24724

REPORT OF THE BOARD

To the Members of the Scottish Council for Development and Industry Limited (a company limited by guarantee). The Board of Directors submits its report together with financial statements for the year to 30 September 2002.

Principal Activities

The Council is principally engaged in making representations to Government and others regarding matters of public policy.

Financial Commentary

The financial performance of the year has resulted in a satisfactory outcome. The surplus after taxation of £2,899 has been transferred to reserves. This is in line with the Board's policy of breaking-even or returning a small surplus after receipt of the income from investments.

The decline in the stock market throughout the year has resulted in a devaluation in the investment portfolio of £80,836. This has resulted in a release from reserves of £77,937.

Operational income has increased to £1,735,883. This is due to significant increases in income from projects. Significant fluctuations may occur on the completion of projects undertaken and this should be borne in mind when making year on year comparisons.

The various categories of operational expenditures were broadly in line with expectations.

The reserve is £628,516, which is satisfactory. This allows the Council to weather any downturn in economic conditions which may affect subscription income. It also gives the Council a resource with which it may undertake larger projects when the opportunities arise, without necessarily having to access other external revenue sources.

The Directors continue to promote the Council's activities and to direct its future development.

Auditors

In accordance with Section 385 of the Companies Act 1985, Grant Thornton offer themselves for re-appointment as Auditors of the Company.

Directors' Responsibilities for the Financial Statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that period. In preparing those financial statements, the Directors are required to:

- ***select suitable accounting policies and then apply them consistently;***
- ***make judgements and estimates that are reasonable and prudent;***
- ***state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;***
- ***prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.***

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors

The membership of the Board for 2001/2002 is set out below. All Directors served throughout the year except as indicated.

Robert Armour (co-opted 6 August 2002)	British Energy
Bill Cockburn CBE	Chairman, London Committee
Gavin Don	EQUITAS
Donal Dowds	Chairman of the Board and Executive
Sir James Duncan	President
Councillor Willie Dunn (elected 13 December 2001)	COSLA
Bill Furness	Private Member
Rod Johnstone	Chairman, Highlands and Islands Committee
Shonaig Macpherson	Legal Adviser and Chairman of Scottish Council Foundation

Iain McLaren	Finance Adviser
Graham Moore (resigned 2 April 2002)	BT Scotland
Vernon Murphy	Scottish Chambers of Commerce
David Paton OBE	Past Chairman
Susan Rice (elected 13 December 2001)	Scottish Clearing Bankers
Esther Roberton	Private Member
Ronnie Scott Brown (resigned 13 December 2001)	Chairman, North East Committee
Bill Speirs	STUC
Professor Bill Stevely (elected 13 December 2001)	Chairman, North East Committee
Donald Turner	Past Chairman

Donald Dowds

31 October 2002
23 Chester Street, Edinburgh EH3 7ET

SCOTTISH COUNCIL FOR DEVELOPMENT AND INDUSTRY

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FINANCIAL REPORT

Balance Sheet at 30 September 2002

	Notes	£	2002 £	2001 £
Fixed Assets				
Tangible Assets	7		27,524	39,268
Investments	8		1,033,817	814,368
			1,061,341	853,636
Current Assets				
Debtors	9	186,038		199,044
Cash at Bank and in Hand		51,675		192,567
		237,713		391,611
Creditors: Amounts falling due within one year	10	(427,721)		(324,893)
Net Current (Liabilities)/Assets			(190,008)	66,718
Total Assets less Current Liabilities			871,333	920,354
Provision for Liabilities and Charges	11		(242,817)	(213,901)
			628,516	706,453
Revenue Reserve	12		628,516	706,453

The financial statements were approved by the Board on 31 October 2002

Donal Dowds

Donal Dowds, Chairman of the Board.

The accompanying Accounting Policies and Notes form an integral part of these financial statements.

FINANCIAL REPORT

Income and Expenditure Account for the year ended 30 September 2002

	Notes	2002 £	2001 £
Income	2		
Subscriptions		910,094	901,600
Activities :			
Projects		723,639	685,198
Property		102,150	107,024
Total Income		**1,735,883**	**1,693,822**
Expenditure			
Staff Costs	5	818,388	731,178
Training and Other Staff Costs	5	11,086	12,917
Property and Equipment		342,419	319,770
Office Costs		25,814	25,519
Communications		34,332	34,485
Travel and Motor Expenses		44,135	49,228
Programme and Project Costs		418,521	437,120
Donation to Scottish Council Foundation	19	30,000	30,000
Irrecoverable Value Added Tax	3	10,104	10,338
Depreciation	7	33,033	39,958
Total Administrative Expenses		**1,767,832**	**1,690,513**
Operational (Deficit)/Surplus	3	(31,949)	3,309
Income from Investments	4	37,903	44,001
Net Gain on disposal of Tangible Fixed Assets		-	406
Surplus on Ordinary Activities before Taxation		5,954	47,716
Taxation on Surplus on Ordinary Activities	6	(3,055)	(1,046)
Surplus for the Financial Year	12	**2,899**	**46,670**
Statement of total recognised gains and losses			
Surplus for the year		2,899	46,670
Unrealised (Loss) on Investments		(80,836)	(82,377)
Transfer from Revaluation Reserve		-	2,461
Total recognised Losses for the year.		**(77,937)**	**(33,246)**

