

Statement of Board's and Chief Executive's Responsibilities

Under Section 6(1) of the Development of Tourism Act 1969 the Scottish Tourist Board is required to prepare a statement of accounts in the form and on the basis determined by Scottish Ministers. The accounts are prepared on an accruals basis and must give a true and fair view of the Board's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Board is required to:

1. observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
2. make judgements and estimates on a reasonable basis;
3. state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
4. prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Board will continue in operation.

The Accountable Officer for the Scottish Executive Education Department has designated the Board's Chief Executive as the Accountable Officer for the Scottish Tourist Board. 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 Non-Departmental Public Bodies' Accountable Officer Memorandum and published in the Scottish Public Finance Manual.

Statement of Internal Control

1. Scope of responsibility

As Accountable Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of Scottish Tourist Board policies, aims and objectives, set in conjunction with the Scottish Executive, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in the Management Statement.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Scottish Tourist Board policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Scottish Tourist Board for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Scottish Executive guidance.

3. Capacity to handle risk

The Board approved a Risk Policy in 2002 setting out the process for identifying and evaluating risk. The policy includes regular assessment of risk by senior management, the maintenance of a risk register and annual reporting to the Audit Committee and Board. A designated risk manager is responsible for maintaining and updating the register and reporting annually on risk, and for promoting awareness across the organisation.

4. The risk and control framework

The risk register identifies the high level risks which impact on the whole organisation and are likely to affect the achievement of objectives contained in the annual business plan. It also contains lower level risks which affect specific areas of operation within the Board.

An owner is assigned for each risk and is responsible for monitoring that risk and ensuring that any identified actions to mitigate it are implemented. As new or changed risks emerge they are identified and reported to senior management and added to the risk register together with an action plan to address the risk.

Risk management has been fully incorporated into the corporate planning and decision making processes of the organisation. Preparation of the annual business plan includes a review of existing risks and discussion of any potential new risks. Scenario planning is a key component in this process. It assists in identifying global factors which may affect the business and aids planning to mitigate them. Risks are also identified and managed at project level and managers are required to make regular reports on the steps they are taking to manage risks in their areas of responsibility.

5. Review of effectiveness

As Accountable Officer I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Board who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Scottish Tourist Board has an internal audit function, which operates to standards defined in the Government Internal Audit Manual. Internal auditors submit regular reports which include their independent opinion on the adequacy and effectiveness of the Board's system of internal control together with recommendations for improvement. The work of the internal auditors is informed by an analysis of the risk to which the Scottish Tourist Board is exposed. Annual and cyclical audit plans are based on this analysis and cover the whole range of activities within the organisation. The plans include regular review of the risk strategy and risk register and a follow up of action points from the previous audit.

The Audit Committee of the Board normally meets twice a year. Members consider and comment on the annual internal audit plan, review the reports from both internal and external auditors and review and endorse risk reports. They report to the full meetings of the Board on audit and risk matters. In addition the Board reviews and approves risk reports and receives regular reports on progress against key performance and risk indicators. Additionally this year the Audit Committee met to consider the risks and financial implications of the Scottish tourism integration project, including due diligence reviews of Area Tourist Boards and their property portfolios.

Philip Riddle

Chief Executive
Scottish Tourist Board
2 September 2005

Income and Expenditure Account for the year ended 31 March 2005

| | Notes | £000 | Previous Year £000 |
|---|-------|----------------|-----------------------|
| Income | | | |
| HM Government – Grant-in-Aid | 2 | 39,638 | 35,976 |
| Amortisation of capital grant | 15 | 647 | 249 |
| Income from revenue-earning activities | 4 | 3,860 | 3,583 |
| Other income | 5 | 664 | 631 |
| | | 44,809 | 40,439 |
| Expenditure | | | |
| Staff costs | 3 | 7,661 | 6,033 |
| Expenditure on revenue-earning activities | 4 | 23,271 | 20,902 |
| Other operating costs | 6 | 8,921 | 5,739 |
| Area Tourist Boards | 7 | 4,193 | 4,611 |
| EventScotland | 8 | 2,461 | 1,206 |
| | | 46,507 | 38,491 |
| Operating (deficit)/surplus on ordinary activities before taxation | 9 | (1,698) | 1,948 |
| Corporation tax | 18 | (24) | (14) |
| | | (1,722) | 1,934 |
| Add back notional cost of capital charged under other operating costs | | 136 | 113 |
| (Deficit)/surplus for the year | 19 | (1,586) | 2,047 |

There have been no gains or losses other than those recognised in the Income and Expenditure Account above and therefore no separate statement of total recognised gains or losses has been presented.

The notes on pages 38 to 51 form part of these accounts.

Balance Sheet
at 31 March 2005

| | Notes | £000 | Previous Year £000 |
|--|-------|--------------|-----------------------|
| Fixed Assets | | | |
| Tangible Assets | 10a | 1,343 | 387 |
| Intangible Assets | 10b | 707 | 99 |
| Investments | 11 | 1,876 | 1,876 |
| | | 3,926 | 2,362 |
| Current Assets | | | |
| Stocks | 12 | 132 | 139 |
| Debtors | 13 | 2,348 | 4,402 |
| Cash at bank and in hand | | 3,913 | 1,037 |
| | | 6,393 | 5,578 |
| Creditors | | | |
| Amounts falling due within one year | 14 | (5,278) | (2,878) |
| | | 1,115 | 2,700 |
| Net Current Assets | | | |
| | | 5,041 | 5,062 |
| Total Assets Less Current Liabilities | | | |
| Creditors | | | |
| Amounts falling due after one year | | — | — |
| | | 5,041 | 5,062 |
| Financed by | | | |
| Income and Expenditure Account | 19 | 2,991 | 4,577 |
| Government Grant Reserve | 15 | 2,050 | 485 |
| | | 5,041 | 5,062 |

Philip Riddle

Chief Executive
Scottish Tourist Board
2 September 2005

The notes on pages 38 to 51 form part of these accounts.

