



Creative Scotland

National Lottery Distribution Fund Annual Report and Accounts
For the year ended 31st March 2013



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Presented to Parliament Pursuant to
Section 34(3) of the National Lottery etc. Act 1993

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Annual Report

Creative Scotland was established on the 1 July 2010 through enactment of the Public Services Reform (Scotland) Act 2010. All property (including rights) and liabilities of the Scottish Arts Council and Scottish Screen subsisting immediately before that date, were transferred to, and now vest in, Creative Scotland.

Creative Scotland's activities in support of the arts, screen and creative industries are financed by annual grant-in-aid from the Scottish Government, by the National Lottery and from income generated by its own activities. A separate Annual Report and Accounts is produced for the activities supported by the Scottish Government grant in aid.

Creative Scotland is the national body responsible for distribution of lottery funds towards the support of artistic and creative activities. Through the National Lottery etc Act 1993 (Amendment of section 23) (Creative Scotland) Order 2010, all sums held for distribution by Scottish Screen and the Scottish Arts Council are now held for distribution by Creative Scotland.

Under the financial directions issued by the Scottish Ministers, Creative Scotland is required to produce separate statements of accounts relating to these activities. An Annual Report for the National Lottery activity as required by the financial directions is incorporated within this Annual Report and Accounts.

The accounts have been prepared in a form directed by the Scottish Ministers in accordance with Section 34(3) of the National Lottery etc. Act 1993.

The Accountable Officer authorised these annual report and accounts for issue on 31 October 2013.

National Lottery Distribution Fund

At 31 March 2013 the Statement of Financial Position held under the stewardship of the National Lottery Distribution Fund (NLDF) available to Creative Scotland was £28.2 million (2012: £29.7 million). During the year to 31 March 2013, £34.6 million was called down from the NLDF for the payment of approved awards and administration of Creative Scotland's Lottery Fund (2012: £23.3 million).

Review of Activities

Firm commitments of awards totalling £28.4 million (2012: £20.2 million) were made during the year in support of a range of projects.

Hard commitments over £100,000 made during the year:

Investment Programme	Project	£
Flexible Funded Organisations	Enterprise Music Scotland	225,000
Network Agencies	Centre for Contemporary Arts	215,000
	FST	210,000
	The Audience Business	150,000
	Culture Sparks (Glasgow Grows Audiences)	150,000
Film and Broadcasting	Sigma Films	350,000
	Synchronicity Films	300,000
	Findlay Productions	300,000
	Warp X	300,000
	The Black Camel Picture Company	300,000
	Railway Man	300,000
	Slate North	200,000
	Crab Apple Films	200,000
	SDI Productions	165,000
	Playwrights Studio Scotland	161,257
	Hopscotch Films	140,000
	Initialize Films (Scotland)	121,000
	Investment Meeting	109,000
Quality Arts Production	Scottish Book Trust	165,000
Touring, Festivals and Events	Festival City Theatre Trust	105,000
Public Engagement	Motherwell College	239,638
	Carnegie College	200,170
	Education Scotland	125,000
Cultural Economy	Centre for the Moving Image (CMI)	250,000
	Creative Carbon Scotland	190,000
Capital	Shetland Arts Development Agency	175,000
Place	Aberdeen City Council	250,000
	Fife Council	200,000
	Dumfries and Galloway Council	140,000
National Events 2012/14	Glasgow Life	300,000
	Lyra Theatre	250,000
	Tramway	236,904
	Edinburgh International Festival	200,000
	National Galleries of Scotland	180,000
	Friend of George Wyllie	158,510
	Starcatchers Productions	150,000
	East Ayrshire Council	150,000
	Scottish Book Trust	150,000
	Artichoke Trust	140,000
	Michael Clark Dance Company	136,156
	PRS for Music Foundation	120,000
	Dance House	114,990
Citymoves Dance Agency	110,000	

Creative Scotland Board

The Board appointments made on Creative Scotland's establishment date of 1 July 2010 were appointed for periods of two or four years ending 30 June 2012 and 30 June 2014 respectively. The Public Services Reform (Scotland) Act allows for up to a maximum of fourteen members, in addition to the Chair, all to be appointed by Scottish Ministers.

Three of the four Board members that were scheduled to end their term of appointment on 30 June 2012 have been extended for a further four years. Another member of the Board has resigned. Four additional Board members were appointed with terms of office from 1 July 2012 to 30 June 2016. An induction programme was delivered in July 2012 for the new members. The membership of the Board during the year was as follows:

	Date of appointment	Term	End of current term
Sir Sandy Crombie (Chair)	1 July 2010	1 st	30 June 2014
Peter Cabrelli	1 July 2010	2 nd	30 June 2016
Gwilym Gibbons	1 July 2010	1 st	30 June 2012 (resigned)
Steve Grimmond	1 July 2010	2 nd	30 June 2016
Sandra Gunn	1 July 2012	1 st	30 June 2016
Professor Robin MacPherson	1 July 2010	1 st	30 June 2014
Gayle McPherson	1 July 2010	1 st	30 June 2012
May Miller	1 July 2012	1 st	30 June 2016
Fergus Muir	1 July 2012	1 st	30 June 2016
Barclay Price	1 July 2010	2 nd	30 June 2016
Richard Scott	1 July 2012	1 st	30 June 2016
Dr Gary West	1 July 2010	1 st	30 June 2014
Ruth Wishart	1 July 2010	1 st	30 June 2014

The Board has ultimate decision making responsibility, but to facilitate effective management appropriate levels of delegated authority have been approved by the Board for the Chief Executive and senior management.

The Board is supported by an Audit and Risk Committee; a Remuneration and Governance Committee and a Chairs' Committee. Members of these committees are appointed by the Board from their membership.

Details of the interests and related parties' transactions with Creative Scotland Board members are given at note 22 to the financial statements. The register of interests for Board members is maintained and is available at creativescotland.com. The Chair waived the right to remuneration and no other members of the Board were remunerated for their roles.

The Board has corporate responsibility for ensuring that Creative Scotland fulfils the aims and objectives set by the Scottish Ministers; for promoting the efficient use of staff and other resources, in accordance with the principles of Best Value and for establishing the overall strategic direction for Creative Scotland. Further details on the responsibilities of the Board are reflected within the Management Statement and Financial Memorandum available at creativescotland.com.

Political and Charitable Donations

There have been no political or charitable donations during the year or in the prior year. Grants and Awards have been made to charitable organisations but these are not classed as donations.

Risk management

The risks faced by Creative Scotland are reflected within the Business Risk Assessment Register. The register is reviewed regularly at management meetings, with additional substantive periodic reviews also undertaken during the year. The register is also a standing item at each Audit and Risk Committee meeting and in addition to on-going reporting through the Audit and Risk Committee minutes, the register is also presented annually in full to the Board.

Information provided to the external auditor

Creative Scotland's external auditor is appointed by the Auditor General for Scotland, and for the year ended 31 March 2013, KPMG LLP is the appointed auditor.

So far as the Accountable Officer is aware, there is no relevant audit information of which the auditor is unaware and the Accountable Officer has taken all the steps that she ought to have taken in order to make herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Management Commentary

As stated in the Corporate Plan 2011-2014, Creative Scotland's vision for arts, screen and creative industries in Scotland is:

That Scotland is recognised as a leading creative nation- one that attracts, develops and retains talent, where the arts and the creative industries are supported and celebrated and their economic contribution fully captured; a nation where the arts and creativity play a central part in the lives, education and well-being of our population.