The accompanying Accounting Policies and Notes form an integral part of these financial statements.

FINANCIAL REPORT

Notes to the Financial Statements

1 Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention except that investments are stated at market value. The principal accounting policies of the Council are set out below. The policies have remained unchanged from the previous year.

a. Depreciation is calculated to write down the cost of all tangible fixed assets by equal annual instalments over their expected useful lives. The rates generally applicable are :

Furniture and Fittings	15%
IT Equipment	50%.

b. Stocks of publications held at the year-end are not valued for accounting purposes as they are of no intrinsic value.

c. Subscriptions are received throughout the financial year and are credited to the Income and Expenditure account when received.

d. Project Activities are accounted for when the related administration has been completed.

e. Investment Income comprises interest received, receivable and dividends on listed and unlisted investments.

f. Deferred tax is recognised on all timing differences where the transactions or events that give the Council an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax on defined benefit pension scheme surpluses or deficits is adjusted against these surpluses. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance date.

g Fixed Asset Investments are included at market value.

h All leases are 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 term.

i. Contributions to Pension Funds: the Council operates a defined benefits pension scheme under which contributions by employees and the Council are administered by trustees in a fund which has no connection with the Council's assets. Contributions to the scheme are charged to the Income and Expenditure account so as to spread the cost of pensions over employees' working lives with the Council. The Council has adopted the transitional disclosure requirements of FRS17 Retirement Benefits (see note 17).

j Grants which are of a revenue nature are credited to the Income and Expenditure account in the same period as the related expenditure.

k Property income generated by the Council's Offices is accounted for on the accruals basis.

2 Income

The income and surplus before taxation is attributable to the principal continuing activity which is making representations to Government and others regarding matters of public policy.

3 Operational (Deficit)/Surplus

	2002	2001
	£	£
This is stated after charging :		
Auditors' Remuneration	6,000	6,000
Operating lease rentals - property	203,500	203,500
- motor vehicles and equipment	32,349	25,265
Depreciation - Tangible Fixed Assets, owned - Furniture and Fittings	4,936	4,545
- IT Equipment	28,097	35,413

A proportion of the input tax suffered by the Council is irrecoverable and this has been calculated according to the Council's agreement with HM Customs and Excise.

4 Income from Investments

	2002	2001
	£	£
From Fixed Asset Investments - Listed	35,414	41,298
From Current Asset Investments - Short Term Deposits	2,489	2,703
	37,903	44,001

FINANCIAL REPORT

Notes to the Financial Statements

5 Staff Costs

	2002 TOTAL £	Charged to Projects £	Net Staff Costs £	*2001* £
Salaries	658,883	5,353	653,530	608,586
Social Security Costs	48,971	293	48,678	49,862
Pension Costs	116,180	-	116,180	72,730
	824,034	5,646	818,388	731,178

At the 30 September 2002 £37,705 of the pensions cost remain outstanding and are included in Accruals.
The average monthly number of employees, excluding secondees but including contract staff, the cost of whom is charged to Projects, was as follows. The figures are expressed as full-time equivalents

	2002	2001
Office and Management	26	25

No member of The Board and Executive Committee received any remuneration during the year (2001 - £ nil).

	2002 £	2001 £
Training and Other Staff Costs	11,086	12,917

Training is supplemented by the provision of in-kind training support by the membership.

6 Taxation on Surplus on Ordinary Activities

In accordance with an agreement with the Inland Revenue, Corporation Tax is payable on:

a Interest received on Investments
b Net Rental Income, and
c A proportion of any surplus subscription and other income over expenditure.