Group Income and Expenditure Account for the year ended 31 March 2005

| | Notes | £000 | Previous Year £000 |
|--|-------|----------------|-----------------------|
| Income | | | |
| HM Government – Grant-in-Aid | 2 | 39,638 | 35,976 |
| Amortisation of capital grant | 15 | 647 | 249 |
| Income from revenue-earning activities | 4 | 3,860 | 3,583 |
| Other income | 5 | 1,729 | 1,494 |
| Joint Venture income | | (831) | (588) |
| | | 45,043 | 40,714 |
| Expenditure | | | |
| Staff costs | 3 | 7,661 | 6,033 |
| Expenditure on revenue-earning activities | 4 | 23,271 | 20,902 |
| Other operating costs | 6 | 9,155 | 6,014 |
| Area Tourist Boards | 7 | 4,193 | 4,611 |
| EventScotland | 8 | 2,461 | 1,206 |
| | | 46,741 | 38,766 |
| Group operating (deficit)/surplus on ordinary activities before taxation | 9 | (1,698) | 1,948 |
| Share of Joint Venture operating loss | | (397) | (505) |
| Share of Joint Venture interest payable | | (102) | (89) |
| Corporation tax | 18 | (24) | (14) |
| | | (2,221) | 1,340 |
| Add back notional cost of capital charged under other operating costs | | 136 | 113 |
| | | (2,085) | 1,453 |
| Minority interest | | 245 | 291 |
| Group (deficit)/surplus for the year | | (1,840) | 1,744 |

There have been no gains or losses other than those recognised in the Income and Expenditure Account above and therefore no separate statement of total recognised gains or losses has been presented.

The notes on pages 38 to 51 form part of these accounts.

Group Balance Sheet
at 31 March 2005

| | Notes | £000 | Previous Year £000 |
|--|-------|----------------|-----------------------|
| Fixed Assets | | | |
| Tangible Assets | 10a | 1,343 | 387 |
| Intangible Assets | 10b | 707 | 99 |
| | | 2,050 | 486 |
| Investments: Joint Venture | | | |
| Share of gross assets | | 1,526 | 2,017 |
| Share of gross liabilities | | (2,905) | (2,898) |
| | | (1,379) | (881) |
| Current Assets | | | |
| Stocks | 12 | 132 | 139 |
| Debtors | 13 | 4,198 | 6,253 |
| Cash at bank and in hand | | 3,917 | 1,038 |
| | | 8,247 | 7,430 |
| Creditors | | | |
| Amounts falling due within one year | 14 | (5,281) | (2,878) |
| | | 2,966 | 4,552 |
| Net Current Assets | | | |
| | | 3,637 | 4,157 |
| Total Assets Less Current Liabilities | | | |
| Creditors | | | |
| Amounts falling due after one year | | — | — |
| | | 3,637 | 4,157 |
| Financed by | | | |
| Income and Expenditure Account | 19 | 2,274 | 4,115 |
| Minority interest | | (687) | (443) |
| Government Grant Reserve | 15 | 2,050 | 485 |
| | | 3,637 | 4,157 |

Philip Riddle

Chief Executive
Scottish Tourist Board
2 September 2005

The notes on pages 38 to 51 form part of these accounts.

Group Cash Flow Statement

for the year ended 31 March 2005

| | £000 | Previous Year £000 |
|--|--------------|-----------------------|
| Net cash inflow from operating activities | 3,007 | 587 |
| Returns on investments and servicing of finance | | |
| Interest received | 130 | 75 |
| Minority interest | (244) | (291) |
| Taxation | | |
| Corporation tax paid | (14) | (20) |
| Capital expenditure and financial investment | | |
| Payments to acquire fixed assets | (2,212) | (474) |
| Financing | | |
| Government grants received | 2,212 | 474 |
| Increase in cash | 2,879 | 351 |

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

| | £000 | Previous Year £000 |
|--|----------------|-----------------------|
| Operating (deficit)/surplus | (1,698) | 1,948 |
| Joint Venture share of loss | (254) | (302) |
| Amortisation of government grants | (647) | (249) |
| Notional cost of capital charge | 136 | 113 |
| Depreciation | 648 | 222 |
| Increase/(decrease) in stock | 7 | (22) |
| Increase in share of Joint Venture net liabilities | 498 | 594 |
| Decrease/(increase) in debtors | 2,054 | (921) |
| Increase/(decrease) in creditors | 2,393 | (721) |
| Interest received | (130) | (75) |
| Net cash inflow from operating activities | 3,007 | 587 |

b) Analysis of change in net funds

| | At 1 April 2004 £000 | Net Cash Inflow £000 | At 31 March 2005 £000 |
|--------------------------|----------------------------|----------------------------|-----------------------------|
| Cash at bank and in hand | 1,038 | 2,879 | 3,917 |

Notes to the Accounts

for the year ended 31 March 2005

1. Accounting Policies

The main accounting policies of the Board are set out below.

Basis of preparation

The accounts are prepared in a form determined by Scottish Ministers in accordance with Section 6(1) of the Development of Tourism Act 1969.

The accounts are prepared on an accruals basis under the historical cost convention, modified by the revaluation of fixed assets. Where such revaluation amounts are not material no adjustment is made to the accounts.

