>27,895</b>
Less grants paid and committed	<b>(8,698)</b>	<b>(7,305)</b>
Less grants withdrawn	<b>(1,829)</b>	<b>(506)</b>
	<b>6,426</b>	<b>20,084</b>

**5. Arts services**

	<b>2010 £'000 Direct</b>	<b>2010 £'000 Recharged</b>	<b>2010 £'000 Total</b>	<b>2009 £'000 Total</b>
Art Development	112	86	198	122
Audience Sales & Development	29	27	56	65
Capital	188	0	188	262
Crafts	0	40	40	37
Creative Industries	0	1	1	11
Dance	1	39	40	40
Drama	0	44	44	70
Education	7	46	53	36
Equalities	6	45	51	77
International	0	14	14	0
Literature	0	56	56	55
Music	30	53	83	106
Olympiad	124	0	124	20
Planning and Research	25	90	115	0
Visual Arts	1	59	60	75
	<b>523</b>	<b>600</b>	<b>1,123</b>	<b>976</b>

**6. Employees**

	<b>2010 £'000 Direct</b>	<b>2010 £'000 Recharged</b>	<b>2010 £'000 Total</b>	<b>2009 £'000 Total</b>
Wages and salaries	209	719	928	859
Social security costs	15	53	68	64
Other pension costs	55	174	229	208
	<b>279</b>	<b>946</b>	<b>1,225</b>	<b>1,131</b>

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**6.1 Average number of employees**

	<b>2010</b>	<b>2009</b>
The average number of employees during the year was:		
Total number of Scottish Arts Council employees	<b>109.0</b>	110.0
Attributable to National Lottery activities	<b>34.0</b>	35.0
The average full time equivalent number of employees	<b>102.0</b>	99.0
National Lottery activities attract a 31% share of the relevant Scottish Arts Council's payroll costs and 100% of Capital payroll costs		

**6.2 Pension scheme**

The total pension cost charged was £229,703 (2008/09 £208,015). The employers contribution to the scheme was 26.1% (2008/09 – 26.1%).

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

The Arts Council Retirement Plan 1994 is a multi-employer scheme where the share of assets and liabilities applicable to each employer cannot be separately identified. The Arts Council has therefore accounted for its pension costs on a defined contribution basis as permitted by International Accounting Standard 19.

Contributions paid in the financial year 2009/10 are based on an actuarial valuation of the scheme on 31 March 2007 and are charged against the income and expenditure account. There were no outstanding contributions at the year end.

**6.3 Actuarial valuation**

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

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

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

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

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

In the past, we have received advice from our current advisors Hymans Robertson LLP and our previous advisors, Hewitt Bacon & Woodrow Limited, that the circumstances of the Plan are such that there is not sufficient information available to use defined benefit accounting for the individual participating employers. The relevant part of International Accounting Standard 19 is Section 9(b) which states:

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

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

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

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

## **7. Management and administration costs**

	<b>2010 £'000 Direct</b>	<b>2010 £'000 Recharged</b>	<b>2010 £'000 Total</b>	<b>2009 £'000 Total</b>
<b>Management and Administration</b>				
Accommodation	3	80	83	81
Administration costs	0	144	144	136
Auditor remuneration	32	0	32	28
Auditor remuneration for non-audit work	0	0	0	11
Depreciation	0	36	36	26
Notional interest	(22)	0	(22)	23
Other finance costs	0	9	9	9
Other staff costs	0	29	29	25
Publicity and promotions	0	28	28	49
Staff development	0	25	25	16
Staff salaries	0	452	452	518
	<b>13</b>	<b>803</b>	<b>816</b>	<b>922</b>

## 8. Property, Plant and Equipment

Cost or Revaluation	Fixtures/ Fittings £'000	IT Equipment £'000	Total £'000
As at 1 April 2009	35	15	50
Disposals	0	0	0
<b>As at 31 March 2010</b>	<b>35</b>	<b>15</b>	<b>50</b>
<b>Depreciation</b>			
As at 1 April 2009	35	15	50
On Disposals	0	0	0
<b>As at 31 March 2010</b>	<b>35</b>	<b>15</b>	<b>50</b>
<b>Net Book Value at 31 March 2010</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net Book Value at 31 March 2009	0	0	0

## 9. Investments

	2010 £'000	2009 £'000
National Lottery Distribution Fund	<b>23,306</b>	<b>29,049</b>

At 31 March 2010 the fund is shown at fair value with the comparable fair value of investments as at 31 March 2009 of £29,049. Last years balance was originally shown at the lower of cost or market value and previously reported as 2009 cost £29.014 million. The cost of investment of the balance as at the 31<sup>st</sup> March 2009 as previously reported has not moved following the issue of a final certificate of balance by the NLDF.

