



Creative Scotland

National Lottery Distribution Fund Annual Report and Accounts
For the year ended 31st March 2012



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For the year ended 31st March 2012

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

Ordered by the House of Commons to be printed
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November 2012

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**Creative Scotland
National Lottery Distribution Fund Annual Report and Accounts**

**Statement of Account Prepared Pursuant
to Section 34(3) of the National Lottery etc. Act 1993**

Directors' Report

Creative Scotland was established on the 1st 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, culture, film, TV 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 cultural, 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, all distributing bodies must prepare 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 13 September 2012.

National Lottery Distribution Fund

At 31 March 2012 the balance held under the stewardship of the National Lottery Distribution Fund (NLDF) available to Creative Scotland was £29.8 million (2011: £29.4 million). During the year to 31 March 2012, £27.3 million was called down from the NLDF for the payment of approved awards and administration of Creative Scotland's Lottery Fund (2010-2011, £23.1 million).

Review of Activities

Firm commitments of awards totalling £20.2 million (2010-2011, £12.9 million) were made during the year in support of a range of projects.

Firm commitments over £100k made during the year:

Investment Programme	Project	£
Cultural Economy:	Glasgow Grows Audiences	1,166,721
	NESTA	350,000
	Festival City Theatres Trust	200,000
	Comar	100,000
Film & Broadcasting:	Sigma Films Ltd	300,000
	Ecosse Films (Scotland) Ltd	300,000
	Lithium Pictures	300,000
	Black Camel	300,000
	Cloud Atlas Ltd	150,000
	Sigma Films Ltd	125,000
	Ecosse Films	125,000
	SDI	125,000
	Black Camel	100,000
2012/14:	On At Fife (Art and Theatre Trust Fife)	250,000
	Lansdowne Production	250,000
	UZ Arts	250,000
	National Theatre Of Scotland	167,123
	Scottish Ballet	152,164
	The Byre Theatre	150,000
	Aberdeen International Youth Festival	134,040
	The Arches	125,150
	The Arches	120,307
	Vision Mechanics	103,425
Network Agencies:	CCA	215,000
	Federation Of Scottish Theatre	210,000
	Audience Business	150,000
	Culture Sparks (Glasgow Grows Audiences)	150,000
Capital:	Glasgow Sculpture Studio	200,000
	NVA	100,000
Touring, Festivals and Events:	Scottish Book Trust	165,000
	Festival City Theatres Trust	105,000
	Feisean Nan Gaidheal	100,000
Film Skills & Talent Development:	Brocken Spectre	300,000
Education, Learning and Young People:	Learning and Teaching Scotland	300,000
Special Projects:	Theatre Workshop – Inspire Appeal	571,308
Film Locations and Production Investment:	Sigma Films Ltd	275,000
	La Belle Allee Productions Ltd Savalas	125,000
	SDI Productions Ltd	100,000
AD Partnership Match Funding:	TRC Media	300,000
	STV	170,000
Year Of Creative Scotland:	NVA (Europe) Ltd	280,000
	Sistema Scotland	220,000
Content Production:	Edge City Films	200,000
Flexible Funded Organisation:	Enterprise Music Scotland Ltd	225,000

The related party transactions are given at note 20 to the annual report and accounts.

Board of Directors

The Creative Scotland Board was appointed on the 1st July 2010:

Sir Sandy Crombie (Chair)

Peter Cabrelli

Gwilym Gibbons (resigned 30 June 2012)

Steve Grimmond

Robin Macpherson

Gayle McPherson (term of appointment ended 30 June 2012)

Barclay Price

Gary West

Ruth Wishart

The following additional Board members were appointed on the 1st July 2012:

Fergus Muir

May Miller

Richard Scott

Sandra Gunn

The Board appointments from the 1 July 2010 have been appointed for periods of either two or four years, with terms ending 30 June 2012 and 30 June 2014 respectively. These differing periods have been set to reflect previous membership of associated Boards and the retention of transfer of knowledge from these, in addition to continuity planning to avoid all appointments ceasing at the same time. 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.

To maintain continuity three of the four Board members scheduled to end their term of appointment on the 30 June 2012, have been extended for a further four years. Another member of the Board has resigned. To replace Board members whose appointments are ending and to expand the skills base within the Board, the recruitment of four additional members has recently been completed. The new Board members term of office is from 1 July 2012 to 30 June 2016.