The accounts are drawn up to meet the accounting and disclosure requirements of the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board so far as those requirements are appropriate.

Basis of consolidation

The Group accounts consolidate the accounts of the Scottish Tourist Board and its subsidiary and joint venture interests.

Government grants

The Scottish Tourist Board receives grant-in-aid from Scottish Ministers to finance its revenue expenditure. It is credited to income in the year to which it relates. A further amount of grant-in-aid is provided for capital expenditure. Grant-in-aid in respect of capital expenditure is credited to a Government Grant Reserve and is released to the Income and Expenditure Account over the expected useful lives of the relevant assets by equal annual instalments.

Fixed assets and depreciation

Fixed assets costing in excess of £2,000 are capitalised. Fixed assets have not been revalued on the grounds that revaluation would not be material this year. They are stated in the accounts at cost less depreciation to date. There are no land or building assets at present. Depreciation is provided on all fixed assets at rates calculated to write off the cost or valuation, less estimated residual

value, of each asset evenly over its expected useful life as follows:

Tangible:

| | | |
|-----------------------|---|---------------|
| Fixtures and fittings | — | over 10 years |
| Office equipment | — | over 6 years |
| IT equipment | — | over 4 years |
| PC equipment | — | over 3 years |

Intangible:

| | | |
|-------------------|---|--------------|
| Software licences | — | over 4 years |
|-------------------|---|--------------|

Fixed asset investments:

The investment in TourCo Limited is included in the accounts at cost. TourCo Limited is a subsidiary of the Scottish Tourist Board. TourCo Limited has an interest in the Joint Venture company eTourism Limited and holds a 25% shareholding. Scottish Tourist Board Group accounts therefore include the results of eTourism Limited for the 12 months to 31 December 2004 using the gross equity accounting method.

Stocks

Stocks of saleable publications and promotional items are stated at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

Costs incurred in producing free issue brochures and obtaining promotional items for which no selling price is charged are written off to the Income and Expenditure Account in the year of purchase.

Foreign currencies

Assets and liabilities denominated in foreign currencies have been translated into Sterling values at the rate of exchange ruling at the Balance Sheet date. Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. Any exchange differences are taken to the Income and Expenditure Account.

Grants paid

EventScotland was established in March 2003 and is a joint initiative with the Scottish Executive. The Scottish Tourist Board receives a specific amount of grant-in-aid from Scottish Ministers for EventScotland who offer grant assistance to national and local events.

EventScotland makes grants to event organisers which are accounted for on an accruals basis. Grants are paid in stages against an agreed payment schedule once criteria in that schedule have been met. Grants may be recovered where the conditions attaching to them have been breached and no acceptable alternative conditions can be implemented.

Leases

All leases are regarded as operating leases and the total payments made under them are charged to the Income and Expenditure Account on a straight line basis over the lease terms.

Pensions

The Board participates in the British Tourist Boards' pension scheme which is a defined benefit scheme. Pension costs are charged against the Income and Expenditure Account using actuarial valuation methods intended to spread the pension cost evenly over the average service lives of the current employees in the scheme. In accordance with Financial Reporting Standard 17 (FRS17), appropriate disclosures have been made in respect of the pension scheme.

Notional costs

Notional Cost of Capital has been calculated at 3.5% of the average of total assets less total liabilities shown in the Group Balance Sheet during the year as required by Scottish Executive guidelines.

Taxation

Expenditure in these accounts is stated inclusive of irrecoverable VAT. The Scottish Tourist Board is subject to partial restriction on the deductibility of VAT on inputs calculated in accordance with a formula agreed with HM Customs and Excise.

Corporation Tax is payable only on bank interest received.

Notes to the Accounts

continued

2. HM Government Grants Received

| | £000 | Previous Year £000 |
|--|---------------|-----------------------|
| Grant-in-Aid | 41,850 | 36,450 |
| Capital grant received transferred to Government Grant Reserve (see note 15) | (2,212) | (474) |
| HM Government Grant-in-Aid | 39,638 | 35,976 |

3. Board Members and Staff Costs

| | £000 | Previous Year £000 |
|-------------------------------------|--------------|-----------------------|
| a) All Employees: | | |
| Salaries | 6,509 | 5,287 |
| Social security costs | 508 | 443 |
| Pension contributions (see note 16) | 59 | 57 |
| Pension scheme costs | 2 | 2 |
| Redundancy | 583 | 244 |
| | 7,661 | 6,033 |

Salaries and social security include £464,000 and £47,000 respectively (2004 £202,000 and £15,000) for EventScotland staff.

| | £000 | Previous Year £000 |
|---|-----------|-----------------------|
| b) Board Members' Remuneration included above: | | |
| Chairman | 8 | 8 |
| Other Board members | 50 | 50 |
| | 58 | 58 |

The Chairman and Board members are not members of the Board's Pension Scheme. Their remuneration fell within the following ranges:

| | Gross Salary £000 |
|-----------------------------------|----------------------|
| Peter Lederer (Chairman) | 5 – 10 |
| Michael Cantlay (Deputy Chairman) | 5 – 10 |
| Donald Anderson | 5 – 10 |
| Pat Buchanan | 5 – 10 |
| Donal Dowds | 5 – 10 |
| Brian Houston | 5 – 10 |
| Alex Pagett | 5 – 10 |

3. Board Members and Staff Costs (continued)

c) Chief Executive's Remuneration:

Philip Riddle is a member of the Board's Pension Scheme. His total actual remuneration was £161,565 (2004 total £157,117) including £4,793 taxable car benefit, £1,020 pension contributions and £15,975 bonus. Under the terms of his contract of employment an annual bonus, subject to performance review by the Remuneration Committee, of up to 15% of salary is payable.