## 10. Cash at bank and in hand

	2010 £'000	2009 £'000
Cash at bank and in hand	<b>889</b>	<b>21</b>

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**11. Payables: amounts falling due within one year**

	<b>2010 £'000</b>	<b>2009 £'000</b>
Scottish Arts Council - General Fund	<b>322</b>	735
Sundry payables	<b>41</b>	34
Hard Commitments: amounts falling due within one year	<b>23,189</b>	27,336
	<b><u>23,552</u></b>	<b><u>28105</u></b>

There are no payables falling due after more than five years

**12. Provisions for liabilities and charges**

	<b>2010 £'000</b>	<b>2009 £'000</b>
Opening balance	<b>119</b>	119
Arising during the year	<b>3</b>	0
Closing balance	<b><u>122</u></b>	<b><u>119</u></b>

The Council commissioned a leading firm of building consultants to report on the likely cost of dilapidations for Council's offices at 12-14 Manor Place, Edinburgh. The report estimated that the total cost for these dilapidations would be in the region of £393,000 and the above figure represents the lottery share of this cost.

**13. Hard commitments**

	<b>2010 £'000</b>	<b>2009 £'000</b>
<b>Provision for hard commitments</b>		
Hard commitment provision at 1 April 2009	<b>27,882</b>	15,539
Hard commitments during year	<b>16,953</b>	27,895
Amount paid in year	<b>(18,779)</b>	(15,046)
Grants withdrawn	<b>(1,829)</b>	(506)
<b>Hard commitment provision at 31 March 2010</b>	<b>24,227</b>	27,882
Due within one year	<b>23,189</b>	27,336
Due within one to two years	<b>971</b>	474
Due within two to three years	<b>67</b>	72

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

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**14. Financial Instruments**

	<b>2010</b>	2009
	<b>£'000</b>	£'000
<b>Financial Assets</b>		
Other receivables	<b>267</b>	0
Market Value of NLDF Investment	<b>23,306</b>	29,049
Sterling	<b>889</b>	21
	<b>24,462</b>	29,070
<b>Financial Assets by Category</b>		
Other receivables	<b>267</b>	0
Market Value of NLDF Investment	<b>23,306</b>	29,049
Sterling	<b>889</b>	21
	<b>24,462</b>	29,070
<b>Financial Liabilities by Category</b>		
Scottish Arts Council GIA Account	<b>322</b>	735
Other Payables	<b>41</b>	13
Grant Payables Falling Due Within One Year	<b>23,189</b>	27,336
Grant Payables Falling Due After One Year	<b>1,038</b>	546
Dilapidations	<b>122</b>	119
	<b>24,712</b>	28,749

**15. General fund**

	<b>2010</b>	2009
	<b>£'000</b>	£'000
As at 1 April 2009	<b>300</b>	13,348
Increase/(decrease) in fund for the year	<b>(550)</b>	(13,048)
<b>As at 31 March 2010</b>	<b>(250)</b>	300

**16. Soft commitments**

	<b>2010</b>	2009
	<b>£'000</b>	£'000
Balance at 1 April 2009	<b>1,231</b>	1,205
Amounts committed in year	<b>16,317</b>	27,921
	<b>17,548</b>	29,126
Transferred to hard commitments	<b>16,953</b>	27,895
Awards made but not yet accepted at 31 March 2010	<b>595</b>	1,231

In addition to the recorded soft commitments the Council approved grant awards of £1.310 million (2008/09 £1.215 million) within the year for which offers had not been issued at 31 March 2010.

## **17. Segmental accounting**

All Scottish Arts Council operations are in the UK and are currently organised into the following activities.

### **Audience Development**

The Scottish Arts Council sees Audience Development as a planned and targeted management process which involves programming, education and marketing (underpinned by research and evaluation) working together to deliver an organisation's overall objectives.

Although crucial to delivering financial objectives, effective marketing and audience development also ensure that arts organisations continue to be relevant to all the communities of interest they serve.

The outcomes of audience development can include:

- a broader range of people attending arts events, galleries and performances
- increased readership of books
- greater sales of the work of visual artists or craft makers
- better experiences for those individuals participating in a particular artistic activity.

### **Crafts**

The Scottish Arts Council envisages crafts as a dynamic contributor to contemporary culture and the economy, valued and understood by people throughout Scotland, and Scottish craftspeople as a confident professional community whose work is recognised for excellence both here and abroad.

The strategy for crafts during the period 2002-2007 aimed to develop the infrastructure to enable a broad range of people throughout Scotland to experience and appreciate the best of contemporary work. We aimed to encourage professional development and increase opportunities for promoting and selling high quality work nationally and internationally.

We can cite the following achievements in crafts in Scotland. We have:

- devolved funding to four regions with matching resources from local authorities to support makers at grass roots level
- supported venues to present contemporary work of a high standard
- provided business Start-up and Creative Development funds to makers resulting in UK-wide and international recognition
- supported North Lands Creative Glass (now in its fourteenth year) to become a centre of excellence for creative glass work which is internationally recognised
- established a national web-based focus for crafts at [www.craftscotland.org](http://www.craftscotland.org)
- established an interest-free loan scheme for purchasers of contemporary visual art and craft – Own Art

- fostered awareness of contemporary crafts in schools through a three-year programme of residencies.