Creative Scotland's objectives are to provide funding, leadership, promotion, advocacy and advice to develop the following 5 areas:

- **Artists and creative talent-** to support, artists and creative people across all parts of the creative sector
- **Quality artistic production-** to support a broad range of individuals and organisations producing quality creative work including film, dance, theatre, music, visual art, design, craft, literature and publishing, festivals and digital media
- **Public engagement-** to increase the number of people engaging with and participating in arts and culture
- **Cultural economy and a sustainable infrastructure-** to grow the cultural economy in Scotland and to help the creative sector thrive.
- **Places-** to work with Local Authorities and other partners to ensure that people in all parts of Scotland have access to quality arts and culture and that creativity thrives in all parts of the country

More details can be found in the Corporate Plan at creativescotland.com.

Senior Management Changes

The resignation of the Chief Executive in December 2012 followed by a Creative Director and the Director of Finance and Operations resulted in an unsettling period for staff. Despite this, the delivery of day to day operations remained largely unaffected due to the focus and professionalism of management and staff.

The prompt transition of Iain Munro as Interim Chief Executive provided stability while addressing the issues raised during the year. The recruitment process for a permanent replacement resulted in Janet Archer being appointed with effect from 1 July 2013.

Review of the Year

In 12/13 Creative Scotland committed £74.3m of funding to the arts, screen and creative industries in Scotland made up of £45.9m of Scottish Government Grant In Aid funding and £28.4m of National Lottery funds.

The following highlights come from both areas of funding and should be seen alongside the support given through advocacy, strategic development and to regularly and annually funded organisations which provide significant cultural and artistic benefit and celebrate the vibrancy of the arts, screen and creative industries in Scotland.

Scotland's fantastic contribution to the London 2012 Cultural Olympiad included NVA's Speed of Light, which saw thousands of runners and audience members transform Arthur's Seat. Deaf and disabled artists were the driving force behind a series of acclaimed new works created through the Unlimited programme. The London 2012 Festival itself kicked off with The Big Concert featuring young musicians from Raploch, Stirling taking part in the Sistema Scotland orchestra programme alongside the Simón Bolívar Symphony Orchestra of Venezuela led by Gustavo Dudamel.

We Are Northern Lights is a unique crowd sourced feature length documentary supported through National Lottery funding as part of the Year of Creative Scotland in which the people of Scotland told their diverse

fascinating stories. Members of the public were asked to send in personal videos. From 1500 submissions, 121 clips from people across the country were used to create a vibrant collage of Scotland.

Scottish artists and the country's vibrant cultural scene continue to be represented at world leading industry events, creating new opportunities and connections for the artists and helping raise Scotland's profile on the global stage. Award winning indie rockers The View, hip hop trio Young Fathers and DJ JD Twitch from Optimo were among the bills for two Scottish showcases at South by South West, one of the largest and most important events in the music industry calendar. During Scotland Week 2013, the Caledonia Collective took to the stage at the famous Webster Hall in New York.

Young people across Scotland have enjoyed opportunities to dance, make films and music and learnt about related careers as part of the ongoing CashBack for Creativity programme supported through Scottish Government's CashBack for Communities, which re-invests the proceeds of crime back into communities – including six young musicians aged from 16 to 21 who recorded their first demo using professional facilities at Verden Studios in Edinburgh. More than 300 projects opening up music making opportunities were also made possible through the Youth Music Initiative, which Creative Scotland administers on behalf of Scottish Government.

NESTA, Creative Scotland and the Arts and Humanities Research Council (AHRC) joined forces to help Scottish organisations harness digital technologies to reach wider audiences and develop new ways of working with the arts through the Digital Arts R&D Fund.

Around 13,000 young people once again took part in traditional Gaelic music activities supported by Creative Scotland Foundation Organisation Fèisean nan Gaidheal.

A former Hip Hop dancer whose global network is enabling dancers from the USA to Australia to share moves via an app on both the Apple and Android platforms is among those who businesses have been helped by Starter for 6, Scotland's premier start-up and investment programme for creative industry entrepreneurs, which is delivered by the Cultural Enterprise Office and supported by Scottish Government through Creative Scotland's Innovation Fund.

In the second annual Creative Place Awards, the inspirational musical scene of the Pathhead Music Collective, the international creative links and artistic community initiatives in Huntly and the thriving arts venues and year round series of festivals of Kilmarnock received awards in recognition of the opportunities offered for wide community involvement within in their creative initiatives.

The Small Capital Programme supported a diverse range of work including the purchase of a professional electric kiln for use by artists and members of the public in Ullapool; providing access to the latest in digital filmmaking equipment for around 250 aspiring filmmakers in Edinburgh and the refurbishment of Scotland's oldest working theatre, in Dumfries.

More than 30,000 pupils joined in activities across country at the first national celebration of reading, Book Week Scotland.

The inaugural Luminate Festival celebrated creativity across the generations and encourage younger and older people to participate in arts activities.

Funding has been ring-fenced for a number of a number of significant Capital projects including towards the restoration and upgrading of Campbeltown Picture House, and the development of the Royal Concert Hall to help support the relocation of the Royal Scottish National Orchestra. Funding has also been ring-fenced towards the cost of developing a film studio for Scotland.

A number of innovative projects were supported throughout the country to boost cultural tourism as part of the Year of Creative Scotland, including work by visual artists Dalziel + Scullion at the Enchanted Forest near Pitlochry in Perthshire and a unique partnership of artists, tourism businesses and visitor destinations creating an arts and heritage festival called the heARTofARGYLL and the transformation of the yard of Stirling's Historic Old Town Jail into a bold, collaborative installation.

Financial Review

Creative Scotland's share of proceeds from the National Lottery Fund during the year to 31 March 2013 was £34.6 million, (2012: £27.3 million). A total of £139,000 (2012: £213,000) was recouped from projects funded in previous years. Other income of £884,000 (2012: £237,000) brought the total income to £35.7 million (2012: £27.8 million). The increase in our share of proceeds from the National Lottery Fund reflects higher ticket sales in the year, and an increase in Creative Scotland's share of the Fund to 1.78% (2012: 1.60%). Other income includes the final drawdown of funds from Legacy Trust UK for the Scottish Project- a project to leave a lasting legacy from the 2012 Olympic Games.

Commitments entered into during 2012/13 totalled £28.4 million (2012: £20.2 million). Expenditure on projects during the year was £1.2 million (2012: £574,000). Expenditure on staff and other operating costs was £2.6 million (2012: £2.2 million). De-commitments during 2012/13 of prior year awards amounted to £74,000 (2012: £545,000). Staff, overhead and related costs were recharged from Creative Scotland's grant in aid funded statements. The increase in staff, overheads and related costs reflects our recharge methodology which is adjusted to reflect the allocation of staff resources in managing the distribution of Lottery funds. In addition, during the year there was a transfer of £1.8 million to the Olympic Lottery Distribution Fund (2012: £3.862million) bringing total expenditure to £34 million (2012: £26.3 million).

The net result for the period is a surplus of £1.7 million, (2012: £1.5 million).

The total net assets of £15 million (2012: £13.3 million) are represented by a general reserve to fund future commitments. The reserves position does not reflect the £12.4 million of 'soft' and 'other' commitments, made during the year. Soft commitments reflect awards where Creative Scotland has made a firm offer of grant which has not yet been formally accepted by the recipient. Other commitments are awards which have been approved but not yet issued at the end of the financial year. Soft and other commitments are disclosed in Note 16.