During the year the Chair developed a skills matrix, identifying the range of essential skills and expertise required for Creative Scotland's Board. Part of the process was collating the existing skills and expertise within the current Board, and therefore identifying 'gaps' both in terms of current provision as well those lost through terms of office ending. The Chair shared this information with the Scottish Government, which informed the Board recruitment exercise.

The Board are supported in undertaking their responsibilities by the comprehensive Board induction undertaken at the first meeting of the Board on the 12 August 2010 and on an ongoing basis by the provision of training as required, including CIPFA 'On Board'. An induction programme was developed and delivered in July 12 for the new Board members.

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.

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.

Andrew Dixon the Chief Executive and Accountable Officer is responsible for developing and implementing the strategy and for the day-to-day operation of the organisation in conjunction with the senior management team.

The Board has adopted the Model Code of Conduct issued under the Ethical Standards in Public Life etc. (Scotland) Act 2000. The register of interests for Board members is maintained and is available from the Glasgow office and on the corporate website.

Andrew Dixon was the sole Director of the legacy limited by guarantee companies Scottish Screen and Scottish Screen Enterprises. Both companies were dissolved on the 20 April 2012.

Use of External Specialist Advice

During 2011/12 we reviewed the use of External Specialist Advisors and recognised the need for a new system that allowed us to access external advice when we required rather than as a matter of course. From our review it was agreed that we could use external specialist advice where:

- Niche expertise was required for specific applications;
- We are experimenting with new investment programmes or introducing new financial instruments;
- We are undertaking testing during specific work packages/projects;
- We are developing new policy;
- It is part of a partnership arrangement;
- Directors of Creative Development or the Chief Executive wish to call on external experts;
- Applications are for more than 10% of the total fund value;
- Large scale Capital Lottery developments are being examined.

To compliment this it was agreed that a new requirement would be made of Foundation Organisations and Annual Clients with regard to self-evaluation, previously external assessors having provided evaluation. A new system is to be introduced tailoring frequency and level of monitoring required for each organisations activity, particularly with regard to seeing the work/performances of the organisations. This would be determined by the Lead Officer and agreed with the organisation. The focus being on supporting the organisation in a process of continuous improvement and development.

Risk management

The risks faced by Creative Scotland have been identified and controls established to mitigate, all of which are reflected within the Business Risk Assessment Register. A control strategy has been established for each of the significant risks and the register is reviewed and updated to reflect any changes in potential risks and or developments of the controls in place. The register is a standing item for review at the Management Team 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 ongoing reporting through the Audit and Risk Committee minutes, the Register is also presented annually in full to the Board.

Employees

Creative Scotland's success is dependent on the skills and expertise of its employees and we are therefore committed to providing a workplace and an environment that attracts and retains the best people.

Creative Scotland developed a set of HR policies that reflect our aspiration to be a fair, forward thinking employer with an inclusive, equal opportunities and family friendly focus. Key to this is an effective HR function, which we continue to develop, ensuring our policies and procedures reflect best practice and new legislation and that this is communicated effectively to all staff via our intranet. We value the contribution of all employees and believe that organisational development and good people management is not a one off and therefore we have continued to strive to identify continuous improvement opportunities. In recognising that supporting and developing our employees is key to our success, during 2011/12 we continued to invest in skills development, building on the extensive programmes of prior years, covering a wide range of skills development including specialist and technical areas. In the delivery of the training programme a wide range of development mechanisms were utilised - external training suppliers, internally developed training sessions, web based training, mentoring as well as the expansion of a learning library comprising of a wide range of books and computer based training material, available for all staff to borrow.

Creative Scotland is an equal opportunities employer and has monitoring procedures in place to ensure continual compliance in these areas. To ensure we deliver against our commitments, and as part of our development programme, all Creative Scotland staff attend, as a minimum, a day long Equality training session.

Employee Consultation

During the year, the organisation maintained the practice of keeping employees informed about current activities and progress and encouraged employee involvement through formal communication channels: open staff meetings, staff development sessions and the distribution of information in written and electronic formats, including the intranet and the weekly staff update.

Pensions

Creative Scotland participates in two pension schemes: the Arts Council Retirement Plan (1994), and the Strathclyde Pension Fund for legacy Scottish Screen staff. The Strathclyde Pension Fund is closed to new employees.

