

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

FOR THE YEAR TO
31 MARCH 2007

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

Ordered by the House of Commons to be printed
7 November 2007

Laid before the Scottish Parliament by the Scottish
Ministers November 2007

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DIRECTORS AND OFFICERS

COUNCIL MEMBERS

Richard Holloway (Chair)
(demitted office 31/01/07)

Joanna Baker
(term expired 31/07/06)

Arthur Cormack
(demitted office 31/01/07)

Steven Grimmond
(demitted office 31/01/07)

Jennifer Hawksworth
(demitted office 31/01/07)

Jane Jeffrey
(demitted office 31/01/07)

Annie Mars
(resigned 24/04/06)

Roy McEwan
(demitted office 31/01/07)

James McSharry
(demitted office 31/01/07)

John Mulgrew
(demitted office 31/01/07)

Rab Noakes
(demitted office 31/01/07)

Benjamin Twist
(demitted office 31/01/07)

Jennifer Waterton
(demitted office 31/01/07)

SCOTTISH ARTS COUNCIL AND SCOTTISH SCREEN JOINT BOARD

Richard Holloway
(appointed 01/02/07)

Dinah Caine OBE
(appointed 01/02/07)

Donald Emslie
(appointed 01/02/07)

Steven Grimmond
(appointed 01/02/07)

Charles Lovatt
(appointed 01/02/07)

Ray Macfarlane
(appointed 01/02/07)

Barbara McKissack
(appointed 01/02/07)

James McSharry
(appointed 01/02/07)

John Mulgrew
(appointed 01/02/07)

	<p>Rab Noakes (appointed 01/02/07)</p> <p>Iain Smith (appointed 01/02/07)</p> <p>Benjamin Twist (appointed 01/02/07)</p>
CHIEF EXECUTIVE	<p>Graham Berry (from 01/04/06 - 28/02/07)</p>
ACTING CHIEF EXECUTIVE	<p>James Urquhart Tough (appointed 01/03/07)</p>
SECRETARIES AND LEGAL ADVISORS	<p>Burness LLP 50 Lothian Road Festival Square Edinburgh EH3 9BY</p>
BANKERS	<p>Bank of Scotland 20/22 Shandwick Place Edinburgh EH2 4RN</p>
AUDITORS	<p>Scott-Moncrieff 17 Melville Street Edinburgh EH3 7PH</p>
PRINCIPAL PLACE OF BUSINESS	<p>12 Manor Place Edinburgh EH3 7DD</p>

**THE SCOTTISH ARTS COUNCIL
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CHIEF EXECUTIVE'S REPORT

Background

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

The Council's activities in support of the arts are financed by an annual grant-in-aid from the Scottish Executive Education Department, by the National Lottery, and from income generated by its own activities.

It produces two separate Annual Accounts, this one covers the activities supported by the National Lottery. A separate account is produced for those activities supported by the Scottish Executive grant-in-aid.

National Lottery Fund

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

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

Principal activities

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

Council Members in 2006/07

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

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Council

Richard Holloway (Chairman)

Joanna Baker

(Term expired 31/7/06)

Arthur Cormack

(Demitted office 31/1/07)

Steven Grimmond

(Demitted office 31/1/07)

Jennifer Hawksworth

(Demitted office 31/1/07)

Jane Jeffrey

(Demitted office 31/1/07)

Annie Marrs

(Resigned 24/4/06)

Roy McEwan

(Demitted office 31/1/07)

James McSharry

(Demitted office 31/1/07)

John Mulgrew

(Demitted office 31/1/07)

Rab Noakes

(Demitted office 31/1/07)

Benjamin Twist

(Demitted office 31/1/07)

Jennifer Waterton

(Demitted office 31/1/07)

Joint Board

Richard Holloway (Chairman)

(Appointed to the joint board 1/2/07)

Dinah Caine OBE

(Appointed to the joint board 1/2/07)

Donald Emslie

(Appointed to the joint board 1/2/07)

Steven Grimmond

(Appointed to the joint board 1/2/07)

Charles Lovatt

(appointed to the joint board 1/2/07)

Ray Macfarlane

(Appointed to the joint board 1/2/07)

Barbara McKissack

(Appointed to the joint board 1/2/07)

James McSharry

(Appointed to the joint board 1/2/07)

John Mulgrew

(appointed to the joint board 1/2/07)

Rab Noakes

(Appointed to the joint board 1/2/07)

Iain Smith

(Appointed to the joint board 1/2/07)

Benjamin Twist

(Appointed to the joint board 1/2/07)

Accounting for pensions

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

Employee consultation

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

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

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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 15 to 17. The fee for this service was £24,000 (2005/06 £32,000), which relates solely to the provision of statutory audit services.

During the year there was also non-audit work (internal audit service), which was carried out by these auditors. The fee for this work amounted to £31,000 of which £12,800 was charged to the Lottery Fund.

Disclosure of information to auditors

So far as the Accountable Officer is aware:

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

Freedom of information

The Scottish Arts Council is subject to the 'Freedom of Information (Scotland) Act 2002', which came into effect from 1 January 2005. The Scottish Arts Council is obliged to act in a spirit of openness, to provide information (unless exempt) within 20 working days, to provide advice and assistance to applicants and, proactively, publish information under its Publication Scheme.

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MANAGEMENT COMMENTARY

Income and Expenditure Account

The Council's share of proceeds from the National Lottery Fund during the year to 31 March 2007 was £16.884 million (2005/06 £19.442 million). Interest and other income of £0.158 million (2005/06 £0.111 million), brought the total income to £17.042 million (2005/06 £19.553 million).