Sickness absence

In the year to 31 March 2013, an average of 7.7 working days (2012: 4.0 days) was lost per staff working in the year.

Data loss

There were no reported incidents of unauthorised exposure or loss of personal data during the financial year.

Environmental Sustainability

Creative Scotland is committed to reducing the environmental impact of its operations, as well as promoting carbon efficiency and sustainable behaviours across the arts, screen and creative industries. The Year of Natural Scotland 2013 is providing the cultural sector with a focus on environmental issues and to work more closely with environmental agencies. In addition, environmental sustainability is an important part of the capital funding process.

The organisation's carbon management plan and sustainability reporting is in development and will be rolled out in 13/14.

Future developments

The feedback obtained through the Open Sessions held March-May 2013 plus the Action Plan for Change issued by the Board in March 2013 will form a basis for the organisation's strategic direction in 2013/14 and beyond.

The organisation will revise its Corporate Plan and, for the first time has published an Annual Plan of its key objectives, outcomes and activities in 2013/14.

The rationalisation of funding programmes and associated processes will continue and will complement the new integrated CRM, Investment Administration and Finance systems. This will improve the experience for applicants and others with an on-going relationship with Creative Scotland.

The planning of the arts and cultural events surrounding the 2014 Commonwealth Games will be key part of activities. 2014 is the Year of Homecoming and there will be programme of cultural events supported by Creative Scotland.

Work will continue to support film, TV and the creative industries through encouraging outside investment in Scotland and developing the skills and employment opportunities for those based here.

A handwritten signature in black ink, appearing to read 'Janet Archer', with a large loop at the start and a long horizontal stroke at the end.

Janet Archer
Chief Executive of Creative Scotland and Accountable Officer

31 October 2013

Remuneration Report

The Chair, Board and Chief Executive are appointed by the Scottish Ministers. The Chair and Board receive no remuneration, the Chair having declined the offer of a remuneration package linked to the role. Incidental travel and subsistence expenditure are reimbursed to Board members in accordance with established expenses policies. Total Board expenses for 2012/13 were £3,791 (2011/12: £4,112).

The Remuneration and Governance Committee meet twice yearly, as a minimum.

Creative Scotland Remuneration and Governance Committee – appointed 1 July 2010:

Sir Sandy Crombie – Chair
Dr Gary West
Barclay Price

The Chief Executive's remuneration arrangements comply with the Scottish Government Public Sector Pay Policy for Senior Management. Senior management's remuneration falls within the organisations' pay grades. Individual objectives are set for all senior management, by the Chief Executive. The Chief Executive's objectives are set by the Chair, and ratified by the Remuneration and Governance Committee. Satisfactory performance by attainment of set objectives is decided at the end of the objective period, in one to one meetings with the Chief Executive for the senior manager and by the Chair and Remuneration and Governance Committee for the Chief Executive. Proposed remuneration increases are submitted to the Remuneration and Governance Committee through the pay remit process before formal submission to the Scottish Government for approval.

The Chief Executive and senior management's contracts are on a permanent basis reflecting legislation regarding fixed term contracts. The senior management team's notice periods range from one to three months and the Chief Executive's notice period is six months.

The following parts of the Remuneration Report are subject to audit.

Salary entitlements of the Senior Management Team

Name	2012/13			2011/12		
	Salary £000	Bonus £000	Benefits in kind	Salary £000	Bonus £000	Benefits in kind
Andrew Dixon ¹ Chief Executive (to 31 January 2013)	160-165	-	10-15	125-130	-	-
Iain Munro ² Director of Creative Development	65-70	-	-	60-65	-	-
Caroline Parkinson Director of Creative Development	60-65	-	-	60-65	-	-
Venu Dhupa ³ Director of Creative Development (to 28 February 2013)	80-85	-	10-15	70-75	-	-
Alyson Hagan Director of Finance and Operations	65-70	-	-	65-70	-	-
Kenneth Fowler Director of Communications and External Relations	60-65	-	-	40-45	-	-
Janine Hunt ⁴ Interim Director of Operations (from 25 March 2013)	0-5	-	-	-	-	-
Karen Lannigan ⁵ Head of HR	40-45	-	-	35-40	-	-

1 Andrew Dixon resigned as Chief Executive with effect from 31 January 2013. Salary figures include relevant payments for salary in lieu of notice. FTE salary for 2012-13 was in the range £125,000 to £130,000

2 Iain Munro was appointed Acting Chief Executive from 5th December 2012 and 2012/13 salary includes an extra responsibility allowance. FTE for the period was in the range £60,000 to £65,000.

3 Venu Dhupa resigned as Director of Creative Development with effect from 28 February 2013. Salary figures include a payment under an exit package. FTE salary for 2012-13 was in the range £70,000 to £75,000

4 FTE salary for 2012-13 was in the range £55,000 to £60,000

Salary

'Salary' includes gross salary; overtime; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by Creative Scotland to the individuals.

Bonus

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses are recorded according to the year in which they are paid. No bonuses were paid during the period (2011/12- Nil).

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by Creative Scotland and treated by HM Revenue and Customs as a taxable emolument, as well as any non-taxable emoluments not subject to taxation. During the year, Creative Scotland paid benefits in kind for legal expenses and re-employment counselling and outplacement costs relating to 2 senior staff members who departed the organisation under compromise agreements.

Senior staff pension accrued as at 31 March 2013 and 2012:

Name	Accrued pension (lump sum) 31 March 2013	Accrued pension (lump sum) 31 March 2012	Real increase in pension (lump sum)	CETV 31 March 2013	CETV 31 March 2012	Real increase in CETV
	£000					
Andrew Dixon	55-60 (175-180)	0-5 (5-10)	55-60 (165-170)	928	44	882
Iain Munro	10-15 (35-40)	10-15 (35-40)	0-5 (0-5)	165	138	25
Venu Dhupa	0-5 (0-5)	0-5 (0-5)	0-5 (0-5)	32	19	13
Caroline Parkinson	0-5 (5-10)	0-5 (0-5)	0-5 (0-5)	28	15	12
Kenneth Fowler	0-5 (0-5)	0-5 (0-5)	0-5 (0-5)	16	6	10
Alyson Hagan	10-15 (15-20)	10-15 (15-20)	0-5 (0-5)	127	110	17
Janine Hunt	-	-	-	-	-	-
Karen Lannigan	0-5 (5-10)	0-5 (5-10)	0-5 (0-5)	48	39	9

Employer's pension contributions paid by Creative Scotland for the senior staff listed above are on the same basis as all other members of the pension schemes. No additional contributions or enhancements were paid by Creative Scotland for any member of the Senior Management Team during the year.

Pension scheme

Pension benefits are provided through the Arts Council Retirement Plan (1994) for Creative Scotland and legacy Scottish Arts Council staff. Legacy Scottish Screen staff are members of the Strathclyde Pension Fund. The members of the Senior Management Team are members of the two schemes on the same basis as other employees.

Cash Equivalent Transfer Values

A 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. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has

accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of a pension benefit in another scheme or arrangement which the individual has transferred to Creative Scotland's pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost.

CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take into account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include 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.

Exit packages

The following exit packages relate to organisational development during the year:

Exit package cost band	Total number of packages by cost band (2012/13)	Total number of packages by cost band (2011/12)
Less than £10,000	-	-
£10,000 to £24,999	-	1
£25,000 to £49,999	1	-
£50,000 to £100,000	1	-
Over £100,000	-	-
Total number of exit packages	2	1

Exit package costs include: voluntary early severance, pay in lieu of notice, and other relevant benefits-in-kind (taxable and non-taxable).