Creative Scotland recharges the Fund for pension contributions based on the percentage of time spent on lottery activities. As the Fund is not a member of the schemes, the corresponding pension assets and liabilities under International Accounting Standard 19, *Employee Benefits*, are accounted for in the accounts of Creative Scotland.

Payment of creditors

Creative Scotland's policy is to pay creditors within thirty days of a valid invoice or within alternative terms agreed at the point of transaction. During the year ended 31 March 2012, 91% of invoices were paid within the terms of the payment policy (2011: 99%).

The Scottish Government issued an update to the Scottish Public Finance Manual requiring that invoices be paid within ten days of receipt of a valid invoice from 1 December 2008.

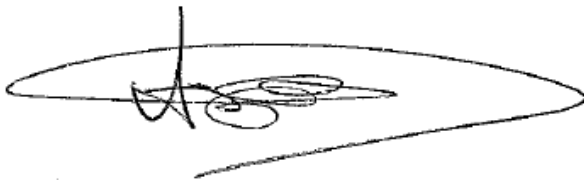
During the year to 31 March 2012, 57% of invoices were paid within 10 days.

These percentages were calculated using the date the invoice was received.

Appointment of External Auditors

The Fund's external auditor is appointed by the Auditor General for Scotland, and for the year ending 31 March 2012, KPMG LLP is the appointed auditor. No non-audit work was undertaken by the auditors during the financial year.

So far as the Accountable Officer is aware, there is no relevant audit information of which the Fund's auditors are unaware and the Accountable Officer has taken all the steps that he ought to have taken in order to make himself aware of any relevant audit information and to establish that the Fund's auditor is aware of that information.

A handwritten signature in black ink, consisting of a large, sweeping oval shape with a vertical line extending upwards from the top center, and several smaller, circular scribbles below the main oval.

Andrew Dixon
Chief Executive of Creative Scotland and Accountable Officer
13 September 2012

Management Commentary

2011/12 has been the first full year of operation for Creative Scotland and a year in which we have delivered significantly against the ambition laid out in our first corporate plan, 'Investing in Scotland's Creative Future', published at the start of the financial year.

To support the Corporate Plan, in April and May 2011, we embarked on a series of 13 road shows across Scotland, from Shetland to Dumfries & Galloway, speaking directly to more than 1300 people and sharing our vision for arts, culture and the creative industries in Scotland. This enabled us to discuss in open forum our plans and to listen to thoughts and suggestions from our partners across the creative community.

Core to our plan are five strategic objectives which we deliver through our 15 investment programmes. Our five strategic objectives are:

We invest in artists and creative talent.

We invest in, and support, artists and creative people across all parts of the creative sector. Artists are, and will remain, central to the delivery of our objectives for the people of Scotland.

We invest in quality artistic production.

We invest in a broad range and diversity of individuals and organisations producing quality creative work including film, dance, theatre, music, visual art, design, craft, literature and publishing, festivals and digital media.

We invest in public engagement.

We invest directly, and work in partnership with others, to improve access to and availability of arts and culture across Scotland. We work to increase the number of people engaging with and participating in arts and culture.

We invest in the cultural economy and a sustainable infrastructure.

We work in partnership with a broad range of organisations to support and grow the cultural economy in Scotland and to help the creative sector thrive.

We invest in places.

We 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.

We remain committed to these objectives and to delivering our vision for arts and culture in Scotland, namely:

That Scotland is recognised as a leading creative nation, one that attracts, develops and retains talent and a nation where the arts play a central role in the lives, education and wellbeing of everyone who lives here.

Highlights of 2011/12

In the past year, we have invested more than £66 million from grant-in-aid and lottery funding in artists and organisations across more than 1,270 separate projects and initiatives. This includes direct investment in organisations that are core to the delivery of arts and culture across Scotland, our Foundation Organisations, Flexibly Funded Organisations and a range of networks and agencies.

One of the highlights of 2011/12 has been the launch of the Year of Creative Scotland, a Scottish Government initiative aimed at celebrating our world class arts, culture and creativity at home and internationally; increasing participation and public engagement; and growing the cultural economy through tourism and investment.