Grants paid and committed, net grant commitments and arts services during 2006/07 totalled £19.403 million (see notes 3 and 4) compared with £15.916 million in 2005/06.

Management and administration costs decreased from £1.527 million in 2005/06 to £1.189 million in 2006/07.

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 £1.097 million (2005/06 £1.198 million) covering these areas has been separately identified.

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

The net result for the year is a deficit of £3.550 million (2005/06 surplus £2.110 million).

Differences between budgeted figures and those appearing in these accounts are affected by timing of grant decisions and the nature of grants in support of major projects which often result in a delay between decisions being taken and grant expenditure being recorded in the accounts. Grant decisions totalling £5.828 million (2005/06 £7.922 million) taken late in the financial year are not recorded in this account because they have not been formally accepted. They are, however, disclosed in note 14. The ability to treat Lottery income as a continuing fund as opposed to an annual grant means that budget allocations not yet committed are carried forward to be committed in future years and expenditure may anticipate future income.

Note 15 refers to a situation at Thor Leisure, Thurso, where the commercial operator of this leisure centre, which includes the cinema supported with £450,000 of National Lottery funds, went into insolvent liquidation. The second ranking security taken over this business was sufficient to ensure our involvement in encouraging a new proprietor to continue operation of the cinema but insufficient, second to a commercial banker, to recover any of our grant.

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

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

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Balance Sheet

The account shows total net current assets of £12.845 million (2005/06 £16.781 million).

National Lottery Distribution Fund

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

At 31 March 2007 the balance held under the stewardship of the National Lottery Distribution Fund (NLDF) attributable to the Scottish Arts Council National Lottery Fund was £31.769 million (2005/06 £34.517 million). During the year to 31 March 2007 £19.632 million (2005/06 £22.373 million) was called down from the Distribution Fund for the payment of approved awards and administration of the Council's National Lottery Fund. Because most of the grants made to date are in support of major projects whose life extends well beyond the financial year in which the award decision is made, there is a considerable time lag between grants being offered, work commencing and coming to a conclusion. Although steps are being taken to reduce this time lag it is likely to remain at a high level for the foreseeable future. Substantial sums are still being committed to capital projects which can take several years to complete and therefore several years for the final payments to be made. The majority of funds held, invested on behalf of the Scottish Arts Council by the NLDF, are allocated to specific projects. The unallocated balance is added to later budgets for allocation.

Unallocated balances (from 2006/07 budget)

	2007 £'000
Arts Development	594
Audience Development	334
Music	27
	<hr/>
	955
	<hr/> <hr/>

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

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Review of Activities

In 2006/07 the Council budgeted to distribute the funds available on the following basis:

	2007 £'000
<u>Arts Development</u>	
Arts Development	3,400
Crafts	245
Dance	375
Drama	675
Literature	520
Music	990
Visual Arts	660
<u>Strategic Development</u>	
Audience Development	1,290
Capital	5,290
Education	330
	<hr/> <u>13,775</u> <hr/>

Although the grant decisions made during the year were close to the budgeted amounts, the firm commitments of grant awards which can be taken into this account total £19.224 million (see note 14). The balance of funds available refers to soft commitments and decisions taken near the end of the year which, because of accounting principles, cannot be included in this account.

Future developments

General

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

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

Review of Lottery Distribution

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

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

Lottery distributors working group

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

Outline of procedures

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

Grant decisions are also taken under delegated authority as follows:

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

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

The council maintains a register of interests which is disclosed in note 16.

Payment of creditors policy

It is the policy of the Scottish Arts Council that creditors should be paid within the credit terms of the supplier. In the normal course of events this should happen within 30 days of receipt of invoice.

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

The Council has been successful in 92.4% of cases with a further 3.1% being paid within 35 days. The majority of the remaining 4.5% were the subject of some dispute and were only settled once a resolution was achieved.

James Urquhart Tough
Acting Chief Executive and Accountable Officer

31 August 2007

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REMUNERATION REPORT

**Chairman and Director's
Remuneration**

Name	2007	2006
	Salary Including Performance Pay £	Salary Including Performance Pay £
Richard Holloway Chairman Scottish Arts Council (1/4/06 - 31/1/07) Chairman Joint Board (1/2/07 - 31/1/07)	13,984	12,500
Graham Berry Chief Executive (1/4/06 - 28/2/07)	124,317	82,314
James Tough Acting Chief Executive (1/3/07 - 31/3/07)	6,250	0

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

In addition to the figures shown above Graham Berry received an ex-gratia payment of £30,000

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

A sum representing 41% of the total Chairman and Chief Executive's remuneration has been allocated to the National Lottery Fund.

Name	Accrued pension at age 65 as at 31/3/07 and related lump sum £	Real increase in pension and related lump sum at age 65 as at 31/03/07 £	Cash Equivalent Transfer Value at 31/3/07 £	Cash Equivalent Transfer Value at 31/3/06 £	Real Increase in Cash Equivalent Transfer Value
Richard Holloway Chairman	0	0	0	0	0
Graham Berry Chief Executive (1/4/06 - 28/2/07)	0	0	649,755	607,212	21,291
James Tough Acting Chief Executive (1/3/07 - 31/3/07)	89,328	1,481	258,163	246,676	2,853

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The Chief Executive and the Acting Chief Executive are permanent members 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 and the Acting Chief Executive are ordinary members of the Arts Council Retirement Plan (1994). This is a final salary scheme to which members contribute 1.5% of pensionable earnings with pensions normally payable at age 65.