d) Senior Management Salary and Pension Entitlement (see also note 16)

| | Remuneration £000 | Real increase in pension £ | Real increase in lump sum £ | Value of pension at 31 March 2005 £ | Value of lump sum at 31 March 2005 £ | CETV at 1 April 2004 £000 | CETV at 31 March 2005 £000 | Employee contributions and transfers in £ | Real increase in CETV as funded by employer £000 |
|------------------------------|----------------------|-------------------------------------|--------------------------------------|---|--|------------------------------------|-------------------------------------|---|---|
| P Riddle | 161 | 1,335 | 4,004 | 4,840 | 14,520 | 58 | 80 | 5,100 | 17 |
| H Hall (Left 6/5/04) | 14 | — | — | 29,071 | 87,214 | 392 | 392 | 363 | — |
| M Roughead | 100 | 1,368 | 4,103 | 4,552 | 13,656 | 43 | 61 | 4,361 | 14 |
| W Macleod | 89 | 1,094 | 3,281 | 3,837 | 11,511 | 49 | 69 | 4,258 | 15 |
| K Neilson (started 17/05/04) | 73 | 865 | 2,594 | 865 | 2,593 | — | 10 | 3,458 | 7 |

Note: CETV is the Cash Equivalent Transfer Value.

Remuneration includes the following taxable car benefits:

P Riddle £4,793 H Hall £171 M Roughead £2,466 W Macleod £2,157

e) The average number of full-time equivalent employees during the year was:

| | Permanent | Seconded | Fixed Contract | Agency Temps | Total | Previous Year No. |
|----------------------------------|-----------|----------|-------------------|-----------------|-------|----------------------|
| Marketing | 74 | — | — | — | 74 | 76 |
| Industry Services | 68 | — | 2 | 1 | 71 | 70 |
| Corporate Services | 44 | 2 | 4 | 2 | 52 | 47 |
| EventScotland | 11 | — | 1 | — | 12 | 4 |
| Tourism Network Scotland Project | — | 3 | 4 | 2 | 9 | — |
| | 197 | 5 | 11 | 5 | 218 | 197 |

Employee numbers are full-time equivalents based on an annual average of numbers paid each month.

Notes to the Accounts

continued

4. Revenue-Earning Activities

| | Income £000 | Expenditure £000 | Surplus/(Deficit) £000 |
|-----------------------------|----------------|---------------------|---------------------------|
| Current Year | | | |
| Saleable board publications | 324 | 258 | 66 |
| Free board publications | 701 | 1,923 | (1,222) |
| Advertising and promotion | 1,510 | 20,802 | (19,292) |
| Quality Assurance | 1,325 | 288 | 1,037 |
| | <u>3,860</u> | <u>23,271</u> | <u>(19,411)</u> |
| Previous Year | | | |
| Saleable board publications | 371 | 288 | 82 |
| Free board publications | 646 | 1,779 | (1,133) |
| Advertising and promotion | 1,276 | 18,459 | (17,183) |
| Quality Assurance | 1,290 | 376 | 914 |
| | <u>3,583</u> | <u>20,902</u> | <u>(17,320)</u> |

The principal objective of the Board is the promotion of Scotland as a holiday destination. In furtherance of this objective the Board spends a substantial sum on advertising, promotion, and the production of free publications which is not recovered from trade partners. Accordingly the Board incurs a deficit on these activities.

Expenditure does not include staff costs or any allocation of overheads.

5. Other Income

| | £000 | Previous Year £000 |
|-------------------------------------|--------------|-----------------------|
| Information centres | 96 | 116 |
| Visitscotland.com | 228 | 286 |
| Monitoring Research | 49 | 32 |
| Product Development/TEF | 133 | 95 |
| Bank interest | 130 | 75 |
| Rent | 23 | 20 |
| Miscellaneous | 2 | 3 |
| EventScotland | 3 | 4 |
| Scottish Tourist Board other income | <u>664</u> | 631 |
| Share of subsidiary income | <u>1,065</u> | 863 |
| Group other income | <u>1,729</u> | 1,494 |

6. Other Operating Costs

| | £000 | Previous Year £000 |
|--|--------------|-----------------------|
| Information centres | 362 | 389 |
| Information Services – call handling | 455 | 444 |
| Visitor Services initiatives | 353 | 408 |
| QA Development | 651 | – |
| Pride & Passion | 253 | – |
| Visitscotland.com | 131 | 185 |
| Monitoring Research | 822 | 766 |
| Product Development | 382 | 332 |
| Travel and hospitality expenses | 1,032 | 981 |
| Accommodation, equipment and office expenses | 1,739 | 1,871 |
| Dilapidation Costs | 300 | – |
| Tourism Network Scotland Project | 1,654 | – |
| Restructuring | 3 | 28 |
| Depreciation charge | 648 | 286 |
| Depreciation adjustment | – | 11 |
| Write back Revaluation Reserve | – | (75) |
| Notional cost of capital | 136 | 113 |
| Scottish Tourist Board other operating costs | 8,921 | 5,739 |
| Share of subsidiary costs | 234 | 275 |
| Group other operating costs | 9,155 | 6,014 |

The Board continues to have an interest in the former Scottish Travel Centre. Expenditure of £73,491 (2004 £76,962) is included in Information centres. The expenditure is principally rent.