Through 2011/12, we have worked closely with the Scottish Government, VisitScotland and other partners to develop a programme of work that fulfils our ambition for the Year of Creative Scotland. Central to this has been an investment programme in new arts and culture initiatives in 2012 across four themes – culture and tourism boosting the number of visitors who experience our cultural strengths; first in a lifetime, to offer new opportunities to enjoy the arts to those with little previous experience; creative places, rewarding the hard work and imagination of smaller communities across Scotland ; and one-step further, supporting some of our best festivals to show new or different work. In all, we have invested in more than 100 new projects the length and breadth of Scotland specifically as part of the Year of Creative initiative.

One project at the heart of the Year of Creative Scotland has been the first Creative Place Awards, held in January 2012, celebrating Scotland's most creative communities and rewarding this work with investment in places such as Creetown, West Kilbride and St Andrews. This awards programme will run again in 2013 and 2014.

In addition, throughout the year, Creative Scotland has built a fantastic partnership with the London 2012 Festival, ensuring that the Scottish programme for the Festival reaches across and offers opportunities to artists and communities across Scotland. The London 2012 Festival will run across the country through summer 2012.

Artists continue to be central to our work. Our artists residency programme, Creative Futures launched in the autumn of 2010, has invested in more than 370 artists over the two financial years. We have also created 12 talent hubs and two talent incubators in Scotland for investment in artists and creative practitioners and in film launched the Accelerator programme, delivered through the Playwright's Studio and bringing together film directors, producers and writers to make projects happen.

We also continued to fulfil our advocacy role, celebrating and promoting Scottish arts and culture at home and internationally. Throughout the year we have showcased artists, organisations and projects extensively on our web-site which, by March 2012, was receiving nearly 100,000 hits each month. In each of 2011 and 2012 we published, in collaboration with The List, our comprehensive guide to Scotland's festivals. This has been one of the most popular communications initiatives since Creative Scotland came to being and is helping cement Scotland's reputation as the 'festival nation'. Through the Made in Scotland programme as part of the Edinburgh Festival Fringe, we supported and celebrated the best of Scottish theatre and dance, while at Celtic Connections we showcased the best of Scottish traditional and contemporary folk music. Internationally we continue to promote and support the Scottish film industry at international film festivals and industry events around the world.

Our work on promoting Scotland as a place to make films continued to go from strength to strength with some flagship international productions being made in Scotland over the past year including World War Z in Glasgow, Cloud Atlas in Edinburgh, Prometheus on Skye and Under the Skin across Scotland. We will continue to focus on this area of work as a priority in the coming year. We also continued to invest in, and support, producers, directors and filmmakers across Scotland and in 2011/12 we invested more than £3.3m in film and broadcasting initiatives.

2011 saw the development of Creative Scotland's first communications strategy, creating the framework, priorities and tactical plan for our communications activity through 2012 – 2014. It will support our advocacy work for Scotland's arts and culture, the Year of Creative Scotland 2012 and future themed years as well as increasing public engagement with arts, culture and creativity. Our communications strategy also highlights activity that will help us communicate better with the sector and partners through our on-line and written communications.

In terms of contemporary music, in 2011, we helped establish and re-launch the Scottish Music Industry Association (SMIA) with the objective of celebrating and promoting contemporary Scottish music, stimulating industry growth and encouraging positive collaborative working across the industry.

2011/12 was another big year for visual art in Scotland with yet another Scot, Glasgow's Martin Boyce, winning the Turner prize. The Fruitmarket Gallery, with support from the Government Expo fund through Creative Scotland, re-opened Edinburgh's Scotsman Steps integrating the work of another Turner prize-winner, Martin Creed. Across Scotland, initiatives such as Atlas's 'Bonnie Boat' work on Skye and the Year of Creative Scotland-commissioned 'Giants in the Forest' from Vision Mechanics or Luke Fowler's exhibition at Inverleith House ensure that audiences have access to the highest quality work.

Likewise, Scottish literature and publishing continued to benefit from significant Creative Scotland investment. In partnership with Scottish Mortgage Investment Trust, our Book Awards have become the largest literary prize in Scotland, and amongst the largest in the UK. In 2011 we opened up the Awards to a public vote, and received votes from over 40 countries with the Scottish Book of the Year Award going to Jackie Kay for her autobiographical book, *Red Dust Road*.