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

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

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

James Urquhart Tough
Acting Chief Executive and Accountable Officer

31 August 2007

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STATEMENT OF THE COUNCIL'S AND THE 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 Principal Accountable Officer for the Scottish Administration has designated the Chief Executive of the Scottish Arts Council as Accountable Officer for the Council's Lottery Fund. His relevant responsibilities as Accountable Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Memorandum to Accountable Officers of Public Bodies, issued by the Scottish Executive.

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

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

I am responsible for ensuring that systems for risk management are embedded in the organisation and that management of programmes, projects and contracts is effective.

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Executive 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.

During the year ended 31 March 2007, the Council has complied with its Lottery Financial Directions and Statement of Financial Requirements.

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 Council's policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Council's policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

The process within the organisation accords with the SPFM and has been in place for the year ended 31 March 2007 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 the relevant guidance issued by the Scottish Ministers. The general requirements for a successful risk management strategy are set out in the SPFM.

A risk register has been compiled with input from members of staff and these risks have been ranked in order of priority. An officer has been tasked with the maintenance of the risk register and regular update reports are communicated to the Audit Committee. Existing risks are being managed effectively and to ensure the risk register remains relevant, the operating environment is reviewed regularly to ensure any new risks are identified. Following the announcement of the creation of Creative Scotland, the risk register was revised substantially to take account of this impending change. The revised risk register was reviewed by the Audit Committee in March 2007.

The Council and the new Joint Board receives a copy of the Audit Committee minutes together with oral comments from the Chairman of the Committee relating to matters of internal control. Regular reports from managers are required, detailing the steps they are

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taking to manage risk in their areas of responsibility and including progress reports on key projects.

The Council has specific procedures in place to mitigate the risk of loss of lottery funds through fraud and to prevent conflicts of interest arising.

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

In particular, in the period covering the year to 31 March and up to the signing of accounts, the organisation has:

- Considered the risks associated with the implementation of the Strategic Review;
- Reviewed the risks associated with the announcement of the creation of Creative Scotland.

Review of effectiveness

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

- the work of the internal auditors;
- the executive managers within the Council who have responsibility for the development and maintenance of the internal control framework, and
- comments made by the external auditors in their management letters and other reports.

Each of these parties is involved in the identification and assessment of areas of operation where review is needed, or due by virtue of the passage of time since a previous review. Reports are presented to the Audit Committee for confirmation that management action in relation to risks identified is adequate.

The measures listed above are sufficient to address any weakness identified and to ensure the continuous improvement of the system.

James Urquhart Tough
Acting Chief Executive and Accountable Officer

31 August 2007

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

We have audited the financial statements of the Scottish Arts Council National Lottery Distribution Fund for the year ended 31 March 2007 under the National Lottery etc Act 1993. These comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Council, Chief Executive and auditors

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

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

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

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

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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 Management Commentary, the unaudited part of the Remuneration Report, the five year summary and the National Lottery Statement of Compliance 2006/07. 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. 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 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.

Unqualified opinion on the 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 2007 and of its decrease in fund, recognised gains and losses and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Lottery etc Act 1993 and directions made thereunder by the Scottish Ministers.

Regularity

Qualified opinion arising because of irregular payments to the outgoing Chief Executive

As disclosed in the Remuneration Report, the Scottish Arts Council's outgoing Chief Executive received a £30,000 ex-gratia payment on leaving the organisation. In addition to this, the outgoing Chief Executive received salary of £40,000 in lieu of notice. 41% of these costs were recharged to the Scottish Arts Council Lottery Distribution Fund.

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The Scottish Public Finance Manual requires the Scottish Arts Council to refer any proposal to offer financial consideration to secure early departure to the relevant departmental finance team for approval before any offer is made, either orally or in writing. The Scottish Executive departmental team were informed of the Board's decision to terminate the former Chief Executive's employment on 15 February 2007, the same date as the enhanced early retirement terms were offered to the former Chief Executive. No approval has been received from the Scottish Executive for the offer made or subsequently paid. In our opinion the Scottish Arts Council did not refer this proposal for approval before making an offer to the former Chief Executive and accordingly we have concluded that this expenditure has not been applied to the purposes intended by the Scottish Ministers and is not in conformity with the authorities which govern it.

In our opinion, except for the payments to the former Chief Executive referred to above, in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

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

7 September 2007

THE SCOTTISH ARTS COUNCIL
 NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
 YEAR ENDED 31 MARCH 2007

Income and Expenditure Account for the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Income			
National Lottery Fund proceeds		16,884	19,442
Other income	2	158	111
		<u>17,042</u>	<u>19,553</u>
Expenditure			
Grants paid and committed during the year	3	5,172	6,512
Net grant commitments	3.2	13,134	8,206
Arts services	4	1,097	1,198
Management and administration costs	6	1,189	1,527
		<u>20,592</u>	<u>17,443</u>
Surplus/(Deficit) on operating activities		(3,550)	2,110
Notional interest		0	0
Increase/(Decrease) in fund		<u>(3,550)</u>	<u>2,110</u>
All the results of the fund relate to continuing activities			

Statement of total recognised gains and losses for the year ended 31 March 2007

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 21 to 34 form part of these accounts, the schedule on page 35 is for information only.

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

Balance Sheet as at 31 March 2007

	Notes	2007 £'000	2006 £'000
Fixed Assets			
Tangible assets	7	<u>0</u>	<u>0</u>
Current Assets			
Investments - balances held in NLDF	8	31,769	34,517
Debtors	9	0	9
Bank	10	<u>384</u>	<u>153</u>
		32,153	34,679
Creditors			
Amounts falling due within one year	11	<u>19,308</u>	<u>17,898</u>
Net current assets		<u>12,845</u>	<u>16,781</u>
Represented by:			
General fund	13	12,403	15,953
Provision for liabilities and charges	12	<u>442</u>	<u>828</u>
		<u>12,845</u>	<u>16,781</u>

James Urquhart Tough
Acting Chief Executive and Accountable Officer

31 August 2007

The notes on pages 21 to 34 form part of these accounts, the schedule on page 35 is for information only.

THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007

Cash Flow Statement for the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Net cash inflow/(outflow) from operating activities	i	128	(358)
Returns on investment and servicing of finance			
Interest receivable		103	83
Increase/(decrease) in funds	ii	<u>231</u>	<u>(275)</u>

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

	2007 £'000	2006 £'000
Net surplus/(deficit)	(3,550)	2,110
Less interest receivable	<u>(103)</u>	<u>(83)</u>
Operating surplus/(deficit)	(3,653)	2,027
Depreciation charges	0	0
Decrease in investment with NLDF	2,748	2,931
(Increase)/decrease in debtors	9	6
(Decrease)/increase in creditors due within one year	1,410	(4,910)
(Decrease) in creditors due outwith one year	(386)	(412)
Net cash inflow/(outflow) from operating activities	<u>128</u>	<u>(358)</u>

(ii) Analysis of change in net funds

	At 1 April 2006	Cash- flow	At 31 March 2007
Cash at bank	153	231	384
NLDF	34,517	(2,748)	31,769
	<u>34,670</u>	<u>(2,517)</u>	<u>32,153</u>

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

Notes to the accounts for the year ended 31 March 2007

1. Accounting Policies

1.1 Basis of accounting

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

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

1.2 Accruals convention

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

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

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

1.3 Tangible fixed assets and depreciation

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

Furniture	10 years
Office and IT equipment	4 years

1.4 National Lottery Distribution Fund

Balances held in the National Lottery Distribution Fund remain under the stewardship of the Secretary of State for Culture, Media and Sport. However, the share of these balances attributable to the Council's Lottery Fund is as shown in the accounts and has been certified by the Secretary of State subject to:

- Completion of the Statement of Assurance of Payments due to the National Lottery Distribution Fund for 2006/07 by the Director of the National Lottery.

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

- Completion of the audit of the National Lottery Distribution Fund accounts for 2006/07 by the National Audit Office.

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

1.5 Pension Costs

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.

1.6 Notional costs

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

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

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

1.7 Taxation

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

2 Other income

	2007	2006
	£'000	£'000
Interest	103	83
Other income (recoupment)	55	28
	<u>158</u>	<u>111</u>

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

3 Grants paid and net grant commitment

	2007 £'000	2006 £'000
Annual grants paid and committed	<u>5,172</u>	<u>6,512</u>
3.1 Grants paid		
Paid and committed in this year	5,172	6,512
Paid and committed in previous years	12,025	13,711
	<u>17,197</u>	<u>20,223</u>
3.2 Net grant commitments		
Hard commitments made during the year	19,224	15,306
Less grants paid and committed	(5,172)	(6,512)
Less grants withdrawn	(918)	(588)
	<u>13,134</u>	<u>8,206</u>

4 Arts services

	2007 £'000 Direct	2007 £'000 Recharged	2007 £'000 Total	2006 £'000 Total
Art Development	155	121	276	212
Audience Sales & Development	24	36	60	116
Capital	223	0	223	196
Crafts	0	57	57	57
Dance	44	50	94	58
Drama	0	83	83	95
Education	2	42	44	0
International	0	0	0	13
Literature	9	71	80	90
Music	32	63	95	74
Policy & Research	0	0	0	59
Visual Arts	12	73	85	228
	<u>501</u>	<u>596</u>	<u>1,097</u>	<u>1,198</u>

5 Employees

	2007 £'000 Direct	2007 £'000 Recharged	2007 £'000 Total	2006 £'000 Total
Wages and salaries	161	902	1,063	1,182
Social security costs	13	69	82	91
Other pension costs	39	201	240	207
	<u>213</u>	<u>1,172</u>	<u>1,385</u>	<u>1,480</u>

National Lottery activities attract a 41% share of the relevant Scottish Arts Council's payroll costs and 100% of Capital payroll costs. As mentioned in note 1.5, all employees are employed by the Scottish Arts Council.

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

5.1 Average number of employees

	2007	2006
The average number of employees during the year was:		
Total number of Scottish Arts Council employees	107.0	103.0
Attributable to National Lottery activities	44.0	51.5
The average full time equivalent number of employees	97.0	95.0

National Lottery activities attract a 41% share of the relevant Scottish Arts Council's payroll costs and 100% of Capital payroll costs

5.2 Pension scheme

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

The total pension cost charged was £262,239 (2005/06 £206,975). The employers contribution to the scheme was 25.4% (2005/06 – 18.8%).

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

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

Contributions paid in the financial year 2006/07 are based on an actuarial valuation of the scheme on 1 April 2005 and are charged against the income and expenditure account.

5.3 Actuarial valuation

The most recent triennial actuarial valuation of the Fund was carried out on 1 April 2005 by Hewitt Bacon and Woodrow, Actuaries and Consultants. This valuation concluded that although the Fund complied with the Minimum Funding Requirement, there was a past service deficit.

In order to eliminate this, the Fund actuary recommended that participating employers, including the Scottish Arts Council, should contribute at the rate of 25.4% of pensionable salary from 1 April 2006. This recommendation was accepted by the Trustees of the Fund and subsequently adopted by all participating employers including the Scottish Arts Council.

The contribution from employees remains unchanged.