Notes to the Accounts

continued

7. Assistance to Area Tourist Boards

| | £000 | Previous Year £000 |
|--|--------------|-----------------------|
| General purpose grants | 3,308 | 3,305 |
| Assistance for implementation of visitscotland.com | 885 | 1,306 |
| | 4,193 | 4,611 |

The Board made the following contributions to bodies other than Area Tourist Boards during the year:

| | £000 | Previous Year £000 |
|---------------------------------|------------|-----------------------|
| Holiday Care | — | 2 |
| Scottish Whisky Tourism Project | — | 21 |
| Pride & Passion | 250 | — |
| | 250 | 23 |

8. EventScotland

| | £000 | Previous Year £000 |
|--------------------------------------|--------------|-----------------------|
| Grants for Events | 2,070 | 856 |
| Operating Costs (excluding salaries) | 391 | 350 |
| | 2,461 | 1,206 |
| Salaries and social security costs | 511 | 217 |
| | 2,972 | 1,423 |

9. Operating (Deficit)/Surplus

| | £000 | Previous Year £000 |
|---|------|-----------------------|
| This is stated after charging: | | |
| Board members' remuneration (see note 3b) | 58 | 58 |
| Auditors' remuneration | 28 | 28 |
| Travel, subsistence and hospitality: | | |
| Chairman and other Board members | 35 | 30 |
| Other employees | 997 | 951 |
| Rentals – operating leases | 671 | 754 |
| Bad debts - written off | 75 | 25 |
| - (decrease)/increase in provision | (3) | 13 |

10a) Tangible Fixed Assets

| | Fixtures, Fittings £000 | Equipment | | Total £000 |
|---------------------------------|----------------------------|------------|----------------|---------------|
| | | IT £000 | Office £000 | |
| Cost | | | | |
| 1 April 2004 | 464 | 482 | 452 | 1,398 |
| Additions | 289 | 165 | 889 | 1,343 |
| 31 March 2005 | 753 | 647 | 1,341 | 12,741 |
| Depreciation | | | | |
| 1 April 2004 | 439 | 212 | 360 | 1,011 |
| Charged in year | 36 | 167 | 184 | 387 |
| 31 March 2005 | 475 | 379 | 544 | 1,398 |
| Net Book Value at 31 March 2005 | 278 | 268 | 797 | 1,343 |
| Net Book Value at 31 March 2004 | 25 | 270 | 92 | 387 |

10b) Intangible Fixed Assets

| | Purchased Software Licences £000 |
|------------------------------|---|
| Cost | |
| 1 April 2004 | 369 |
| Additions | 869 |
| 31 March 2005 | 1,238 |
| Depreciation | |
| 1 April 2004 | 270 |
| Charged in year | 261 |
| 31 March 2005 | 531 |
| Net Book Value 31 March 2005 | 707 |
| Net Book Value 31 March 2004 | 99 |

Notes to the Accounts

continued

11. Fixed Asset Investments

The Board owns £510 (51%) of the issued share capital of TourCo Limited, a company formed to invest in the e-commerce Joint Venture company eTourism Limited. There is also an interest-free loan to TourCo Limited of £1,875,000.

12. Stocks

| | £000 | Previous Year £000 |
|--|------------|-----------------------|
| Saleable publications published by the Board | 132 | 139 |
| | 132 | 139 |

The replacement cost of stocks would not be materially different from that shown above.

13. Debtors

| | £000 | Previous Year £000 |
|--|--------------|-----------------------|
| Trade debtors | 1,060 | 862 |
| Provision for doubtful debts | (59) | (61) |
| | 1,001 | 801 |
| HM Government (taxation) | — | 166 |
| Prepayments and accrued income | 1,154 | 3,236 |
| Sundry debtors | 33 | 39 |
| Loan to Ayrshire & Arran Tourist Board | 160 | 160 |
| Scottish Tourist Board debtors | 2,348 | 4,402 |
| Other loans | 1,850 | 1,851 |
| Group debtors | 4,198 | 6,253 |

The sum of £1,850,000 is a loan to eTourism Limited repayable after more than one year.

14. Creditors: Amounts falling due within one year

| | £000 | Previous Year £000 |
|--|--------------|-----------------------|
| Trade creditors | 2,165 | 1,041 |
| Accruals | 2,560 | 1,653 |
| HM Government – VAT | 327 | – |
| HM Government – other taxation and social security | 202 | 170 |
| Corporation tax | 24 | 14 |
| | 5,278 | 2,878 |
| Group Creditors | 3 | – |
| | 5,281 | 2,878 |

15. Government Grant Reserve

| | £000 | Previous Year £000 |
|---|--------------|-----------------------|
| At 1 April 2004 | 485 | 260 |
| Capital grant received in year (see note 2) | 2,212 | 474 |
| | 2,697 | 734 |
| Amortisation in the year | 647 | 249 |
| Disposals | – | – |
| At 31 March 2005 | 2,050 | 485 |

Notes to the Accounts

continued

16. Pension Scheme

The Board is a participant in the British Tourist Boards' pension scheme providing benefits and life assurance for staff based upon final pensionable salary. The scheme is a multi-employer defined benefit scheme including other tourist boards where the employers' contributions are affected by a surplus or deficit in the scheme, but each employer is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. As a consequence the Board has accounted for its contributions to the scheme as if it were a defined contributions scheme in accordance with Non-Departmental Public Body guidance.

An actuarial valuation was carried out using membership data as at 1 April 2003 and updated to 31 March 2005. The Scottish Tourist Board's share of the deficit is £155,000 (2004 £410,000).