These and many other achievements have strengthened crafts in Scotland but compared with other artforms the infrastructure is still emerging and, as yet, incomplete.

## **Dance**

Dance in Scotland is coming of age. 2009 marks the 40<sup>th</sup> anniversary of Scottish Ballet and Y-dance is celebrating its 21<sup>st</sup> birthday. Significant progress has been made in dance, particularly since 2002 when we set out a vision for dance in Scotland – our Dance Strategy 2002-2007.

The strengthened position of dance is visible throughout Scotland. New buildings for dance have been created with support through the National Lottery from the Scottish Arts Council. More and more people engage with dance as audiences at performances or as active participants. Alongside the increasing profile of Scotland's two full-time dance companies, there is a host of ambitious choreographers and independent companies creating new work, passionately developing the artform and increasingly receiving international recognition for the originality of their work. Venues and arts centres are expanding the range of dance within their programmes, providing opportunities for audiences around the country to experience high-quality dance.

However, while much has been achieved, many gaps remain. As an artform, dance in Scotland is still at a relatively early stage of development, and entering and sustaining a career in dance can be extremely challenging with limited opportunities for progression.

Our approach in 2009/10 seeks to address these challenges while building on the achievements and continue the strategic direction determined in our work from 2007-2009.

## **Drama**

The Scottish Arts Council's priorities for drama will sustain the areas where there are clear strengths, and provide additional investment to improve artistic standards and give greater access to quality work for audiences.

We aim to build on the growing interest in theatre produced in Scotland from promoters and festivals outside of the UK. Our feasibility study into International Exposure for Scottish Theatre and Dance Artists published in 2007 identified a number of areas where we could help theatre artists to show their work and generate interest from overseas promoters to book it for their theatres or festivals. We will progress work in a number of these areas in the coming year.

We are also looking at ways of allowing venues and promoters across the country more say in which theatre productions and tours get our support. We are working with colleagues in the sector about how to achieve this. Thirdly, we want to maximise the benefit to artists and audiences through our Foundation Organisations by helping them to work with a wider range of artists and so make the most of their expertise and facilities.

The particular strengths of the sector lie in the areas of new writing, work for children and young people, and a growing interest and success in innovative and cross-disciplinary



work. Scottish playwrights enjoy wide international recognition, as does the energetic children's theatre sector. We will also continue support for the Street Arts sector with a view to linking up with developments related to London 2012 Olympic and Paralympic Games and the Glasgow 2014 Commonwealth Games.

## **Education**

The value of creativity for personal, social and economic development is increasingly well recognised by education providers. The Scottish Government's Curriculum for Excellence and Skills for Scotland provide great opportunities for future strategic development. We want to ensure that the rich resources of Scotland's artists and arts organisations contribute to and benefit from these developments.

One of our three aims is to place the arts, culture and creativity at the heart of learning. Our role is to support and develop arts education infrastructure and practice in Scotland. We work with colleagues to develop the educational elements of their work, through advocacy, research, networks and partnerships. Successful arts education is an interactive process involving artists, arts organisations and the public that results in change and progression for those involved.

## **Literature**

Literature is one of Scotland's principal national assets, and is enjoying a scale of success and recognition, nationally and internationally, perhaps unsurpassed in its long and distinguished history. Scotland has a distinguished position in the pantheon of world literature through its poets, novelists, short story writers, philosophers, screenwriters, playwrights, storytellers, song-makers, scientists, historians and biographers. It also has an unrivalled asset in its committed readers and listeners, and an enormous reservoir of public interest, which continues to increase.

Our vision is for Scotland to be recognised nationally and internationally as a centre of excellence for writers, publishers and the wider literature community.

Our key objectives are to:

- place literature at the heart of every community, accessible to every citizen
- raise the prestige of Scotland's literature nationally and internationally
- invest in writers and writing as a means to ensure the creativity, prosperity and wellbeing of Scotland
- position the publishing industry in Scotland to meet the changing needs of the 21st century
- fashion a framework and structures to meet the continuing development of literature in Scotland.

We will build on these strengths to ensure literature's continued dynamism and success. Specifically, in 2009/10 we will continue to collaborate with the Literature Forum for Scotland on its work in finalising its ambitious ten-year strategic vision for Literature in Scotland, *Literature, Nation*.

## **Music**

Scottish music is world renowned for the highest quality and for its innovative and interactive use of technology. Enterprise and creativity are key drivers in an industry that

is predominantly self-employed. We are actively involved in music throughout Scotland supporting musicians, composers, labels and promoters from all musical backgrounds.

We have clear priorities for supporting and developing Scotland's music, both nationally and internationally through: supporting the musician; promoting the music they create and perform; and enabling the widest distribution and access to it.