Median pay multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest paid director in Creative Scotland in the financial year 2012/13 was £160,000 to £165,000 (2011/12: £125,000 to £130,000). This was 5.6 times (2011/12: 4.76 times) the median remuneration of the workforce, which was £28,859 (2011/12: £28,373.)

In 2012/13 there were no employees receiving remuneration in excess of the highest-paid director (2011/12: none).

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.



Janet Archer
Chief Executive and Accountable Officer
31 October 2013

Statement of Accountable Officer's responsibilities

Under the Public Services Reform (Scotland) Act 2010, the Scottish Government has directed Creative Scotland to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Creative Scotland and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Scottish Government, 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 as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements;
- and prepare the financial statements on a going concern basis.

The Accountable Officer of the Scottish Government's Governance and Communities Directorate has designated the Chief Executive as Accountable Officer of Creative Scotland. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding Creative Scotland's assets, are set out in the Accountable Officer's Memorandum issued by Scottish Ministers



Janet Archer
Chief Executive and Accountable Officer
31 October 2013

Governance Statement

Scope of Responsibility

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

Governance framework

Creative Scotland was established on the 1 July 2010 through enactment of the Public Services Reform (Scotland) Act 2010. All property (including rights) and liabilities of the Scottish Arts Council and Scottish Screen subsisting immediately before that date, were transferred to, and now vest in, Creative Scotland.

Creative Scotland's governance framework is based on the legislative powers of the organisation as stated in the Public Services Reform (Scotland) Act 2010 and the Financial Memorandum with the Scottish Government.

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety. Creative Scotland applies relevant sections of the SPFM to its governance framework arrangements.

The Board has corporate responsibility for ensuring that Creative Scotland fulfils the aims and objectives set by the Scottish Ministers. The Board is supported in its activities by three standing committees, the Audit and Risk Committee; the Remuneration and Governance Committee; and the Chairs' Committee. The purpose of the Chairs' Committee is to give the Board the flexibility to deal with matters out with the programmed Board meeting schedule. As is good practice, terms of reference are in place for the Board and its standing committees. These pull together the Board's statutory and regulatory responsibilities, as detailed within key governance documentation including the Public Services Reform (Scotland) Act 2010 and Creative Scotland's Management Statement and Financial Memorandum.

During 2012-13, the Board formed two special sub-groups:

- Operations and Capacity Sub Group- to consider internal operational issues at Creative Scotland including internal and external relationships, availability of expertise, capacity and culture.
- Lottery Sub Group- to consider policies and procedures with regards to lottery funding.

Operation of the Board

During 2012-13, the Board met on 4 occasions in line with its agreed schedule of meetings. At its meeting in December 2012, the Board published a statement detailing a number of commitments to address issues raised by external commentators, through open sessions with artists and creative practitioners and by Creative Scotland staff. The commitments feed into an Action Plan for Change which the Board is committed to delivering. The commitments also reflect the recommendations of the Operations and Capacity and Lottery Sub Groups.

The Audit and Risk Committee met three times during the year and is responsible for reviewing and monitoring all aspects of and issues relating to the preparation and production of all annual financial statements for Creative Scotland, including consideration of accounting policies, levels of disclosure, risk management policies, internal control systems, compliance with applicable corporate governance requirements and reviewing any relevant matters relating to financial statements and reports raised by external or internal auditors as a result of their audit work. The Audit and Risk Committee also makes recommendations to the Board regarding the appointment of the internal auditors and approves their remuneration.

The Remuneration and Governance Committee met four times during the year to review the performance against objectives and remuneration for the Chief Executive; consider and approve proposals on remuneration for staff, via review of pay remit submissions and consider and approve any new HR policies.

The Chairs' Committee met five times in the period. The Committee continued to support the Board by allowing flexibility to deal with significant matters arising throughout the year in a timely manner. All findings are reported to the Board at the next scheduled meeting.

All activities undertaken by Committees are reported to the Board through presentation and discussion of Committee minutes, with matters escalated as required.

Accountable Officer

The Accountable Officers during the period to 31 March 2013 were:

- Andrew Dixon (Chief Executive) to 31 January 2013
- Iain Munro (Acting Chief Executive) from 1 February 2013

At the time of his appointment, arrangements were put in place to transfer responsibility for governance matters to Iain Munro. I was appointed Chief Executive and Accountable Officer with effect from 1 July 2013. In order to obtain assurances over the system of internal controls over the period to the date of my appointment, I obtained assurances in the form of a Certificate of Assurance from senior staff.

Assessment of corporate governance in the period

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

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

The process within the organisation accords with guidance from the Scottish Ministers provided in the SPFM and has been in place for the year ended 31 March 2013 and up to the date of approval of the annual report and financial statements.

The Accountable Officer is responsible for reviewing the effectiveness of the system of internal control and is informed by the executive managers who have responsibility for the development and maintenance of the internal control framework; the work of the internal auditors, who submit to the organisation's Audit and Risk Committee regular reports which include an independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement; comments made by the external auditors in their management letters and other reports.

All recommendations from Internal and External audit are responded to by management and both the recommendations and responses for implementation are reviewed by the Audit and Risk Committee before being either approved or amended, for implementation. The findings from audit are then reported to the Board. The independent Internal Auditor's Annual Report found that Creative Scotland has a framework of governance, risk management and control, including operational, financial and ICT controls, that provides reasonable assurance regarding the effective and efficient achievement of the organisation's objectives.

More generally, the organisation is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2013 and up to the signing of the financial statements, the organisation has continued progressing through transition, in the development and establishment of effective and appropriateness systems, processes and controls.

During 2012/13, the organisation implemented a new HR system, which has led to more efficient and cost effective administration of HR policies and procedures. The new system also allows employees to better record training, absence and leave, and access and update personal HR data.

A contract was signed to provide a new ICT system which will include a new finance system and a CRM package to manage our administration of awards and grants, allow online applications, and to manage communications with stakeholders. The finance system was successfully implemented in March 2013. The CRM modules are currently being developed with the intention of full implementation in the latter half of the year.

Risk management

The Accountable Officer and Board have ultimate responsibility for the control of all identified organisational risks.

The Business Risk Assessment Register has been developed in line with relevant guidance issued by the Scottish Ministers and with clearly defined processes and specific areas of responsibility. The Business Risk Assessment Register identifies the organisation's risks and relevant the control strategy for each.

There is an established process for the register to be reviewed and updated to reflect any changes in potential risks and or developments of the controls in place. Risk management is a regular agenda item at senior management meetings and risk management is fully incorporated into the corporate planning and decision making processes of the organisation. The Register is a standing item at each Audit and Risk Committee meeting and in addition to on-going reporting through the Audit and Risk Committee minutes the Register is also presented annually in full to the Board.

To ensure effective daily control, each identified risk is allocated to one or more members of the senior management team, based on their appropriate skills/knowledge within the area concerned and they have responsibility to ensure that current controls are maintained. Initiatives for improvement are undertaken and that any new risks identified within their areas or within the wider organisation are immediately highlighted to the Accountable Officer/Chief Executive. To fully support the senior management in this process, any newly identified risks; decisions on controls, new initiatives, reviews of risks and re-assessment controls etc are discussed at the management team meetings and further guidance is given before any action is taken.

A handwritten signature in black ink, appearing to read 'Janet Archer', with a large loop at the start and a long horizontal stroke extending to the right.