In early 2011 we launched our new suite of investment programmes and processes, developed in line with our new corporate strategy. Although only launched in May, we undertook a full review just 6 months later. This reflected the fact that the launch in May was just the 1st stage of our planned simplification of investment routes. The review and the subsequent improvements made to the programmes criteria, guidelines and investment processes were informed by a comprehensive 'lessons learnt' log established at the time of the programme launch. The 'log' captured internal as well as importantly external feedback from investment surgeries, our help desk and general queries and points raised in our day to day interaction with the sector. This allowed us to systematically consider each point captured; determine appropriate action and plan implementation. The next stage review is scheduled for the end of the calendar year for implementation in April 2013. This series of reviews reflects our commitment to continuous improvement and how we are continue to strive for both efficiency and transparency in the services we deliver and balancing simplification, while maintaining robust control and accountability.

This work has informed the detailed design specification developed during the year for our new Investment Administration system, which forms part of an integrated suite of ICT systems including a CRM and Financial ledgers. The new ICT system has been subject to external tender and comprehensive evaluation process for the selection of the preferred supplier.

Measuring the effectiveness of, and outcomes from, our work is key to demonstrating the delivery of our objectives. As such in 2011/12 we have continued our work in establishing a set of baseline data, including:

- The scale and value of the cultural economy, through our Economic Impact Study conducted in collaboration with Scottish Enterprise, to be published in June 2012.
- Level of public engagement in arts and culture through our specially designed and managed quarterly survey among a representative sample of the Scottish public, the 'Understanding Scotland's Creativity' study.
- Participation in the arts through the Scottish Household Survey and through annual returns data provided by our partners in the cultural sector and audience development agencies

Future Developments

2012/13 will see the continuation of the Year of Creative Scotland and we will continue to use this as a platform for the celebration and promotion of Scotland's arts and culture nationally and internationally. Key to this will be our ongoing work in partnership with Scottish Government, VisitScotland and other organisations as well as organisation and individuals from across the arts

and culture sector. Summer 2012 will also see the implementation of the London 2012 cultural programme in Scotland which Creative Scotland has curated. 2013 will see the launch of the Year of Natural Scotland which we will support through investment and promotion of initiatives that bring together art and the environment.

In the coming year we will be undertaking the next stage of the rationalisation of our investment programmes and guidelines. This has been a phased transition from our inherited programmes, with the aim of providing a simplified investment route for the sector. Supporting this will be the implementation, following an open tender process, of our new integrated CRM, Investment Administration and Finance systems. These have been developed aligned with our broader ambitions to deliver excellence in customer service and will focus on user friendly, web based interface for investment applicants and will be in place by April 2013.

We are undertaking a review of all our written materials and communications with the aim of introducing standards of simplicity, clarity and plain English. This is an ongoing process but will begin to roll out in 2012/13.

2012/13 will also see significant investment in securing a sustainable future for Scotlands artistic and cultural infrastructure through our Capital Programme and continued investment in organisations, individuals and projects through our other investment programmes.

2012/13 will also see, on the 1 August 2012, the final of our scheduled fifteen payments to the Olympic Lottery Distribution Fund. This final payment will bring the total contribution from Creative Scotland and previously Scottish Arts Council and Scottish Screen to £14.3 million. This translates, full year, as an increase in available funds moving forward of £3.9 million.

Financial review

Income and Expenditure Account

Creative Scotland was established 1 July 2010. Comparative figures for 2010/11 therefore reflect three months of activity for the predecessor bodies and nine months for Creative Scotland.

Creative Scotland's share of proceeds from the National Lottery Fund during the year to 31 March 2012 was £27.3 million, (2011: £23.2 million). A total of £213,000 (2011: £85,000) was recouped from projects funded in previous years. Other income of £237,000 (2011: £676,000) brought the total income to £27.8 million (2011: £23.9 million)

Commitments entered into during 2010-2011 totalled £20.2 million (2011: £12.9 million). Expenditure on projects during the year was £574,000 (2011: £375,000). Expenditure on staff and other operating costs was £2.2 million (2011: £1.8 million). De-commitments during 2011/12 of prior year awards amounted to £545,000 (2011: £4.9 million). Staff, overhead and related costs were recharged from Creative Scotland's grant in aid funded statements. The slight increase in staff, overheads and related costs reflects our review during the year of the recharge methodology which now better reflects the allocation of staff resources in managing the distribution of Lottery funds. In addition, during the year there was a transfer of £3.862 million to the Olympic Lottery Distribution Fund (2011: £3.862million) bringing total expenditure to £26.3 million (2011: £14.1 million).

The net result for the period is a surplus of £1.5 million, (2011: £9.8 million).