Through the Youth Music Initiative, we are also nurturing Scotland's talent of the future; expanding and strengthening the early building blocks of a young person's musical experience; and creating a clearer articulation to the music industry. The Youth Music initiative has three key aims:

1. provision of high quality music making programmes particularly for young people that would not normally access music activities;
2. developing a cohesive national infrastructure for the youth music sector;
3. supporting and developing the workforce.

Music can play a critical role in the development of young people – not simply in encouraging creativity, but in building confidence, self-esteem and emotional well-being. Music matters: it matters to young people who define themselves through their musical choices; it matters to the dedicated tutors and volunteers who inspire achievement and excellence; it matters to our community and cultural identities; and it matters to the continuation of a vibrant Scottish music industry.

## **Visual Arts**

The Scottish Arts Council supports artists who are living and working in Scotland. We aim to develop excellence and encourage innovation and imagination both in the making and public presentation of work.

Artists have always been concerned with ideas, often expressing these through the traditional forms of sculpture, drawing, painting and printmaking. Today the visual arts also embrace: new media, such as video and computer generated work; site specific work, public art and installation; sound, photography and experimental film. Contemporary art practice is as much an exploration of how we see the world, as well as a means of creating objects to be viewed within it.

We wish to build on the current strengths and diversity of the visual arts across the country. Our vision is for Scotland to be recognised nationally and internationally as a centre of excellence in and for the visual arts. In order to achieve this we have identified several objectives:

- to maintain and develop exhibition spaces, studios and production facilities that achieve the highest standards for artists and audiences
- to promote the strength and diversity of artists in Scotland and support their ongoing creative and professional development
- to grow the number and range of audiences for contemporary art across Scotland
- to encourage more challenging and sustainable education programmes, engaging people with the visual arts throughout their lives
- to support public collections with the purchase and presentation of quality, contemporary art
- to increase public interest in buying original works of art.

## **Equalities**

The Scottish Arts Council recognises Scotland's diversity and wishes to reflect this in everything we do and everything we fund. We take our legislative duties to promote Equalities very seriously, and we are working to end unfair discrimination because of age, disability, gender, race, religion/belief, and sexual orientation. Our work in promoting the role of arts in health and wellbeing help to address many of the health inequalities which exist. We believe that arts and culture are important to the wellbeing of individuals and the community, and that we can play an important role in contributing to a flourishing Scotland.

As the formation of the new body for the arts, Creative Scotland, becomes a closer reality, we are keen to explore ways in which we can mainstream an equality-based approach into all areas of our activities for the benefit of all those who take part in the arts and culture of Scotland, whether as employer, arts worker, professional artist, curator, producer, marketer, audience member, or as someone who participates in the arts.

We recognise that equality of opportunity does not mean treating everyone in the same way. Different people have different needs and we have a duty to address these needs in different ways, in the spirit of the recent Equalities duties (Race, Disability and Gender).

The recent Taking Part survey highlighted worrying trends in terms of attendance at - and participation in - the arts, by disabled people, people from BME backgrounds and economically disadvantaged older people. Addressing these issues is not a simple one-size-fits-all approach. Rather, it requires long-term development in a number of areas.

Our Equalities approach is therefore about flexibility, about responsiveness, as well as being proactive in tackling discrimination.

## **Creative Industries**

The main focus of the department's work has been in the context of the potential remit and operation of Creative Scotland as outlined in the Labour Government's policy statement 'Scotland's Culture' in January 2007. This continued during 2008 when research and debate on how the creative economy should be supported in Scotland was conducted by the Transition Team at the highest level.

On the 5<sup>th</sup> February the Scottish Government announced a Framework Agreement on support for the creative industries which laid out the roles and responsibilities of the Scottish Government and the Delivery Agencies including Creative Scotland.

For many years the Scottish Arts Council has supported the creative industries, particularly publishing, the music industry, the art market, crafts businesses and through funding for audience and organisational development, business support, international showcasing and professional skills development. This will continue during the year ahead through artform and policy departments with the added focus of the Framework Agreement preparing the transition to Creative Scotland.

Creative Scotland's role will be to provide research, intelligence and advocacy across the 13 creative industries and lead co-ordination activity in developing the creative sector. The Chair of Creative Scotland outlined an 'advisory, advocacy and brokering role' and the importance of working with the Enterprise Agencies and Local Authorities was identified as the key to successful development of the creative economy.

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These divisions are the basis on which the Scottish Arts Council monitors its operations and upon which decisions are made by the Board.

<b>Expenditure</b>	<b>Grant Commits</b>	<b>Neg Grants</b>	<b>Olympic Transfer</b>	<b>Arts Services</b>	<b>Central</b>	<b>Total</b>
Arts Development	7,621	(174)		327		7,774
Audience & Organisational Development & Advancement	1,376			56		1,432
Capital		(1,654)		188		(1,466)
Crafts	132			40		172
Creative Industries	148			1		149
Dance	708			40		748
Drama	2,432			44		2,476
Education	140			53		193
Equalities	854			51		905
Literature	556			56		612
Music	1,379			83		1,462
Olympiad	621		3,358	124		4,103
Visual Arts	985			60		1,045
Management and Administration					816	816
Notional Interest					22	22
	16,952	(1,828)	3,358	1,123	838	20,443
<b>Income</b>						
NLDF Proceeds					19,206	19,206
Other Income					687	687
					19,893	19,893
Decrease in Fund						(550)

## **18. 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 were confident that the new owners would continue to operate the cinema for many years to come. Unfortunately, this is not the case and the cinema is no longer operating.