Janet Archer
Chief Executive of Creative Scotland and Accountable Officer
31 October 2013

Independent auditor's report to the members of Creative Scotland National Lottery Distribution Fund, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of Creative Scotland National Lottery Distribution Fund for the year ended 31 March 2013 set out on pages 18 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Government Financial Reporting Manual 2012-13.

This report is made solely to Creative Scotland National Lottery Distribution Fund and to the Auditor General for Scotland in accordance with sections 21 and 22 of the Public Finance and Accountability (Scotland) Act 2000. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditor's report and for no other purpose. In accordance with the Code of Audit Practice approved by the Auditor General for Scotland, this report is also made to the Scottish Parliament, as a body. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Scottish Qualifications Authority and the Auditor General for Scotland, for this report, or the opinions we have formed.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of the Accountable Officer's responsibilities set out on page 12, the Accountable Officer is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the body's affairs as at 31 March 2013 and of the net income for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the Government Financial Reporting Manual 2012-13; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Opinion on regularity prescribed by the Public Finance and Accountability (Scotland) Act 2000

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

Independent auditor's report to the members of Creative Scotland National Lottery Distribution Fund, the Auditor General for Scotland and the Scottish Parliament (continued)

Opinion on other matters prescribed by the Public Finance and Accountability (Scotland) Act 2000

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Directors' report included in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Public Finance and Accountability (Scotland) Act 2000 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

David Watt

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

191 West George Street

Glasgow

G2 2LJ

14 November 2013

Statement of Comprehensive Income
for the year ended 31 March 2013

	Note	2012/13	2011/12
Income		£000	£000
National Lottery Fund proceeds	3	34,638	27,342
Other income	4	<u>1,023</u>	<u>450</u>
		<u>35,661</u>	<u>27,792</u>
 Expenditure			
Award commitments	5a	28,410	20,218
Less: de-commitment of prior year awards	5b	(74)	(545)
Project expenditure		1,224	574
Staff costs	6	1,602	1,240
Other Operating costs	7	1,013	951
Transfer to Olympic Lottery Distribution Fund	3	<u>1,799</u>	<u>3,862</u>
		<u>33,974</u>	<u>26,300</u>
 Net income		 <u>1,687</u>	 <u>1,492</u>

All the results of the Fund relate to continuing activities.

The notes on pages 21 to 33 form part of these annual report and accounts.

Statement of Financial Position
as at 31 March 2013

	Note	31 March 2013 £000	31 March 2012 £000
Non-Current Assets			
Property, plant and equipment		<u>0</u>	<u>0</u>
Total non-Current Assets		0	0
Current assets			
Trade and other receivables	10	149	23
Loan receivables	11	78	167
Investments in the NLDF	12	28,233	29,770
Cash and cash equivalents	13	<u>237</u>	<u>299</u>
Total current assets		<u>28,697</u>	<u>30,259</u>
Total Assets		<u>28,697</u>	<u>30,259</u>
Current liabilities			
Trade and other payables	14	<u>13,616</u>	<u>16,674</u>
Total current liabilities		<u>13,616</u>	<u>16,674</u>
Non-current assets plus/less current assets/liabilities		<u>15,081</u>	<u>13,585</u>
Non-current liabilities			
Provisions for liabilities and charges	15	70	122
Grants: amounts falling due after more than one year	14	<u>5</u>	<u>144</u>
		<u>75</u>	<u>266</u>
Assets less liabilities		<u>15,006</u>	<u>13,319</u>
Represented by:			
Reserves			
General reserve		<u>15,006</u>	<u>13,319</u>

The Accountable Officer authorised this annual report and accounts for issue on 31 October 2013.



Janet Archer
Chief Executive of Creative Scotland and Accountable Officer
31 October 2013

The notes on pages 21 to 33 form part of these annual report and accounts.

Statement of Cash Flows
for the year ended 31 March 2013

	2012/13 £000	2011/12 £000
Cash flows from operating activities		
(Deficit) / surplus on ordinary activities	1,687	1,492
<i>Movements in working capital</i>		
Decrease/(Increase) in trade receivables	(37)	682
(Decrease)/Increase in trade payables	(3,197)	(1,786)
(Decrease)/Increase in provisions	(52)	-
Decrease/(Increase) in NLDF investments	<u>1,537</u>	<u>(381)</u>
Net cash flow from operating activities	(62)	7
Net increase / (decrease) in cash and cash equivalents	<u>(62)</u>	<u>7</u>
Net cash and cash equivalents as at 1 April	299	292
Net cash and cash equivalents as at 31 March	237	299

Analysis of changes in net funds	1 April 2012 £000	Movement £000	31 March 2013 £000
Cash at bank and in hand	299	(62)	237
Bank overdrafts	-	-	-
	<u>299</u>	<u>(62)</u>	<u>237</u>

Statement of changes in equity
for the year ended 31 March 2013

	2012/13 £000	2011/12 £000
Opening general reserve at 1 April	13,319	11,827
Transferred from Statement of Comprehensive Income	<u>1,687</u>	<u>1,492</u>
Closing general reserve at 31 March	<u>15,006</u>	<u>13,319</u>

The notes on pages 21 to 33 form part of these annual report and accounts.

Notes to the accounts for the year ended 31 March 2013

1. Accounting Policies

a) Basis of accounting and preparation

In accordance with the accounts direction issued by Scottish Ministers under section 35 of part II of the National Lottery etc. Act 1993, these financial statements have been prepared in accordance with the 2012/13 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) and IFRIC Interpretations as adapted or interpreted for the public sector context.

The financial statements are prepared using accounting policies, and, where necessary, estimation techniques, which are selected as the most appropriate for the purpose of giving a true and fair view in accordance with the principles, set out in International Accounting Standard 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Changes in accounting policies which do not give rise to a prior year adjustment are reported in the relevant note.

Separate accounts have been prepared for the activities funded from grant-in aid, in accordance with the directions issued by the Scottish Ministers.

The particular policies adopted by Creative Scotland are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

b) Accounting Convention

These accounts have been prepared under the historical cost convention.

c) Going Concern

Due to the healthy bank balance and strong net asset position as well as the continued funding expected, the financial statements have been prepared on the going concern basis which provides that the organisation will continue in operational existence for the foreseeable future.

d) Accruals Convention

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

Projects awarded over a multi-year basis are accounted for on an annualised basis whereby awards are spread across the financial years of the project as outline in the contract.

e) Accounting for funding awards

As required by the Scottish Ministers, a distinction is made in respect of National Lottery Fund awards between *hard commitments*, where Creative Scotland has made a firm offer of grant which (together with the appropriate conditions) has been accepted by the recipient and the *soft commitments* where Creative Scotland has agreed to fund a project and made an offer but the offer has not yet been formally accepted.

Hard commitments are recognised in the income and expenditure account, whereas soft commitments are disclosed by way of a note. Due to the nature of the projects supported it is not possible to reliably identify creditors over 12 months, therefore all hard commitments payable are prudently recognised in the Statement of Financial Position as current liabilities. Those payable in more than one year from the Statement of Financial Position date are shown as Grants: amounts falling due after one year.

f) Project development awards

Creative Scotland makes awards which are for the development of projects to progress them to production. Some or all of these awards may be repayable in the event of a project reaching completion. Income is only accrued when the repayment conditions are fulfilled.

g) Property, Plant & Equipment (PPE)

No property, plant and equipment are held solely for Lottery use.

h) National Lottery Distribution Fund

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 Creative Scotland is as shown in the Accounts and, at the Statement of Financial Position 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 subject to:

- Completion of the Statement of Assurance of Payments due to the National Lottery Distribution Fund for 2012/13 by the National Lottery Commission.
- Completion of the audit of the National Lottery Distribution Fund accounts for 2012/13 by the National Audit Office.
- The NLDF balance is brought to account at market value reflecting the requirements of IFRS.

i) Business Development Loans

Business Development Loans are provided to Scottish based companies who contribute to the development of the screen sector with an opportunity to sustain, develop or grow an aspect of their business for a period of up to two years, without having to repay the loan or interest during this period.