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

6 Management and administration costs

	2007 £'000 Direct	2007 £'000 Recharged	2007 £'000 Total	2006 £'000 Total
Management and Administration				
Accommodation	0	105	105	140
Administration costs	0	189	189	263
Auditor remuneration	24	0	24	32
Depreciation	0	31	31	71
Direct grant administration	0	0	0	0
Notional interest	0	0	0	0
Other finance costs	0	30	30	107
Other staff costs	0	55	55	67
Publicity and promotions	0	73	73	82
Staff development	0	16	16	23
Staff salaries	0	666	666	742
	<u>24</u>	<u>1,165</u>	<u>1,189</u>	<u>1,527</u>

7 Tangible Fixed Assets

Cost or Revaluation	Fixtures/ Fittings £'000	IT Equipment £'000	Total £'000
As at 1 April 2006	35	19	54
Disposals	0	(4)	(4)
As at 31 March 2007	<u>35</u>	<u>15</u>	<u>50</u>
Depreciation			
As at 1 April 2006	35	19	54
On Disposals	0	(4)	(4)
As at 31 March 2007	<u>35</u>	<u>15</u>	<u>50</u>
Net Book Value at 31 March 2007	0	0	0
Net Book Value at 31 March 2006	0	0	0

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

8 Investments

	2007 £'000	2006 £'000
National Lottery Distribution Fund	<u>31,769</u>	<u>34,517</u>

The fund is stated at the lower of cost or market value. At 31 March 2007 the fund is shown at market value. If it had been included at cost, the figure would have been £32.151 million. In line with our accounting policy, the cost of investments as at 31 March 2006 as previously reported has not moved following the issue of a final certificate of balance by the NLDF (2006 cost £34.534 million).

9 Debtors

	2007 £'000	2006 £'000
Sundry debtors	<u>0</u>	<u>9</u>

10 Cash at bank and in hand

	2007 £'000	2006 £'000
Cash at bank and in hand	<u>384</u>	<u>153</u>

11 Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Scottish Arts Council - General Fund	290	365
Sundry Creditors	18	28
Grants outstanding less than one year	19,000	17,505
	<u>19,308</u>	<u>17,898</u>

There are no creditors falling due after more than five years

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

12 Provision for liabilities and charges

	2007 £'000	2006 £'000
Provision for hard commitments		
Hard commitment provision at 1 April 2006	18,333	23,838
Hard commitments during year	19,224	15,306
Amount paid in year	(17,197)	(20,223)
Grants withdrawn	(918)	(588)
	<hr/>	<hr/>
Hard commitment provision at 31 March 2007	19,442	18,333
Due within one year	19,000	17,505
	<hr/>	<hr/>
Due after more than one year	442	828
	<hr/> <hr/>	<hr/> <hr/>
There are no hard commitments falling due after more than five years		

13 General fund

	2007 £'000	2006 £'000
As at 1 April 2006	15,953	13,843
Increase/(decrease) in fund for the year	(3,550)	2,110
	<hr/>	<hr/>
As at 31 March 2007	12,403	15,953
	<hr/> <hr/>	<hr/> <hr/>

14 Soft commitments

	2007 £'000	2006 £'000
Balance at 1 April 2006	6,636	5,210
Amounts committed in year	18,252	16,956
	<hr/>	<hr/>
	24,888	22,166
Transferred to hard commitments	19,224	15,530
	<hr/>	<hr/>
Awards made but not yet accepted at 31 March 2007	5,664	6,636
	<hr/> <hr/>	<hr/> <hr/>

In addition to the recorded soft commitments the Council approved grant awards of £0.164 million (2005/06 £1.286 million) within the year for which offers had not been issued at 31 March 2007.

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

15 Losses

Thor Leisure Limited

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

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

At 31 March 2007 the cinema was still operating, therefore, no actual loss has been suffered to date. Providing the cinema continues to provide a service to the area around Thurso until 2025 the Lottery grant will have achieved its goal.

16 Related party transactions

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

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

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

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

Council/Committee Member/Specialist Advisor/Staff	Office held	Organisation	Grant Award £
Council			
Richard Holloway	Chair	Scottish Arts Council/ Scottish Screen Joint Board	£50,000
Arthur Cormack	Director	Feisean nan Gaidheal	£75,000
	Contractor	Aros (Isle of Skye) Limited	£23,928
Steve Grimmond	Board Member	Scottish Arts Council/ Scottish Screen Joint Board	£50,000
	Director	Byre Theatre	£559,550

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

Council/Committee Member/Specialist Advisor/Staff	Office held	Organisation	Grant Award £
Jane Jeffery	Mother of the CEO	Shetland Arts Development Agency	£29,050
Roy McEwan	Managing Director Chairman	Scottish Chamber Orchestra Glasgow Grows Audiences	£1,000 £47,162
John Mulgrew	Board Member	Scottish Arts Council/ Scottish Screen Joint Board	£50,000
Robert Noakes	Board Member	Scottish Arts Council/ Scottish Screen Joint Board	£50,000
	Contractor	Dumfries and Galloway Arts Association	£36,720
Ben Twist	Board Member	Scottish Arts Council/ Scottish Screen Joint Board	£50,000
	Director	Hebrides Ensemble	£51,500
James McSharry	Board Member	Scottish Arts Council/ Scottish Screen Joint Board	£50,000
B McKissack	Board member	Scottish Arts Council/ Scottish Screen Joint Board	£50,000
Dinah Caine	Board member	Scottish Arts Council/ Scottish Screen Joint Board	£50,000
Ray Macfarlane	Board member	Scottish Arts Council/ Scottish Screen Joint Board	£50,000
Charles Lovatt	Board member	Scottish Arts Council/ Scottish Screen Joint Board	£50,000
Donald Emslie	Board member	Scottish Arts Council/ Scottish Screen Joint Board	£50,000
Iain A R Smith	Board member	Scottish Arts Council/ Scottish Screen Joint Board	£50,000