This loss demonstrates the risk inherent in supporting activity in remote areas of low population density to which the Scottish Arts Council is committed.

## **19. Related Party Transactions**

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

For the purposes of this Account, the Scottish Arts Council National Lottery Distribution Fund and the Scottish Arts Council General Fund are regarded as related parties. During the year, there were material transactions between the two funds resulting in a final re-charge amounting to £1.43 million.

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

Members of Council, Committees, specialist advisors and staff have a declared interest in the grant awards listed below. The amounts represent both hard and soft commitments (see note 1.2 for definition). The Related Parties note discloses original grant award rather than outstanding balance at year-end and transactions during the year.

<b>Council/Committee Member/Specialist Advisor/Staff</b>	<b>Office held</b>	<b>Organisation</b>	<b>Grant Award £</b>
<b>Council</b>			
Donald Emslie	Chairman	Royal Lyceum Theatre	1,214,000
Steve Grimmond	Director	Artists Collective Gallery	19,500
	Director	Byre Theatre	91,590
	Director	Arts & Theatre Trust Fife	63,000
Benjamin Twist	Director	Hebrides Ensemble	29,590
	Freelance Theatre		
	Director	North Edinburgh Arts	36,374
	Freelance Theatre	Pitlochry Festival	
	Director	Theatre	14,290
<b>Lottery Committee</b>			
Neil Gillespie	Director	Filmhouse	40,748
Margaret O'Connor	Advisor	Brunton Theatre Trust	30,000
Benjamin Twist	Director	Hebrides Ensemble	29,590
	Freelance Theatre		
	Director	North Edinburgh Arts	36,374
	Freelance Theatre	Pitlochry Festival	
	Director	Theatre	14,290

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<b>Council/Committee Member/Specialist Advisor/Staff</b>	<b>Office held</b>	<b>Organisation</b>	<b>Grant Award £</b>
<b>Specialist Advisors: Crafts</b>			
Dr Elizabeth Goring	Director	Innovative Craft	67,500
Julia Hallowell	Committee Member	Pitlochry Festival Theatre	14,290
Hazel Hughson	Arts Development Officer	Shetland Arts Development Agency	27,067
<b>Specialist Advisors: Dance</b>			
June Adamson	Senior Teacher	University of Edinburgh	200
Jean Cameron	Director	GAL Scotland Ltd (Glasgay festival)	30,000
Dawn Hartley	Education Manager	Scottish Dance Theatre	23,688
James MacGillivray	Rehearsal Director/Dancer	Scottish Dance Theatre	23,688
Lucy Mason	Chief Executive	Dance Base	68,842
	Director	Magnetic North Theatre Productions	50,000
	Director	Licketysplit Theatre Company	44,830
Ian Spink	Employee	Aberdeen City Council	87,399
Phyllis Steel	Board Member	Dance House	71,400
	Board Member	Puppet State Theatre	24,522
	Board Member	Birds of Paradise	129,256
<b>Specialist Advisors: Drama</b>			
Chloe Dear	Creative Producer	Edinburgh Mela Limited	65,000
	Board Member	Puppet State	24,522
Nick Fearne	Board Member	Promote YT	75,000
David Leddy	Artistic Director	Fire Exit Limited	66,197
Tim Licata	Member	Seven Doors Theatre Company	287,447

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<b>Council/Committee Member/Specialist Advisor/Staff</b>	<b>Office held</b>	<b>Organisation</b>	<b>Grant Award £</b>
Adrain Osmond	Associate Artist	Cumbernauld Theatre	60,000
Magdalena Schamberger	Artistic Director	Hearts and Minds	31,500
	Director	Puppet Animation Scotland	33,900
<b>Specialist Advisors: Equalities</b>			
Alison Stirling	Project Director	Artlink	77,240
<b>Specialist Advisors: Literature</b>			
Joanna Bremner-Smith	Director	Wee Stories For Children	170,580
Polly Clark	Wife of Producer	Cove Park	26,475
Marianne Mitchelson	Self employed contractor	Dub Busters	48,550
Judy Moir	Literary Agent/ Literary Consultant	Scottish Book Trust	268,806
<b>Specialist Advisors: Music</b>			
Svend-Einar Brown	Creative Director	Horsecross Limited	291,000
	Creative Director	East Neuk Festival	30,000
	Freelance Consultant	Glasgow UNESCO City of Music	50,000
	Board Member	Music at the brewhouse	480,500
Murray Buchanan	Director	Citizens Theatre	15,434
	Director	Scottish Book Trust	268,806
Helen Jamieson	Music Consultant	Music At Paxton	8,000
	Music Consultant	Glasgow Festival	4,000
	Music Consultant	Hebrides Ensemble	29,590
Hugh MacDonald	Chairman	Theatre Cryptic	8,000
Andy Shearer	Consultant	Horsecross Limited	291,000