At the point at which the loan is made (satisfying the definition of a hard commitments) it is taken to the Statement of Financial Position initially at the full value of the award made. The loans are determined using discounted future cash flows. The asset value is reduced in line with the repayment schedule. It is anticipated that the investments will be recovered in full as the company will not be eligible to apply for further funding if repayments are not made.

j) Financial instruments

Creative Scotland measures and presents financial instruments in accordance with International Accounting Standards 32 and 39 and International Financial Reporting Standard 7 as interpreted by the Government Financial Reporting Manual (FReM). IFRS 7 requires the classification of financial instruments into separate categories for which the accounting treatment is different. Creative Scotland has classified its financial instruments as follows:

k) Financial Assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets. Receivables comprise cash and cash equivalents trade and other receivables and in the statement of financial position. Receivables are recognised at cost. A provision for impairment of loans and receivables is established when there is objective evidence that the Board will not be able to collect all amounts due according to the original terms of the receivables.

l) Other financial liabilities

Other financial liabilities are included in current liabilities. There are no other financial liabilities held that mature greater than 12 months. The Lottery Fund's other financial liabilities comprise trade and other payables in the statement of financial position. Other financial liabilities are recognised at cost.

m) Recognition and measurement

Financial liabilities are recognised when Creative Scotland becomes party to the contractual provisions of the financial instrument. A financial liability is removed from the statement of financial position when it is extinguished, that is when the obligation is discharged, transferred, cancelled or expired.

o) Pensions

Creative Scotland as an employer

Pension costs for creative Scotland staff are recharged to the Lottery Fund for staff employed on lottery related activities. Past employees of Scottish Screen are covered by the provisions of the Strathclyde Pension Scheme and past employees of the Scottish Arts Council are covered by the Arts Council Retirement Plan 1994. On 1 July 2010 the Strathclyde Pension Scheme was closed to new members of Creative Scotland and all new starts are now admitted to the Arts Council Retirement Plan 1994.

As Creative Scotland is the employer of staff, the pension schemes are accounted for under International Accounting Standard 19, *Employee Benefits*, within the financial statements of Creative Scotland. Within the Lottery Fund, both the pension schemes are both accounted for as defined contribution schemes and the recharged share of the pension contributions is expensed to the Statement of Comprehensive Income in the year.

p) Provisions

Provisions are made for legal or constructive obligations which are of uncertain timing or amount at the statement of financial position date on the basis of the best estimate of the expenditure required to settle the obligation. Where material they have been discounted using the appropriate discount rate as prescribed by HM Treasury.

q) Segmental Reporting

International Financial Reporting Standard 8, *Operating Segments*, requires operating segments to be identified on the basis of internal reports about components of the Fund that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and assess their performance.

r) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

s) Short Term Employee Benefits

Short term employee benefits for Creative Scotland staff are recharged to the Lottery Distribution Fund for staff employed on lottery related activities. A liability and an expense is recognised for holiday days, holiday pay, non-consolidated performance related pay and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result an accrual has been made for holidays earned but not taken.

t) VAT

Creative Scotland is not registered for VAT and therefore does not charge VAT on supplies or reclaim VAT on eligible expenditure.

u) Corporation tax

Creative Scotland is liable for corporation tax on its taxable activities. Corporation tax figures for 2012/13 have been based on the advice of our tax advisors and correspondence with Her Majesty's Revenue and Customs.

v) IFRSs not Applied in Financial Statements

The following Adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to IFRS 7 "Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities";
- Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income";
- Amendments to IAS 32 "Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities";
- IFRS 10 "Consolidated Financial Statements" and IAS 27 (2011) "Separate Financial Statements";
- IFRS 12 "Disclosure of Interests in Other Entities"; and
- IFRS 13 "Fair Value Measurement".

Creative Scotland will adopt IAS 19 Revised, *Employee Benefits* in the financial statements for the year ending 31 March 2014. The changes will be adopted retrospectively for the year ending 31 March 2013 in accordance with IAS 8; this is not anticipated to have a material effect on the financial statements.

2. Segmental Analysis as at 31 March 2013

During the financial year, the following investments were made, broken down into hard commitments, soft commitments and other. Only hard commitments are shown in the Statement of Comprehensive Income, whereas soft and other commitments are disclosed by way of a note:

Award commitments	Hard	Soft	Other
	£000	£000	£000
<u>Legacy programmes</u>			
Scottish Screen/Scottish Arts Council projects	159	99	-
<u>Creative Scotland current programmes</u>			
Flexible Funded Organisation	495	-	-
Talent	907	284	164
Film & TV Production	3,912	408	906
Quality Arts Production	4,380	331	-
Theatre, Festivals & Events	2,708	706	-
Access, Audience Development & Participation	2,157	595	-
Capital	1,887	420	5,525
Place - Partnership with LA's	824	1,521	-
Cultural Economy	2,027	580	104
National Events 2012/14	7,184	622	-
Education Strategic Development	130	-	-
Equalities - Strategic Development	41	80	-
Network Agencies	1,101	50	-
Awards for all	498	-	-
	28,410	5,696	6,699
Other expenditure			
Project expenditure	1,224		
Staff costs	1,602		
Other operating costs	1,013		
Transfer to Olympic Lottery Distribution Fund	1,799		
De-commitment of prior year awards	(74)		
Total other expenditure	5,564		
Total expenditure	33,974		
Income			
National Lottery proceeds	34,638		
Other income	1,023		
	35,661		

3 National Lottery Proceeds

	2012/13 £000	2011/12 £000
Share of income from NLDF	34,453	26,848
Investment income	185	193
Movement in revaluation reserve	-	301
	34,638	27,342

National Lottery proceeds from the National Lottery Distribution Fund (NLDF) are notified to Creative Scotland by the Department of Culture, Media and Sport.

4 Other income

	2012/13 £000	2011/12 £000
Bank interest	-	-
Legacy Trust UK	779	237
Project Income	105	-
Award repayments	139	213
	1,023	450

Legacy Trust UK income represents income due from that organisation to the Fund for a series of joint projects. The programme ended during 2012-13.

Award repayments represent payments due to the Fund from royalties etc from investments in film and media productions.

5a Award Commitments (hard)

	2012/13 £000	2011/12 £000
Legacy programmes		
Creative Industries Partnership	-	10
Film, Skills & talent development	-	323
Music, IP development	-	-
Technology, digital media & market development	-	2
Education, learning & young people	-	300
Participation, equalities & audience development	-	173
Special Projects	-	891
Festivals, Touring & Dance	-	528
International, Cultural Export & Visual	-	70
Film Locations and Production Investments	-	500
Our Place In a Creative Scotland	-	80
Partnership Match Funding	-	520
Broadcasting Partnership	-	50
Year Of Creative Scotland	-	512
Traditional Arts	-	80
Legacy Awards (SS/SAC)	159	201
Film & Broadcasting - Broadcasting Partnerships	-	23
Literature, publishing & language	-	-
Theatre & broadcasting partnerships	-	-

Creative Scotland current programmes

Flexible Funded Organisation	495	495
Artists & Creative Talent	907	105
Film & Broadcasting	3,912	2,434
Quality Arts Production	4,380	2,729
Touring, Festivals & Events	2,708	1,896
Public Engagement	2,157	553
Capital	1,887	698
Place	824	150
Cultural Economy	2,027	2,040
National Events 2012/14	7,184	3,304
Education Strategic Development	130	55
Equalities - Strategic Development	41	95
Network Agencies	1,101	940
Advocacy	-	5
Awards for all	498	456
	28,410	20,218

5b De-commitment of prior year awards (hard)

This represents a total of £74,000 of awards relating to prior year (hard) commitments, which were de-committed during 2012/13 (2011/12: £545,000).