Commentary

The scheme shows a reduction in deficit on the FRS17 valuation. The improvement in the position is the net effect of the favourable return on the Cash Accumulation Policy, a higher increase in salary between 2003 and 2004, payment of contributions below that required to meet the service cost and the additional cost of early retirements. It should be noted that the scheme was reviewed by the Actuary as at April 2003 (in line with the standard actuarial

basis) when the position for the scheme as a whole (including all participating employers) was:

On-going funding level: 122% (surplus £23m)

Minimum Funding Requirement (MFR) basis: 162% (surplus £38m)

During the year ending 31 March 2005 a contribution rate of 6% of pensionable salaries was paid. This included employees' contributions of 5% and employers' contributions of 1%. Following the review the actuary has recommended an increase in employers' contributions to the equivalent of 5.4% payable over the 15 years following valuation. These will be phased in as follows:

| Year | Contribution |
|-----------------|--------------|
| 2004/05 | 1% |
| 2005/06 | 2.9% |
| 2006/07 | 4.8% |
| 2007/08 onwards | 6.7% |

Pensions paid to two previous Chairmen and two pre-scheme employees are not funded but are a direct charge on Grant-in-Aid. The total unfunded liability for pensions in payment is £200,000.

The charge for pension costs in the year is as follows:

| | £000 | Previous Year £000 |
|---|-----------|-----------------------|
| Pension scheme charge | 43 | 41 |
| Pre-scheme pensioners and previous Chairmen | 16 | 16 |
| | 59 | 57 |

There is no charge or provision in the accounts for or on behalf of pensions to Board members.

17. Operating Lease Commitments

| | £000 | Previous Year £000 |
|---|--------------|-----------------------|
| The existing operating lease contracts of the Board give rise to the following annual obligations on leases relating to land and buildings due to expire: | | |
| Under one year | — | 365 |
| In one to five years | 65 | — |
| Over five years | 951 | 358 |
| | 1,016 | 723 |

18. Corporation Tax

| | £000 | Previous Year £000 |
|---|------|-----------------------|
| Provision for corporation tax at 19% (2004 19%) on bank interest received during the year | 24 | 14 |

19. Income and Expenditure Account

| | £000 | Previous Year £000 |
|---|--------------|-----------------------|
| At 1 April 2004 | 4,577 | 2,530 |
| (Deficit)/surplus for financial year | (1,586) | 2,047 |
| Scottish Tourist Board balance at 31 March 2005 | 2,991 | 4,577 |
| Joint Venture share of loss | (717) | (462) |
| Group balance at 31 March 2005 | 2,274 | 4,115 |

20. Performance Against Key Corporate Financial Targets

Key corporate financial targets are set out annually in the Board's Business Plan. Performance against those targets for the year to 31 March 2005 was:

| | Target £000 | Actual £000 |
|--|----------------|----------------|
| Budgets | | |
| - total expenditure | 43,513 | 43,707 |
| - expenditure on running costs | 4,782 | 4,205 |
| - Quality Assurance - net cost | 659 | 669 |
| External partnership funding (to be maximised) | 2,607 | 2,686 |

The figures above are disclosed in accordance with Scottish Executive guidelines and are therefore not directly comparable to figures shown in these accounts.

Notes to the Accounts

continued

21. Related Party Transactions

The Scottish Tourist Board is a Non-Departmental Public Body sponsored by the Scottish Executive.

The Scottish Executive is regarded as a related party. During the year, the Scottish Tourist Board has had various material transactions with the Scottish Executive and with other entities for which the Scottish Executive is regarded as the parent body.

In addition, the Scottish Tourist Board has had a small number of material transactions with other Government departments and other central government bodies, local government and non-departmental public bodies.

With the exception of the transactions described above, none of the Board members, key management staff or other related parties has undertaken any material transactions with the Scottish Tourist Board during the year.

22. Intra-government balances

| | Debtors : Amounts falling due within one year £000 | Creditors : Amounts falling due within one year £000 |
|---|---|---|
| Balances with Inland Revenue | — | 226 |
| Balances with HM Custom & Excise | — | 327 |
| Balances with VisitBritain | — | 70 |
| Balances with Local Authorities | 12 | — |
| Balances with bodies external to government | 2,336 | 4,655 |
| At 31 March 2005 | 2,348 | 5,278 |
| Balances with Inland Revenue | — | 183 |
| Balances with HM Custom & Excise | 166 | — |
| Balances with VisitBritain | — | 33 |
| Balances with Local Authorities | — | — |
| Balances with bodies external to government | 4,236 | 2,662 |
| At 31 March 2004 | 4,402 | 2,878 |

23. Revaluation Reserve

| | £000 | Previous Year £000 |
|------------------|------|-----------------------|
| At 1 April 2004 | — | 75 |
| Movement in year | — | (75) |
| At 31 March 2005 | — | — |

The Revaluation Reserve was established to reflect modified historic cost accounting for fixed assets.

24. Losses and Special Payments

| | £000 | Previous Year £000 |
|--|------------|-----------------------|
| Total losses for the year were: | | |
| Trade bad debts written off | 74 | 25 |
| Obsolete saleable publications written off | 27 | 26 |
| Taste of Scotland Loan | — | 25 |
| | 101 | 76 |

There were no special payments in the year.

25. Capital Commitments

| | £000 | Previous Year £000 |
|--|------------|-----------------------|
| Contracted capital commitments at 31 March 2005 for which no provision has been made | 456 | — |
| | 456 | — |

26. Post Balance Sheet Event

The 51% investment in TourCo Limited will change from 1 April 2005. The remaining 49% held by ATB Co became wholly owned by Scottish Network 1 Tourist Board and Scottish Network 2 Tourist Board on 13 May 2005. The Scottish Network Tourist Boards agreed to appoint new directors to ATB Co and revise the articles of association which instructed directors to transfer all of ATB Co assets which include the shareholding in TourCo Limited to the Scottish Tourist Board.