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

Council/Committee Member/Specialist Advisor/Staff	Office held	Organisation	Grant Award £
Specialist Advisors: Literature			
John Corbett	Employee	University of Glasgow	£19,957
	Trustee	Scots Language Dictionaries Limited	£135
Joanna Bremner- Smith	No Return		
Specialist Advisor - Music			
Murray Buchannan	Non Executive Director	Scottish Music Centre Limited	£550
Jim Gaitens	Director	Highland Print Studio	£21,952
Helen Jamieson	Contractor	National Youth Orchestras of Scotland	£2,130
	Contractor	Scottish Jazz Federation	£30,000
Hugh MacDonald	Director	Edinburgh Contemporary Arts Trust	£30,000
Gill Maxwell	Managing Director	Scottish Music Information Centre	£1,100
Suzannah West	Employee	Dumfries and Galloway Council	£66,967
Specialist Advisor - Crafts			
Sara Keith	Employee	Edinburgh College of Art	£3,500
Ann Little	Employee	Edinburgh College of Art	£3,500
Les Mitchell	Employee	Edinburgh College of Art	£3,500
Helen Voce	Employee	Dumfries & Galloway Council	£66,967
Sandra Wilson	Contractor	The Fruitmarket Gallery	£124,133

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

Council/Committee Member/Specialist Advisor/Staff	Office held	Organisation	Grant Award £
Specialist Advisor - Visual Arts			
Moyna Flannigan	Contractor	Doggerfisher	£7,000
Lorraine Grant	Employee	Aberdeenshire Council	£11,986
Alexia Holt	Director	Cove Park	£45,000
Lisa Kapur	Board Member	Ankur Productions	£38,413
Kirsteen Macdonald	Employee	Stirling Council	£48,045
	Contractor	Cove Park	£45,000
Mandy McIntosh	Contractor	FACT, Renfrewshire Council	£18,900
	Contractor	Glasgow City Council	£290
Rosita McKenzie	Honorary Director	Edinburgh Sculpture Workshop	£45,000
Elizabeth McLean	Employee	Fruitmarket Gallery	£114,133
Ilyana Nedkova	Creative Director	New Media @ Horsecross	£10,000
Kirstie Skinner	Contractor	National Galleries of Scotland	£50,700
Specialist Advisor - Dance			
Morven Gregor	Artistic Director	Birds of Paradise Theatre Company	£75,000
	Board Member	Heer Productions	£600
Patricia Eckersley	Trustee	Peter Darrell Trust	£50,000
Lucy Mason	Board Member	Magnetic North Theatre Productions	£4,600
		Licketysplit Theatre Company	£30,000
Stephen Slater	Employee	Glasgow City Council, Tramway	£240

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

Council/Committee Member/Specialist Advisor/Staff	Office held	Organisation	Grant Award £
Ian Spink	Artistic Director Voluntary Work	Aberdeen City Council Lemon Tree Studio	£116,915 £9,000
Specialist Advisor - Drama			
Pamela Carter	Contractor Contractor Contractor	RSAMD Traverse Theatre Theatre Insaan	£758 £16,750 £25,673
Chloe Dear	Contractor Contractor	Boilerhouse Theatre Co Ltd Danceihayami	£54,604 £33,000
Judith Docherty	Board member Board member	Grid Iron Theatre Company Edinburgh Festival Fringe	£2,000 £1,701
Sylvia Dow	Board member Contractor Contractor	Scottish Ballet East Renfrewshire Council Education Services Scottish Adult Learning Partnership	£3,825,000 £30,775 £21,000
Morven Gregor	Board Member Artistic Director	Heer Productions Birds of Paradise Theatre Company	£600 £75,000
Sally Hobson	Employee	Edinburgh International Festival	£502,000
Tim Licata	Declared Interest Declared Interest	Hearts and Minds Benchtoours Theatre Company	£15,000 £47,000
Iain MacDonald	Councillor	Highland Council	£52,300
Sandy Maxwell	Employee	North East Arts Touring	£20,000
Ace McCarron	Contractor	The Byre Theatre	£559,550
Alexandria Patience	Contractor	Young Scot	£60,000
Rebecca Robinson	Co-founder	Benchtoours Theatre Company	£47,000
Stephen Slater	Employee	Glasgow City Council, Tramway	£240

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

Council/Committee Member/Specialist Advisor/Staff	Office held	Organisation	Grant Award £
Laura Tyrrell	Employee	West Lothian Council	£157
	Contractor	Traverse Theatre	£16,750
	Board member	Catherine Wheels Theatre Company	£101,536
Creative Arts Committee			
Jane Jeffery	Mother of the CEO	Shetland Arts Development Agency	£29,050
Carol Dunbar	Employee	Pier Arts Centre Education Development Officer	£45,717
Colin Greenslade	Former Employee	Peacock Visual Arts Edinburgh Sculpture Workshop	£38,466
	Curator		£45,000
Douglas Gifford	Contractor	Scottish Book Trust	£205,646
Performing Arts Committee			
Robert Noakes	Board Member	Scottish Arts Council/ Scottish Screen Joint Board	£50,000
	Contractor	Dumfries and Galloway Arts Association	£36,720
Arthur Cormack	Director	Feisean nan Gaidheal	£75,000
	Contractor	Aros (Isle of Skye) Limited	£23,928
Neil Gillespie	Architect	Pier Gallery Stromness	£45,717
	Architect	Peacock Visual Arts Feasibility Study	£38,466
	Director	Edinburgh College of Art	£3,500
Ben Twist	Director	Hebrides Ensemble	£51,500