The tax charge is based on the result of the year and represents:-

	2002 £	2001 £
Corporation Tax at 19% (2001 - 20%)	9,795	-
Adjustment in respect of prior year's Corporation Tax	(6,740)	1,046
	3,055	1,046

Factors Affecting the Tax Charge

The UK tax assessed for the period is lower than the standard rate of corporate tax in the UK of 19% (2001:20%)
The differences are explained as follows :

	2002 £	2001 £
Profit on ordinary activities before tax	5,954	47,716
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 19% (2001 : 20%)	1,131	9,543
Effects of :		
Expenses not deductible for tax purposes	2,524	644
Depreciation for period in excess of capital allowances	259	993
Other timing differences	6,499	(8,476)
Utilisation of tax losses	(618)	(2,704)
Adjustments to tax charge in respect of prior periods	(6,740)	1,046
Current tax charge for the period	3,055	1,046

7 Tangible Fixed Assets

	Furniture And Equipment - £
Cost	
At 1 October 2001	289,607
Additions	21,289
At 30 September 2002	310,896
Depreciation	
At 1 October 2001	250,339
Charge for the year	33,033
At 30 September 2002	283,372
Net Book Amount at 30 September 2002	27,524
Net Book Amount at 30 September 2001	39,268

Notes to Financial Statements

8 Fixed Asset Investments

	Shares in Subsidiary Undertaking	UK Listed Investments	Total
	£	£	£
Market Value			
At 1 October 2001	60	814,308	814,368
Additions at cost	-	300,285	300,285
Net Loss on revaluation at 30/9/2002	-	(80,836)	(80,836)
Market Value at 30 September 2002	**60**	**1,033,757**	**1,033,817**
Market Value at 30 September 2001	**60**	**814,308**	**814,368**

The historical cost of the listed investments at 30 September 2002 was £1,198,803 (2001 - £898,519).

The Council's subsidiary undertaking, the Scottish Council Research Institute Limited did not trade during the year. The investment in this company represents the cost of its allotted and fully paid share capital of 60 shares of £1 each. No consolidation of the financial statements of the subsidiary undertaking has been made as the amounts involved are not material but, where applicable, past losses have been fully provided for in the financial statements of the Council. The financial statements therefore present information about the company as an individual undertaking and not about its group.

9 Debtors

	2002	2001
	£	£
Trade Debtors	127,611	145,205
Other Debtors (see below)	19,899	20,413
Other Prepayments and Accrued Income	38,528	33,426
	186,038	**199,044**

Other Debtors includes expenditure in respect of current Trade and Membership related projects £19,766 (2001 - £13,675). The ultimate surplus on these projects will be transferred to the Income and Expenditure account when the related administration has been completed.

10 Creditors: Amounts falling due within one year

	2002	2001
	£	£
Trade Creditors	66,131	56,078
Social Security and Other Taxes	51,789	47,474
Other Creditors (see below)	244,714	197,548
Accruals	65,087	23,793
	427,721	**324,893**

Other Creditors represent advance income received in respect of current projects namely the Trade and Membership related projects £202,488 (2001 - £195,072) and other Educational Schemes £42,226 (2001 - £2,476). The ultimate surplus on these projects will be transferred to the Income and Expenditure account when the related administration has been completed.

Notes to Financial Statements

11 Provision for Liabilities and Charges

	Building Maintenance Provision (Note 16) £
At 1 October 2001	213,901
Provided during the year	14,500
Contributions received from sub tenant	15,000
Utilised during the year	(584)
At 30 September 2002	242,817

12 Revenue Reserves

	Total £
At 1 October 2001	706,453
Surplus for the year	2,899
Unrealised Loss on Investments	(80,836)
At 30 September 2002	628,516

13 Reconciliation of Operational (Deficit)/Surplus to Net Cash Inflow from Operating Activities

	2002 £	2001 £
Operational (Deficit)/Surplus	(31,949)	3,309
Depreciation	33,033	39,958
Increase/(Decrease) in Debtors	7,575	(16,673)
Increase in Creditors	98,642	169,207
Increase in Provision for Liabilities and Charges	28,916	9,028
Net Cash Inflow from Operating Activities	136,217	204,829

14 Analysis of Changes in Net Funds

	At 1/10/00 £	Cash Flow £	At 1/10/01 £	Cash Flow £	At 30/9/02 £
Cash at bank and in hand	105	192,462	192,567	(140,892)	51,675
Overdrafts	(8,693)	8,693	-	-	-
	(8,588)	201,155	192,567	(140,892)	51,675

15 Capital Commitments

The Council had capital commitments at 30 September 2002 of £nil (30 September 2001 - £5,915).

Notes to Financial Statements

16 Contingent Liabilities

The Council's leases of its Edinburgh, Glasgow and Inverness office properties are on a full repair and maintenance basis. The Council also has similar obligations in respect of its lease of a former London office which had been fully sublet, however, the terms of the subleases were similar to those of the head lease and accordingly any liability on the Council should be fully offset by claims against the subtenants.