The integration of the Scottish Tourist Board with the 14 Area Tourist Boards to form one Scottish tourism network is effective from 1 April 2005. At this date various assets and liabilities of the former Area Tourist Boards will transfer to two Network Tourist Boards and come under the control of the Scottish Tourist Board. The final value of these assets and liabilities has still to be determined.

Independent Auditor's Report

To the members of the Scottish Tourist Board, the Scottish Parliament and the Auditor General for Scotland

I have audited the financial statements on pages 32 to 51 under the Development of Tourism Act 1969. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with the accounting policies set out on pages 38 to 39.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Board, the Chief Executive and Auditor

As described on page 29 the Board and the Chief Executive are responsible for the preparation of the financial statements and for ensuring the regularity of expenditure and receipts. The Board and the Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Development of Tourism Act 1969 and directions made thereunder and whether, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by Scottish Ministers. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Scottish Tourist Board has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 30 and 31 complies with Scottish Executive guidance on statements on the system of internal control. I report if, in my opinion, it does not comply with the guidance, or if the statement is misleading or inconsistent with other information I am aware of from my audit. I am not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Board's corporate governance procedures or its risk and control procedures.

Basis of audit opinions

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

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

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

Opinions

Financial statements

In my opinion the financial statements give a true and fair view of the state of affairs of the Scottish Tourist Board and the Group at 31 March 2005 and of the deficit and total recognised gains and losses of the Scottish Tourist Board and the Group and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Development of Tourism Act 1969 and directions made thereunder.

Regularity

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

Arwel Roberts Director, Central Government

Audit Scotland
18 George Street
Edinburgh
EH2 2QU

1. The Scottish Ministers, in pursuance of Section 6(1) of the Development of Tourism Act 1969, hereby give the following direction.
 - 2.1 a foreword;
 - 2.2 an income and expenditure account;
 - 2.3 a balance sheet;
 - 2.4 a cash flow statement;
 - 2.5 a statement of total recognised gains and losses;
 - 2.6 a statement of accountable officer's responsibilities; and
 - 2.7 a statement on the system of internal financial control;including such notes as may be necessary for the purposes referred to in the following paragraphs.
3. The statement of accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at the end of the financial year. Subject to this requirement, the accounts shall be prepared in accordance with:
 - 3.1 the accounting and disclosure requirements of the Companies Act for the time being in force;
 - 3.2 generally accepted accounting practice in the UK, including accounting standards issued or adopted by the Accounting Standards Board;
 - 3.3 guidance which Scottish Ministers may issue from time to time in respect of accounts which are required to give a true and fair view;
 - 3.4 the accounting and disclosure requirements given in "Government Accounting" and in "Executive NDPBs: Annual Reports and Accounts Guidance", as amended or augmented from time to time; and
 - 3.5 the disclosure requirements contained in the "Fees and Charges Guide" (in particular those relating to the need for appropriate segmental information for services or forms of service provided);insofar as these are appropriate to the Scottish Tourist Board and are in force for the financial year for which the statement of accounts is to be prepared.
4. Clarification of the application of the accounting and disclosure requirements of the Companies Act and accounting standards is given in Schedule 1 attached. Additional disclosure requirements are set out in Schedule 2 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 12 June 2001 is hereby revoked.

Signed by the authority of the Scottish Ministers

Mike Ewart

Dated August 2005

Schedule 1

Application of the Accounting and Disclosure Requirements of the Companies Act and Accounting Standards

Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply.
2. The Companies Act requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate, the equivalent information relating to the Scottish Tourist Board shall be contained in the foreword.
3. When preparing its income and expenditure account the Scottish Tourist Board shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
4. When preparing its balance sheet the Scottish Tourist Board shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act.
5. The Scottish Tourist Board is not required to provide the additional information required by paragraph 33(3) of Schedule 4 to the Companies Act.
6. The foreword and balance sheet shall be signed and dated by the Scottish Tourist Board's Accountable Officer.

Accounting Standards

7. The Scottish Tourist Board is not required to include a note showing historical cost profits and losses as described in FRS3.
8. The Scottish Tourist Board shall not adopt the Financial Reporting Standard for Smaller Entities.

Schedule 2

Additional Disclosure Requirements

1. The foreword shall, *inter alia*:
 - 1.1 state that the statement of accounts has been prepared in a form directed by Scottish Ministers in accordance with Section 6(1) of the Development of Tourism Act 1969; and
 - 1.2 include a brief history of the Scottish Tourist Board and its statutory background.
2. The notes to the accounts shall include:
 - 2.1 details of any key corporate financial targets set by Scottish Ministers together with an indication of the performance achieved; and
 - 2.2 details of the pension arrangements operated by the Scottish Tourist Board and confirmation that the scheme accords with the guidance contained in "Non-Departmental Public Bodies: A Guide for Departments".