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

17 Intra-government balances

Included within the creditors figure are the following intra government balances

	2007	2006
	£'000	£'000
Creditors		
Central government bodies	82	527
Local authorities	6,547	6,093
NHS trusts	110	197

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

Five Year Summary

	Year Ended 31-Mar 2007 £'000	Year Ended 31-Mar 2006 £'000	Year Ended 31-Mar 2005 £'000	Year Ended 31-Mar 2004 £'000	Year Ended 31-Mar 2003 £'000
Grant income	16,884	19,442	19,144	18,166	20,730
Other income	158	111	91	64	130
Total income	17,042	19,553	19,235	18,230	20,860
Support to the arts	19,403	15,916	16,843	24,257	22,972
Net operating costs	1,189	1,527	1,553	1,626	2,294
Surplus/(Deficit)	(3,550)	2,110	839	(7,653)	(4,406)

National Lottery Statement of Compliance 2006/07

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 2006/07 can be found on our website: <http://www.scottisharts.org.uk/1/funding/pastgrantsawarded.aspx>

Grants over £100,000

We are required by the Act to report on grants made in excess of £100,000. 23 such grants were made in the year.

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

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

Tables 2 and 3 show the lottery awards in the year banded by value. Table 2 shows that 78% of our grants were for amounts of less than £10,000.

**THE SCOTTISH ARTS COUNCIL
NATIONAL LOTTERY DISTRIBUTION FUND ACCOUNT
YEAR ENDED 31 MARCH 2007**

**Table 1
Lottery applications and awards by budget type 2006/07**

	Number of App's *	Amount Requested (£)*	% by Number	Number of Awards **	Amount Awarded (£)**	% by Number
Professional and Creative Development	1,042	2,701,603	42.2	301	464,812	27.9
Advancement	3	20,575	0.1	0	0	0.0
Creative Scotland Awards Partners	101	2,947,800	4.1	12	345,000	1.1
Organisational Development	76	1,773,564	3.1	24	773,543	2.2
Access and Participation (These awards were applied for during the previous year)	24	74,287	1.0	24	1,661,361	2.2
Arts and Disability	N/A	N/A	0.0	3	93,573	0.3
Audience Development	29	207,879	1.2	5	72,327	0.5
Capital	49	1,453,630	2.0	26	702,519	2.4
Children and Young People	54	7,011,578	2.2	31	8,603,055	2.9
Creative Links	20	393,147	0.8	16	304,822	1.5
Cultural Diversity	10	288,384	0.4	5	143,474	0.5
New Work	23	424,110	0.9	17	285,612	1.6
Arts Development	38	235,756	1.5	31	126,200	2.9
Gaelic	616	5,929,764	24.9	302	4,259,821	28.0
Highland 2007 Awards for All	1	15,000	0.0	1	15,000	0.1
	1	250,000	0.0	1	250,000	0.1
	382	1,962,386	15.5	280	1,123,331	25.9
Total	2,469	25,689,463	100.0	1,079	19,224,450	100.0

* Applications received between 1 April 2006 and 31 March 2007

** Awards figures for this and other tables represent grant offers made and accepted between 1 April 2006 and 31 March 2007

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

	No.	% by No.
under £9,999	807	74.8
£10k - £24,999	135	12.5
£25k - £49,999	96	8.9
£50k - £99,999	23	2.1
£100k - £499,999	13	1.2
£500k - £999,999	2	0.2
over £1million	3	0.3
Total	1,079	100.0

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Table 3

Lottery awards banded by value (value of awards) 2006/07

	Value (£)	% by Value
under £9,999	2,462,769	12.8
£10k - £24,999	2,010,404	10.5
£25k - £49,999	3,168,520	16.5
£50k - £99,999	1,487,558	7.7
£100k - £499,999	2,242,275	11.7
£500k - £999,999	1,000,000	5.2
over £1million	6,852,923	35.6
Total	19,224,450	100.0

Policy Directions

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

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

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

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

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

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

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

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

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

In all our schemes one of the criteria for support is whether the project helped ensure a fair spread of distribution throughout Scotland. In the year 2004/05 grants were made to organisations in all 32 Scottish local authorities. (See Table 5.) In addition we continue to target those local authorities which have had a relatively low share of funding in the past.

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**Table 4
Lottery awards by artform department 2006/07**

	No. of Awards	Amount Awarded (£)
Arts Development	78	2,158,880
Audience Development	51	2,412,270
Awards for All	280	1,123,331
Capital	33	8,864,055
Crafts	44	255,172
Dance	66	460,124
Drama	146	1,190,715
Education	7	173,474
Literature	72	586,777
Music	182	1,253,171
Visual Arts	120	746,481
Total	1,079	19,224,450

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;

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- only those projects which evidenced a viable future or clear exit strategy were supported;
- arts organisations were helped to achieve sustainable futures through audience and sales development, planned change, etc;
- local distinctiveness was valued and local community cultural identity strengthened;
- the creativity of people, particularly, children and young people was fully engaged.

6 The needs of projects relating to crafts;

Grants made directly to support crafts activity during the year totalled £244,783. In addition, a number of Capital expenditure awards was made to organisations which have crafts activity.