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<b>Council/Committee Member/Specialist Advisor/Staff</b>	<b>Office held</b>	<b>Organisation</b>	<b>Grant Award £</b>
<b>Specialist Advisors: Visual Arts</b>			
Arabella Harvey	Employee	Petter Potter Gallery (Haddington) Trust Limited	17,970
Fiona Jardine	Contractor	Artlink	77,240
Caroline Kirsop	Programme Manager	Common Guild Limited	5,445
Helen Monaghan	Employee Member	National Galleries of Scotland Engage	38,000 116,060
Jason Williamson	Board Member Board Member	Peacock Visual Arts Deveron Arts	18,210 39,000
<b>Specialist Advisors: Visual Arts</b>			
Hilary Brooks	Self employed musical director	Dundee Repertory Theatre	32,590
Brian Cope	Artistic Director/Consultant	Drake Music Scotland	106,685
Fiona Dalgetty	Manager	FEIS ROIS Edinburgh Youth Gaitherin	16,500 17,600
Ian Mills	Board Member	Drake Music Scotland	106,685
Cathie Rea	Director	Thick Skinned Productions Limited	20,130
<b>Staff</b>			
David Taylor	Parent of Employee	Edinburgh Festival Fringe Society	74,558

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



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**20. Intra-government balances**

Included within the payables figure are the following intra government balances

	<b>2010</b>	2009
	<b>£'000</b>	£'000
<b>Payables</b>		
Central government bodies	<b>25</b>	65
Local authorities	<b>1,927</b>	3,016
NHS boards	<b>162</b>	201

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**FIVE YEAR SUMMARY**

	Year Ended 31-Mar 2010 £'000	Year Ended 31-Mar 2009 £'000	Year Ended 31-Mar 2008 £'000	Year Ended 31-Mar 2007 £'000	Year Ended 31-Mar 2006 £'000
Grant income	<b>19,206</b>	16,922	16,737	16,884	19,442
Other income	<b>687</b>	134	184	158	111
Total income	<b>19,893</b>	17,056	16,921	17,042	19,553
Support to the arts	<b>19,605</b>	29,205	14,986	19,403	15,916
Net operating costs	<b>838</b>	899	1,026	1,189	1,527
Surplus/(Deficit)	<b>(550)</b>	(13,048)	909	(3,550)	2110

## **NATIONAL LOTTERY STATEMENT OF COMPLIANCE 2009/10**

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

A full list of all grants accounted for in 2009/10 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. 32 such grants were made in the year.

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

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

Tables 2 and 3 show the lottery awards in the year banded by value. Table 2 shows that 6.43% of our grants were for amounts of less than £10,000.

**Table 1**  
**Lottery applications and awards by budget type 2009/10**

	Number of App's *	Amount Requested (£)*	% by Number	Number of Awards **	Amount Awarded (£)**	% by Number
Artists Taking the Lead	6	485,000	0.73	6	485,000	1.09
Equalities	43	878,205	5.26	36	689,401	6.52
Arts Development	347	10,325,626	42.47	278	7,847,145	50.36
Audience & Organisational Development	105	2,471,665	12.85	62	1,603,314	11.23
Awards for All	237	1,582,941	29.01	93	469,674	16.85
Capital	69	4,788,248	8.45	65	5,685,896	11.78
Partner – Olympic Legacy Trust	3	3,824	0.37	3	3,824	0.54
Professional & Creative Development	7	141,500	0.86	9	168,500	1.63
<b>TOTAL</b>	<b>817</b>	<b>20,677,009</b>	<b>100.00</b>	<b>552</b>	<b>16,952,754</b>	<b>100.00</b>

\* Applications received between 1 April 2009 and 31 March 2010

\*\* Awards figures for this and other tables represent grant offers made and accepted between 1 April 2009 and 31 March 2010

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**Table 2  
Lottery awards banded by value (number of awards) 2009/10**

	No.	% by No.
under £9,999	224	40.58
£10k - £24,999	160	28.99
£25k - £49,999	78	14.13
£50k - £99,999	57	10.32
£100k - £499,999	31	5.62
£500k - £999,999	2	0.36
over £1million	0	0.00
<b>Total</b>	<b>552</b>	<b>100.00</b>

**Table 3  
Lottery awards banded by value (value of awards) 2009/10**

	Value (£)	% by Value
under £9,999	1,089,786	6.43
£10k - £24,999	2,392,216	14.11
£25k - £49,999	2,515,802	14.84
£50k - £99,999	3,711,821	21.90
£100k - £499,999	5,843,971	34.47
£500k - £999,999	1,399,158	8.25
over £1million	0	0.00
<b>Total</b>	<b>16,952,754</b>	<b>100.00</b>

## **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 2009/10 grants were made to organisations in all 32 local authority areas. (See Table 5.) In addition we continue to target those local authorities which have had a relatively low share of funding in the past.