6 Staff costs

	2012/13	2011/12
	£000	£000
Staff costs during the year		
Wages and salaries	1,286	992
Social security costs	101	73
Other pension costs	219	175
Holiday accrual	(4)	-
	1,602	1,240

All employment contracts are with Creative Scotland, and relevant amounts are recharged to the Fund based on a recharge methodology. The average recharge for the year was 43% (2011/12: 37%).

	Number	Number
	2012/13	2011/12
Average number of persons employed on NLDF activities (FTE)	37	33

The Fund does not operate its own pension scheme but participates in two defined benefit schemes, the Strathclyde Pension Fund and the Arts Council Retirement Plan (1994), both provided by Creative Scotland for its employees. Past employees of Scottish Screen are covered by the provisions of the Strathclyde Pension Fund. On 1 July 2010, the scheme was

closed to new members of Creative Scotland and all new starts are admitted to the Arts Council Retirement Plan (1994).

The schemes are funded by payments from Creative Scotland and its employees to the trust administered funds, independent of Creative Scotland's finances. Contributions to the scheme are charged to the Statement of Comprehensive Income so as to spread the cost of pensions over employees' working lives with the organisation. Although the Arts Council Retirement Plan (1994) is a defined benefits scheme, the share of assets and liabilities applicable to each employer cannot be separately identified. The Arts Council Retirement Plan (1994) pension costs are therefore accounted for on a defined contribution basis as permitted by International Accounting Standard 19, *Employee Benefits*.

Further details on Creative Scotland's pension schemes can be found in Creative Scotland's Annual Report and Accounts for the year ending 31 March 2013. No asset or liability for Creative Scotland's pension schemes are held within these accounts.

7 Other operating expenses

	2012/13 £000	2012/13 £000	2012/13 £000	2011/12 £000
	Direct	Recharged	Total	Total
HR costs	-	-	-	-
Establishment costs	-	359	359	348
ICT costs	-	69	69	65
Operations costs	39	-	39	13
Office services costs	-	40	40	33
Audit fees	28	10	38	41
Depreciation	-	-	-	-
Legal & professional fees	145	-	145	89
Communications costs	-	1	1	15
External Relations	121	-	121	122
Direct delivery (inc external assessors)	88	-	88	105
Policy and Research	62	-	62	46
Awards for all overheads	51	-	51	74
	534	479	1,013	951

8 Corporation tax

Corporation tax is due on the bank interest received in the year based on the standard rate of corporation tax. For the year ending 31 March 2013, corporation tax of £16.82 was paid to HMRC for Lottery activities.

10 Trade receivables and other current assets

	31 March 2013 £000	31 March 2012 £000
Trade receivables	105	-
Recoupment receivables	-	20
Sundry receivables	44	3
	149	23

11 Loan receivables

	31 March 2013 £000	31 March 2012 £000
Balance at 1 April	167	135
New loans advances in year	-	50
Repayments	(52)	(4)
Impairment charge	(37)	(14)
Balance at 31 March	78	167

Loans receivables consist of Business Development Loans that were provided by Scottish Screen to a number of organisations for the purposes of providing financial support, and any new loan advances made by Creative Scotland. An impairment charge has been recognised to reflect the risks of the organisations not repaying the loans in line with the agreed payment schedules.

12 Investment balance in the NLDF

	31 March 2013 £000	31 March 2012 £000
Brought forward at 1 April	29,770	29,389
Adjustment to reflect market value	1	-
Brought forward market value	29,771	29,389
Income received from Lottery	34,453	26,848
Investment Income	185	193
Funds Drawn Down	(34,377)	(23,099)
Transfer To Olympic Lottery Distribution Fund	(1,799)	(3,862)
Carried forward at 31 March	28,233	29,469
Movement in revaluation reserve	-	301
Closing market value at 31 March	28,233	29,770

The closing market value as at 31 March 2013 reflects the balances available to the Fund from the National Lottery Distribution Fund as advised by the interim statement of balance provided by the Secretary of State for Culture, Media and Sport.

In accordance with the National Lottery etc Act 1998, National Lottery income receivable by Creative Scotland is passed by the NLDF to the Commissioners for the Reduction of National Debt (CRND) whose role is to apportion funds received into the NLDF correctly between the distributing bodies; and to invest the funds held in the NLDF, in accordance with directions issued by HM Treasury, until such time as they are required by the bodies to make payments to successful grant applicants.

The CRND invest the income in a narrow band of low risk assets such as government bonds and cash. Creative Scotland has no control over the investment of funds on their behalf. The management of the National Lottery Distribution Fund meets with representatives of the Commissioners for the Reduction of National Debt on a regular basis to manage the risks associated with the investment of these monies.

13 Cash and cash equivalents

	31 March 2013 £000	31 March 2012 £000
Balance at 1 April	299	292
Net change in cash and cash equivalents	(62)	7
Balance at 31 March	237	299
The following balances at 31 March 2013 were held at:		
Commercial banks	237	299
Cash in hand	-	-
	237	299

14 Trade and other payables

	31 March 2013 £000	31 March 2012 £000
Trade Creditors	35	258
Awards outstanding (hard commitments)	12,501	13,295
Accruals	399	228
Due to Creative Scotland	681	2,833
Deferred income	-	60
	13,616	16,674
Non-current liabilities	5	144
Awards outstanding (hard commitments)	5	144

15 Provisions for liabilities and charges

Lease dilapidation

Creative Scotland holds three leases; 249 West George Street, Glasgow; 10-14 Manor Place, Edinburgh and Waverley Gate, 2/4 Waterloo Place, Edinburgh. As part of the lease agreements, Creative Scotland has an obligation to cover any dilapidation and reinstatement costs that may be required. Such costs are recharged to the Fund in line with the recharge methodology.

10-14 Manor Place, Edinburgh was the former office of the Scottish Arts Council. During 2007-08 a provision for dilapidations was established based on an external commissioned report. The report estimated the total cost for the dilapidations would be in the region of £393,000, of which £122,000 was allocated to the Fund based on the Scottish Arts Council recharge methodology of 31%. During 2012-13, Creative Scotland agreed a settlement for the dilapidations for Manor Place with the landlord for £250,000. The charge to the Fund was based on the previous recharge rate giving utilisation of £78,000 and a release of provision in the year of £44,000.

Waverley Gate at 2/4 Waterloo Place, Edinburgh is Creative Scotland's Edinburgh office. The period of the lease is 15 years from the date of entry of 20 October 2010. During 2012/13, Creative Scotland established a provision for dilapidations based on an external commissioned report. The report estimated the total cost for the dilapidations would be in the region of £175,000, of which £70,000 was allocated to the Fund based on Creative Scotland's recharge methodology rate of 40% during the year.