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

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

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

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

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

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

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**Table 5
Lottery grants by local authority area 2006/07**

Local Authority	Number of Awards	Amount Awarded (£)
Aberdeen City	22	175,666
Aberdeenshire	23	187,438
Angus	10	55,530
Argyll and Bute	34	177,468
Clackmannanshire	3	11,250
Dumfries and Galloway	29	323,800
Dundee City	13	97,928
East Ayrshire	10	48,319
East Dunbartonshire	9	25,697
East Lothian	18	230,940
East Renfrewshire	6	96,775
Edinburgh City	255	3,560,606
Falkirk	7	47,256
Fife	42	761,483
Glasgow City	265	8,340,657
Highland	86	1,249,125
Inverclyde	6	135,024
Midlothian	11	64,249
Moray	16	119,531
North Ayrshire	9	43,356
North Lanarkshire	11	94,711
Orkney Islands	16	125,831
Perthshire and Kinross	24	230,320
Renfrewshire	14	66,750
Scottish Borders	26	188,323
Shetland Isles	7	50,410
South Ayrshire	9	120,453
South Lanarkshire	20	129,434
Stirling	18	237,178
West Dunbartonshire	11	41,897
West Lothian	12	1,548,471
Western Isles	18	164,603
Outside Scotland	19	473,971
Total	1,079	19,224,450

- 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.

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- 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**

	2007	2006
	£'000	£'000
Travelling, subsistence and entertaining	10	18
Publicity and promotions	73	82
Postage	12	17
Agency staff	27	57
Professional fees	29	36
Office sundry	341	517
Staff	666	742
Depreciation	31	71
	1,189	1,540

- 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.

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

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

Monitoring and evaluation

Monitoring of specific projects benefiting from lottery funding is an ongoing process. Projects are selected for monitoring on a sample basis but large-scale projects involving building works are all monitored. This is effected both by the appointment of external experts to advise and inform the Council and by our own staff. The monitoring process is designed to ensure that projects are implemented in the way intended; that the expected range of participants and or audience is reached; that the policy directions and conditions of grant governing the use of lottery funds are adhered to; that the promised public benefit is delivered and represents value for money.

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

Our Capital Expenditure Programme has benefited from such an evaluation process and the Advancement Programme, which experienced a recent interim evaluation, is about to be reviewed in a similar way. The Creative Scotland Awards scheme is about to enter its seventh year. Ongoing informal evaluation is undertaken regularly by the various decision-making groups engaged by Council.

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**Table 7
Lottery awards over £100,000 accounted for in 2006/07**

An Lanntair Limited	addressing the 2005/06 deficit and 2006/07 deficit	100,000
Stills Ltd	building and equipment development project	100,000
North Lands Creative Glass	refurbishing the workshop at Quatre Bras, Lybster and purchase new equipment	107,949
Drake Music Project Scotland	building works and new equipment for purpose-designed music centre for people with disabilities	121,900
Govan Housing Association	phase one of the Govan Portal shop conversion project	125,000
Glenkens Community And Arts Trust	phase three of the arts and community centre development in New Galloway	128,857
7:84 Theatre Company (Scotland) Ltd	Re:Union and The Algebra of Freedom	152,337
Boat Of Garten Community Hall	building a new community hall to replace the existing public hall, and for new facilities and equipment	158,000
Scottish Book Trust	operating Live Literature Scotland in 2006/2007	164,500
Arts Council England	Scottish Arts Council contribution to the Cross Border Touring Fund for 2006/7	175,000
Enterprise Music Scotland Limited	Flexible funding for 2007/8	206,232
Highland 2007	Capital Arts Fund for Highland 2007	250,000
Byre Theatre of St Andrews Limited	transitional funding	445,000
Stevenson College	Stage II costs a project to develop a new Music & Performing Arts Centre	500,000
Edinburgh International Festival Society	transitional funding	500,000
West Lothian Council	project to redevelop existing premises and upgrade facilities at Howden Park Centre in Livingston	1,295,333
Wasps	project to redevelop The Briggait into a new arts complex in the Glasgow city centre	1,732,590
Scottish Ballet	project to relocate and establish facilities for Scottish Ballet at Tramway	3,825,000
Total		10,087,698

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

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average costs of processing an application – ie our costs (staff and other operating charges less notional interest) divided by the number of applications. (See Table 8.)

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

Whilst the Scottish Arts Council attaches great importance to the performance measures above it is recognised that they are crude indicators – for example, whilst the number of applications may vary, costs, as currently measured, are relatively fixed. The Scottish Arts Council recognised the need to refine cost attribution, and the accounts for 2004/05 reflect a more realistic split of overheads between costs directly involved in running the Scottish Arts Council and costs involved in supporting the arts.

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

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

**Table 8
Lottery applications – performance measures**

	2007	2006
	Actual	Actual
Average time to process each applications (days)	36	39.5
Average cost of processing each applications (£)	686	708
Total number of applications processed	2,469	2,157



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 on 17 June 2002 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 31 March 2006

SCHEDULE I

ADDITIONAL DISCLOSURE REQUIREMENTS

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

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

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

- b) an analysis of the income and expenditure relating to the Lottery;
 - c) an analysis of the "other operating charges" over appropriate subject headings (write-offs, audit fee, leasing charges, travel, subsistence and hospitality (costs for staff and body members should be separately identified));
 - d) 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";
 - e) the amounts committed in respect of National Lottery grants split between hard and soft commitments identifying the amount falling due (see note 5 below) . Where these commitments exceed available resources shown on the Balance Sheet, there should also be a note explaining the rationale for the over-commitment in terms of the benchmark being applied and the assumptions behind it, taking into account any advice received from the Scottish Ministers as appropriate.
5. The nature of the Distributing Bodies' Lottery activities means that they will be making commitments for future expenditure which will need to be shown in the annual financial statements. Commitments should be categorised and shown as follows:

6. **Soft Commitments**

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

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

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

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

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

b) **De-commitments**

i) **Soft Commitments**

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

ii) **Hard Commitments**

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

c) **Repayments**

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

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