Provision has been made in the amount referred to in note 11 above which is considered adequate to meet the Council's obligations in respect of the properties it currently occupies and for any residual liabilities in respect of the head lease of the London property which it formerly occupied.

17 Pension Commitments

The Council operates a defined benefit pension scheme for the benefit of the employees. The assets of the scheme are administered by trustees in a fund independent from the assets of the Council.

Costs and liabilities of the scheme are based on actuarial valuations. The latest full actuarial valuation, using the projected unit method of funding, was carried out at 6 April 2002 and updated to 30 September 2002 by a qualified independent actuary. At 6 April 2002 the scheme was 105% funded.

The contributions for the Council and the employees remained unchanged up to 31 March 2002 at 13.3% (0.9% disability) and 5.5% respectively. From 1 April 2002 the rates were increased to 26.2% (1.2% disability) and 5.5% respectively.

The pension cost charge for the year of £116,180 includes a provision of £37,705 as a result of amortisation of the deficiency for the 6 month period to 30 September 2002.

The transitional provisions of FRS 17 require the disclosure of certain information in relation to the valuation of the scheme assets and liabilities and related assumptions and movement in the surplus for the year. In relation to the Financial Statements for the period this is for illustrative purposes only.

The main assumptions used by the actuary were:

	2002 %	2001 %
Rate of increase in salaries	4.30	4.00
Rate of increase for pensions in payment accrued before 5 April 1997	3.00	3.00
Rate of increase for pensions in payment accrued after 6 April 1997	2.30	3.25
Discount rate	5.45	6.00
Inflation	2.30	2.50

The assets in the scheme and the expected long-term rate of return were:

	Rate of Return %	2002 Value £	Rate of Return %	2001 Value £
Equities	7.5	1,491,000	7.5	1,617,000
Government Bonds	4.5	143,000	5.0	125,000
Corporate Bonds	5.5	143,000	6.0	125,000
Property	6.5	28,000	6.0	22,000
Cash	4.0	94,000	4.2	147,000
Total market value of assets		1,899,000		2,036,000
Present value of scheme liabilities		2,464,000		1,987,000
(Deficit)/surplus in the scheme		(565,000)		49,000
Net pension (liability)/asset		(565,000)		49,000

Notes to Financial Statements

	2002 £
The history of experience gains and losses has been :	
Difference between expected and actual return on scheme assets	374,000
Percentage of scheme assets	19.70%
Experience losses on scheme liabilities	(140,000)
Percentage of present value of scheme liabilities	(5.70%)
Total actuarial losses	(619,000)
Percentage of present value of scheme liabilities	(25.11%)

The movement in the surplus in the year was :	2002 £
Surplus in scheme at beginning of year	49,000
Current service cost	(79,000)
Contributions	70,000
Other income	9,000
Other outgoings	(18,000)
Net finance cost	23,000
Actuarial (losses)	(619,000)
(Deficit) in scheme at end of year	(565,000)

Net finance cost comprises:	2002 £
	146,000
Expected return on pension scheme assets	(123,000)
Interest on pension scheme liabilities	23,000

18 Other Financial Commitments

At 30 September 2002 the Council had gross annual commitments under non-cancellable operating leases as set out below. The commitments are reduced by rental income received in respect of subleases.

	Property		Motor Vehicles and Equipment	
	2002 £	2001 £	2002 £	2001 £
Operating leases which expire:				
In one year or less	-	-	5,285	3,613
Between one and five years	160,000	160,000	27,191	26,500
In five years or more	43,500	43,500	-	-
	203,500	203,500	32,476	30,113

19 The Scottish Council Foundation

The Scottish Council Foundation is a charitable body, the Trustees of which are appointed by the SCDI. During the year, the SCDI made a donation of £30,000 (2001 - £30,000) to the Foundation to support its expansion and development. Several donations to the Foundation were specifically to fund the network of Young Engineers Clubs. As a result grants were received by the SCDI from the Foundation to support the Young Engineers Clubs and this amounted to £20,000 (2001 - £20,000).

Report of the Auditors

Chartered Accountants
The UK Member Firm of
Grant Thornton International

Grant Thornton

Report of the Independent Auditors to the Members of The Scottish Council for Development and Industry Limited

We have audited the financial statements of the Scottish Council for Development and Industry Limited for the year ended 30 September 2002 which comprise the principal accounting policies, the income and expenditure account, the balance sheet, the statement of total recognised gains and losses, the cash flow statement and notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement or directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company 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 law regarding directors' remuneration and transactions with the company is not disclosed.
We read other information contained in the directors' report and consider whether it is consistent with the audited financial statements. 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 opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2002 and of the income and expenditure for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

Grant Thornton
Registered Auditors
Chartered Accountants
Edinburgh

31 October 2002

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