**Table 4**  
**Lottery awards by artform department 2008/09**

	<b>No. of Awards</b>	<b>Amount Awarded (£)</b>
Arts Development	97	7,116,027
Audience Development	51	1,375,950
Awards for All	93	469,674
Crafts	11	131,863
Creative Industries	9	148,441
Dance	20	707,749
Drama	96	2,431,916
Education	7	139,942
Equalities	39	854,401
Literature	18	556,465
Music	58	1,379,265
Olympiad 2012 2014	16	620,824
Planning and Communications	1	10,000
Policy and Research	1	25,000
Visual Arts	35	985,237
<b>Total</b>	<b>552</b>	<b>16,952,754</b>

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

We recognise the significance of the arts in social and economic regeneration and many of our awards were to projects which were partially directed at one or both

of these outcomes. In addition, we operate a scheme targeted at all Social Inclusion Partnership areas in Scotland.

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

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

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

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

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

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

**5 The need to further the objectives of sustainable development;**

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

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

**6 The needs of projects relating to crafts;**

Grants made directly to support crafts activity during the year totalled £131,863. In addition, a number of Capital expenditure awards were made to organisations which have crafts activity.

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

A significant proportion of National Lottery funds is allocated to Capital expenditure projects which are non-recurring. The balance of funds is allocated through a wide range of schemes designed to achieve strategic objectives and policy. All these schemes offer funds for a time-limited period only and applicants are required to demonstrate a viable future or a clear exit plan.

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

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

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

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

**Table 5**

**Lottery grants by local authority area 2008/09**

<b>Local Authority</b>	<b>Number of Awards</b>	<b>Amount Awarded (£)</b>
Aberdeen City	14	338,134
Aberdeenshire	18	504,811
Angus	4	140,850
Argyll and Bute	21	283,185
Clackmannanshire	4	44,740
Dumfries and Galloway	15	205,771
Dundee City	15	419,596
East Ayrshire	3	18,500
East Dunbartonshire	3	12,609
East Lothian	9	124,863
East Renfrewshire	3	13,000
Edinburgh City	108	3,998,973
Eilean Siar	5	122,170
Falkirk	3	13,531
Fife	20	770,770
Glasgow City	138	6,032,510
Highland	53	917,265
Inverclyde	4	14,192
Midlothian	1	5,000

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Moray	7	103,411
North Ayrshire	2	4,186
North Lanarkshire	10	438,185
Orkney Islands	3	15,776
Perthshire and Kinross	10	389,068
Renfrewshire	5	218,891
Scottish Borders	14	148,874
Shetland Isles	4	185,000
South Ayrshire	6	161,144
South Lanarkshire	9	108,864
Stirling	9	178,350
West Dunbartonshire	1	4,740
West Lothian	8	342,061
Outside Scotland	23	673,734
<b>Total</b>	<b>552</b>	<b>16,952,754</b>

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

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

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

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

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

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

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

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



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

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

**Table 6**  
**Lottery distribution account administration costs**

	2010 £'000	2009 £'000
Travelling, subsistence and entertaining	4	5
Publicity and promotions	28	49
Postage	5	4
Agency staff	16	17
Professional fees	27	16
Office sundry	248	292
Staff	452	513
Depreciation	36	26
	<u>816</u>	<u>922</u>

**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

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

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

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

**Table 7  
Lottery awards over £100,000 accounted for in 2009/10**

The Common Guild	Towards the cost of commissioning an artist and architect to work on the creation of a public art project in Queen's Park, Glasgow.	100,000
Birds of Paradise Theatre Company	Towards the cost of Flexible Funding for 2009/10.	100,000
Tobermory Forward	Towards the cost of 'Bench Around The Island' a series of new permanent public artworks.	100,000
Feisean Nan Gaidheal	Towards the cost of operating Feisean nan Gaidheal's grants scheme.	100,000
Feisean Nan Gaidheal	Towards the cost of support for the grant scheme to member Feisean, including classes and workshop activities.	100,000
Ankur Arts Productions	Towards the cost of Flexible Funding for 2010/11.	100,000
Festival City Theatres Trust	Towards the cost of Stage One Funding 2009/10 supporting programming at the Edinburgh Festival Theatre and Kings Theatre	105,000
Big Things On The Beach	Towards the cost of developing a Public Art Plan for Portobello Promenade.	105,750
4 Way Pictures Scotland Limited	Towards the cost of making available a DVD of a film to every child in Scotland on their 8 1/2 birthday	110,000
University of Dundee	Towards the cost of Nine Trades of Dundee - a project bring trades and arts together	112,500
Calman Trust Ltd	Towards the cost of "Art-Works" a project for young people to take part in quality artistic activities.	117,466
The WASPS Trust	Towards the cost of a refurbishment and expansion of Courtyard Studios in Irvine.	138,221
Arches Theatre	Towards the cost of "The Sum of All Its Parts".	150,000
Wee Stories Theatre For Children	Towards the cost of Flexible Funding for 2010/11.	160,000
Scottish Book Trust	Towards the cost of operating Live Literature Funding scheme in 2009/2010	164,500