	Lease Dilapidations 31 March 2013 £000	Total 31 March 2013 £000	Total 31 March 2012 £000
Balance at 1 April 2012	122	122	122
Utilised in the year	(78)	(78)	-
Arising during the year	70	70	-
Reversal	(44)	(44)	-
Balance at 31 March 2013	70	70	122

16 Soft commitments

	31 March 2013 £000	31 March 2012 £000
Balance at 1 April	5,921	1,505
Awards withdrawn	(757)	(25)
Accepted in year	(4,669)	(1,267)
Amounts committed in year*	5,201	5,708
Balance at 31 March	5,696	5,921

*Awards made but not accepted at 31 March 2013

In addition to soft commitments Creative Scotland approved investments ('other') of £6.7 million, (2011/12 £0.8 million) within the year, for which offers had not been issued as at 31 March 2013.

17 Hard commitments

	31 March 2013 £000	31 March 2012 £000
Balance at 1 April	13,439	15,440
De-commitment of prior year awards	(74)	(545)
Committed in year	27,911	20,218
Paid in year	(28,770)	(21,674)
Balance at 31 March	12,506	13,439
Due within one year	12,501	13,295
Due within one to two years	5	111
Due within two to three years	-	33
	12,506	13,439

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

18 Financial Instruments

International Accounting Standard 32, *Financial Instruments: Presentation*, requires disclosure of financial instruments 'that are complex or play a significant medium to long-term role in the financial risk profile' that the Fund faces in undertaking its activities. Cash requirements for lottery expenditure are met by drawing down against monthly forecasts of need from the balances held on behalf of Creative Scotland by the National Lottery Distribution Fund (NLDF).

At 31 March 2012, the balance held at the NLDF was £29.7 million. This has decreased to £28.2 million by 31 March 2013, at which point there were £12.5 million of hard commitments yet to be paid out. In budgeting for current expenditure Creative Scotland balances the anticipated outflow of cash payments against grant commitments along with forward forecasts of Lottery income.

18 a) Liquidity risk

During the financial year, 97.1% of the Fund's income derived from National Lottery proceeds. The remaining income is derived from bank interest and award repayments of 0.9%, and from other income in relation to the Legacy Trust project, of 2%.

At the balance sheet date, Creative Scotland National Lottery Distribution Fund had net assets of £15 million.

18 b) Cash flow projections over the next financial year

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

18 c) Interest rate risk

In accordance with the National Lottery etc. Act 1998, National Lottery income receivable by Creative Scotland is passed by the NLDF to the Commissioners for the Reduction of National Debt (CRND) whose role is to apportion funds received into the NLDF correctly between the distributing bodies; and to invest the funds held in the NLDF, in accordance with directions issued by HM Treasury, until such time as they are required by the bodies to make payments to successful grant applicants. The CRND invest the income in a narrow band of low risk assets such as government bonds and cash. Creative Scotland has no control over the investment of funds on their behalf. The management of the National Lottery Distribution Fund meets with representatives of the Commissioners for the Reduction of National Debt on a regular basis to manage the risks associated with the investment of these monies.

At the balance sheet date, the market value of Creative Scotland's share of the National Lottery Distribution Fund was £28.2 million. In the year, the average return on these investments was 0.78%.

Cash balances which are drawn down by Creative Scotland from the National Lottery Distribution Fund to pay grant commitments and operating costs are held in a business current account. The cash balance at the year-end was £237,000. We consider that we are not exposed to significant interest rate risks on our cash balances.

18 d) Foreign currency risk

Our exposure to foreign currency risk is not significant as less than 1% of transactions by value are processed in currencies other than sterling when compared to total operating costs.

19 Olympic Lottery Distribution Fund contribution

	2012/13	2011/12	2010/11
	£000	£000	£000
Balance owing to OLDF	0	1,798	5,659

Creative Scotland, along with the other Lottery distributors, was required to make a contribution from balances to help fund the 2012 Olympics Games in London. Contributions of £1.9 million and £12.5 million were set for Scottish Screen and the Scottish Arts Council, respectively. Creative Scotland has inherited these contribution levels and they are payable as outlined below.

	£000
2008/09	966
2009/10	3,861
2010/11	3,862
2011/12	3,861
2012/13	1,798
	<u>14,348</u>

The final balance of £1.798 million was paid during the year.

20 Related party transactions

Creative Scotland administers the Creative Scotland National Lottery Distribution Fund and is regarded as a related party. During the year, Creative Scotland's National Lottery Fund had transactions with Creative Scotland (see notes 6 and 7 for details).

During the year ended 31 March 2012 the following transactions took place between Creative Scotland's Lottery Distribution Fund and related parties, principally directors.

All transactions with related parties are completed at arms-length and the relevant director does not take part in the decision

Transactions of £5,000 and below are not reflected within the disclosures presented here.

Creative Scotland Board members

Barclay Price

- Chief Executive of Arts and Business Scotland. The company received £66,000 in lottery funding for the development of the crowd funding site, angelshares.com
- Declared interest with Dance Base which received two awards in 2012/13. The first award was for £125,000 for British Dance Edition in 2014; and the second award was for £30,000 to support Catalyst Dance management.

Sandra Gunn

- Associate Assessor, Education Scotland. The organisation received £5,000 for the cost of updating the Screening Shorts website, and £122,596 to fund the development of the National Creative Learning Networks.

Dr Gary West

- Chair of Traditional Arts and Culture Scotland. The organisation received an award of £20,375 in Quality Arts Production.

•

Peter Cabrelli

- Director of the National Theatre of Scotland. The organisation received two awards: £30,000 in Quality Arts Production. ; and £28,000 in Equalities Strategic Development



CREATIVE SCOTLAND

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 Creative Scotland to prepare in respect of its National Lottery distribution activities for the financial year ended 31 March 2012, and subsequent financial years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRoM) 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.**

Signed by the authority of the Scottish Ministers

Dated

25 Jan. 2012

SCHEDULE 1

ADDITIONAL DISCLOSURE REQUIREMENTS

1. This schedule details the non-standard accounting policies, any special treatment needed, and any additional disclosure requirements as agreed by the Scottish Ministers and Creative Scotland, 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 Creative Scotland 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 Creative Scotland's National Lottery activities will be on a full cost recovery basis and should cover all costs that are directly and demonstrably related to Lottery activities.
3. The **Balance Sheet** shall show, inter alia:
 - a. Within the heading "Cash and cash equivalents" the balance held on behalf of the body at the National Lottery Distribution Fund;
 - b. under the heading "Non-current liabilities" the provision for grants committed on a hard basis and falling due for payment after more than one year ; (see note 6 below on commitments)
 - c. under the heading "Represented by" the balance on the Income and Expenditure Account.
4. The **Notes to the Accounts** shall, inter alia, include:
 - a. a statement of the accounting policies. This must include a statement explaining the nature of the balances held on Creative Scotland'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 Creative Scotland 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 Creative Scotland in respect of current and future commitments.”;

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

6. **Soft Commitments**

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

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

a) **Hard Commitments**

A hard commitment is analogous to a commitment arising from a legally binding contract, carrying with it an obligation on the distributor to pay the agreed Lottery grant provided only that all the conditions of grant are met, and that the National Lottery continues to operate. For the purposes of recording a charge in the Income and Expenditure Account, a hard commitment arises when a firm offer of a grant from the National Lottery proceeds has been made by Creative Scotland 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 Creative Scotland'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, Creative Scotland 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 Creative Scotland's Accountable Officer and is material (5% of the total grants paid in the year or £1m whichever is the lower,) it will be necessary to treat the repayment as an adjusting event in terms of IAS 10



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