Five Year Financial Summary

| | 2004/05 £000 | 2003/04 £000 | 2002/03 £000 | 2001/02 £000 | 2000/01 £000 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Income | | | | | |
| HM Government – Grant-in-Aid | 39,638 | 35,976 | 33,038 | 40,483 | 25,201 |
| Tourist projects | – | – | – | – | – |
| Amortisation of capital grant | 647 | 249 | 134 | 456 | 442 |
| Income from activities | 4,524 | 4,214 | 4,056 | 3,208 | 4,509 |
| | 44,809 | 40,439 | 37,228 | 44,147 | 30,152 |
| Expenditure | | | | | |
| Staff costs | 7,661 | 6,033 | 5,927 | 6,585 | 5,176 |
| Advertising, promotion and other operating costs | 32,192 | 26,641 | 26,612 | 27,765 | 18,468 |
| Area Tourist Boards | 4,193 | 4,611 | 4,845 | 8,766 | 5,529 |
| EventScotland (excludes salaries) | 2,461 | 1,206 | – | – | – |
| Tourist projects | – | – | – | – | – |
| | 46,507 | 38,491 | 37,384 | 43,116 | 29,173 |
| Operating (deficit)/surplus | (1,698) | 1,948 | (156) | 1,031 | 979 |
| Corporation tax | (24) | (14) | (20) | (27) | (14) |
| | (1,722) | 1,934 | (176) | 1,004 | 965 |
| Add back notional costs | 136 | 113 | 129 | 141 | 84 |
| <i>(Deficit)/surplus for year</i> | (1,586) | 2,047 | (47) | 1,145 | 1,049 |
| Balance Sheet | | | | | |
| Fixed assets | 3,926 | 2,362 | 2,185 | 564 | 899 |
| Secured loans | – | – | – | – | 4 |
| Other net current assets | 1,115 | 2,700 | 564 | 2,275 | 967 |
| | 5,041 | 5,062 | 2,749 | 2,839 | 1,870 |
| Long term loans and provisions | – | – | (144) | (219) | (399) |
| | 5,041 | 5,062 | 2,605 | 2,620 | 1,471 |
| <i>Financed by:</i> | | | | | |
| Income and Expenditure Account | 2,991 | 4,577 | 2,530 | 2,577 | 1,432 |
| Government Grant Reserve | 2,050 | 485 | – | – | – |
| Revaluation Reserve | – | – | 75 | 43 | 39 |
| | 5,041 | 5,062 | 2,605 | 2,620 | 1,471 |

Area Tourist Board Income 2004-05

| ATB | Public Sector | | | | Membership | | | | Total Income £ |
|--------------|-----------------------|-------------------------|--------------------------|-------------------|------------------|------------------|------------------|---|----------------------|
| | LA Core Grant £ | VS Grant-in-Aid £ | Specific Project £ | Sub-Total £ | Fees £ | Other £ | Sub-Total £ | Other Private Sector/ Commercial £ | |
| AGTB | 686,075 | 273,000 | 776,512 | 1,735,587 | 200,000 | 208,200 | 408,200 | 583,766 | 2,727,553 |
| ADTB | 404,000 | 119,000 | 605,447 | 1,128,447 | 33,385 | 51,876 | 85,261 | 97,715 | 1,311,423 |
| AILLSTTB | 585,000 | 518,000 | 1,298,000 | 2,401,000 | 231,000 | 370,000 | 601,000 | 2,040,000 | 5,042,000 |
| AATB | 369,950 | 200,500 | 1,465,812 | 2,036,262 | 82,355 | 142,993 | 225,348 | 92,645 | 2,354,255 |
| DGTB | 393,930 | 135,000 | 1,066,005 | 1,594,935 | 115,770 | 135,260 | 251,030 | 482,722 | 2,328,687 |
| ELTB | 1,308,947 | 367,000 | 950,847 | 2,626,794 | 528,484 | 0 | 528,484 | 1,163,494 | 4,318,772 |
| GGCVTB | 2,312,300 | 276,000 | 1,139,600 | 3,727,900 | 174,000 | 507,600 | 681,600 | 515,000 | 4,924,500 |
| HOST | 558,689 | 729,000 | 202,985 | 1,490,674 | 288,168 | 351,000 | 639,168 | 881,528 | 3,011,370 |
| KFTB | 207,383 | 124,000 | 443,547 | 774,930 | 55,000 | 119,650 | 174,650 | 444,866 | 1,394,446 |
| OTB | 201,000 | 83,500 | 92,578 | 377,078 | 38,637 | 115,846 | 154,483 | 78,119 | 609,680 |
| PTB | 360,000 | 165,000 | 304,926 | 829,926 | 68,200 | 250,000 | 318,200 | 296,140 | 1,444,266 |
| SBTB | 305,036 | 135,000 | 909,718 | 1,349,754 | 68,609 | 62,626 | 131,235 | 533,250 | 2,014,239 |
| SIT | 240,000 | 80,000 | 105,000 | 425,000 | 29,000 | 0 | 29,000 | 194,000 | 648,000 |
| WITB | 104,000 | 103,000 | 73,641 | 280,641 | 52,648 | 42,821 | 95,469 | 123,476 | 499,586 |
| TOTAL | 8,036,310 | 3,308,000 | 9,434,618 | 20,778,928 | 1,965,256 | 2,357,872 | 4,323,128 | 7,526,721 | 32,628,777 |

Notes

All data is based on 2004-05 unaudited year-end results and estimated out-turns.

VisitScotland Grant-in-aid data includes payments made & accrued payments to the ATBs.

Abbreviations:

| | | | |
|----------|--|------|--------------------------------|
| AGTB | Aberdeen & Grampian Tourist Board | OTB | Orkney Tourist Board |
| ADTB | Angus & Dundee Tourist Board | PTB | Perthshire Tourist Board |
| AILLSTTB | Argyll, the Isles, Loch Lomond, Stirling & Trossachs Tourist Board | SBTB | Scottish Borders Tourist Board |
| AATB | Ayrshire & Arran Tourist Board | SIT | Shetland Islands Tourism |
| DGTB | Dumfries & Galloway Tourist Board | WITB | Western Isles Tourist Board |
| ELTB | Edinburgh & Lothians Tourist Board | | |
| GGCVTB | Greater Glasgow & Clyde Valley Tourist Board | LA | Local Authority |
| HOST | Highlands of Scotland Tourist Board | VS | VisitScotland |
| KFTB | Kingdom of Fife Tourist Board | | |