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Shetland Arts Development Agency	Towards the cost of Mirrie Dancers creating public light works through experimental lace and light	165,000
Arts Council England	Towards the cost of the Scottish Arts Council's contribution to the Cross Border Touring Fund 2009/10.	175,000
Ferguslie Park Housing Association	Towards the cost of an inter-generational Sound and Light Garden.	187,500
The ISO Organisation	Towards the cost of Central Station - a multiplatform experience about creativity and the arts	200,000
Scottish Sculpture Workshop Limited	Towards the cost of upgrading the fabrication and studio spaces, reorganising and adding rooms at Scottish Sculpture Workshop.	200,000
Scottish Youth Dance	Towards YDance and Smallpetitklein collaborating on an all-male professional production and developmental dance programme.	200,000
The WASPS Trust	Towards the cost of redeveloping 2 former townhouses in Kirkcudbright into a studio complex for 15 artists	212,262
Horsecross Arts Limited	Towards "Home and Away", a programme of community based residencies throughout 2010, involving Scottish and international artists.	216,000
Theatre Workshop Edinburgh Limited	Towards the cost of development and implementation of a programme of work during 09/10	218,750
Seven Doors	Towards 'Working On A Dream' that engages Looked After Children in Edinburgh in multidisciplinary cultural and arts experiences.	221,250
Enterprise Music Scotland Limited	Towards the cost of Flexible Funding for 2010/11.	225,000
Glasgow Theatres Ltd	Towards an audio-visual dance theatre piece by Matthew Bourne that integrates professional and non-professional young performers.	265,905
Motherwell College	Towards improving access by offenders in custody to quality arts interventions and evaluate impact on personal change.	300,000
Glasgow Grows Audiences Ltd	Towards the cost of project management and delivery of the Amb.IT.ion Scotland Programme.	353,367
Forest Pitch Ltd	Towards the cost of 'Forest Pitch' - the winner of Scotland's Artists Taking the Lead Award	460,000
Music At The Brewhouse	Towards the cost of a nationwide festival of music for young people, touring musicians from all over the world throughout Scotland.	480,500
Centre for Contemporary Arts	Towards a 12 month programme supporting new work and experimentation across visual arts, music, new media, film, and performance	515,658

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The WASPS Trust	Towards the cost of redeveloping 'King Street South Block' in Glasgow's Merchant City into a Cultural and Creative Industries Hub.	883,500
<b>Total 33 Awards</b>		<b>7,243,129</b>

**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 regularly revisits cost allocation methodology to ensure the accuracy of apportioned costs.

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**

	<b>2010 Actual</b>	2009 Actual
Average time to process each applications (days)	<b>32</b>	44
Average cost of processing each applications (£)	<b>1214</b>	718
Total number of applications processed	<b>817</b>	1324



## SCOTTISH ARTS COUNCIL

### DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of Section 35 of Part II of the National Lottery etc. Act 1993, hereby give the following direction.
2. The statement of accounts which, it is the duty of Scottish Arts Council to prepare in respect of its **National Lottery distribution activities** for the financial year ended 31 March 2006, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) 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 in March 2006 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 31 March 2010

## SCHEDULE 1

### ADDITIONAL DISCLOSURE REQUIREMENTS

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

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

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

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

6. **Soft Commitments**

These will occur when there is agreement in principle by Scottish Arts Council to fund a scheme. Once a formal offer and acceptance of the terms and conditions of the grant has been concluded this will become a hard commitment. The total of soft commitments will be shown in a note to the Balance Sheet. Changes in soft to hard commitments which arise after the accounting year end and before publication of the Accounts will not be adjusting events in terms of IAS 10 (Events after the Reporting Period ). A tabulation should accompany the Notes to the Accounts and show:

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

a) **Hard Commitments**

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

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

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

b) **De-commitments**

i) **Soft Commitments**

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

ii) **Hard Commitments**

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

c) **Repayments**

The circumstances of a grant repayment are as described in the Statement of Financial Requirements. A repayment will not affect commitment unless the payment is part of a phased scheme for which commitments for later phases have been included in the Balance Sheet. A repayment will be reflected as an adjustment in the Income and Expenditure Account. If a repayment occurs after the year end but before the Accounts have been signed by Scottish Arts Council's Accountable Officer and is material (5% of the total grants paid in the year or £1m which ever is the lower,) it will be necessary to treat the repayment as an adjusting event in terms of IAS 10.





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ISBN 978-0-10-295232-2



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