Throughout the financial year a suite of newly developed investment programmes were launched, which is reflected in the significant increase in commitments made in year in comparison with 2010/11. One of the new programmes, the Large Scale Capital programme, was launched at the end of the financial year on the 22 March 2012. The applications for this will be considered and awarded in 2012/13. To support this new programme in 2012/13, £5.5 million

allocated in 2011/12 has been ring fenced in the year end reserves for inclusion within the 2012/13 programme budget. The total budget for the programme over the next four years is £35 million.

Balance Sheet

The total net assets of £13.3 million (2011: £11.8 million) are represented by a general reserve to fund future commitments. The reserves position does not reflect the £6.7 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. Soft and other commitments are disclosed in Note 16.

Environmental

Environmentally, we are committed to reducing the environmental impact of our own operations, as well as carbon efficiency and sustainable behaviours across the arts and culture sector. In 2011, we established a partnership with Creative Carbon Scotland who will work with the cultural sector to improve carbon management and sustainable operational practices. The Year of Natural Scotland 2013 will provide the cultural sector with a focus on environmental issues and to work more closely with environmental agencies.

We are committed to reducing our own carbon footprint and to promoting resource efficiency, recognising the contribution this makes to sustainability. Operational efficiencies such as centralised printing, full recycling facilities and energy efficient lighting at our headquarters in Edinburgh and at our Glasgow offices reflect our commitment to reducing our environmental impact. In terms of staff travel, the majority of this is conducted on public transport and, wherever possible, air travel is replaced by rail travel.

2012/13 will see the development and publication of Creative Scotland's first carbon management plan as well as guidance for the arts and culture sector on sustainable behaviours.

Creative Scotland will be developing a sustainability report in line with Scottish Government guidance.

Equalities

Our work around equalities continues to make progress, placing the principles of equality, access and diversity at the heart of our operations and our activity. An internal Equalities Advisory Group of staff volunteers and 'equality champions' has developed Creative Scotland's Equalities Plan to address our legislative requirements. Staff have also received training on our equalities requirements. We have also held a series of events for staff focussing on specific equalities issues such as disability, ethnicity and sexuality. Creative Scotland has achieved re-accreditation of Disability 2 Ticks status and is a member of the Stonewall Diversity Champions programme and staff have attended Stonewall seminars and events throughout the year. Equalities resources are also available to all staff via our intranet.

In 2011/12, Creative Scotland also invested in a range of organisations including, for example, Solar Bear theatre company and their initiative 'National Deaf Theatre Cub' which aims to engage with deaf audiences nationwide; and Drake Music Scotland who use pioneering technology, as well as traditional instruments, to create music with disabled children and adults. We have also supported the Promoting Equalities Programme which is designed to put equalities at the heart of the creative agenda through working with selected cultural organisations who will then act as exemplars for the sector.

Statement of Accounting Officer's responsibilities

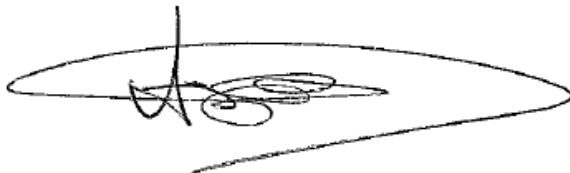
Under Section 34(3) of the National Lottery Act 1993, the Scottish Government has directed Creative Scotland to prepare for each financial year

- 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, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accountable 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 Ministers including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates that are 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 annual report and accounts;
- and prepare the annual report and accounts on the 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 Accounting 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 the Scottish Ministers.



Andrew Dixon
Chief Executive of Creative Scotland and Accountable Officer
13 September 2012

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 1st 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 two standing committees, the Audit and Risk Committee and the Remuneration Committee. During the year a review of the Committee structure was undertaken by the Chair and two key developments were made. The first was to expand the current Remuneration Committees remit to include Governance matters; the second was to establish a new Committee, the Chairs' Committee. The purpose of the Chairs' Committee was to give the Board the flexibility to deal with matters out with the programmed Board meeting schedule. Updated and new terms of reference were developed for the Remuneration and Governance Committee and for the Chairs' Committee, respectively. As good practice, terms of reference were also developed for the Board. These pulled 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. The updated and new terms of reference were approved by the Board at its meeting of the 9 March 2012.

Operation of the Board

To facilitate effective planning the Board and Committee schedule for 2011/12 was set at its first meeting in August 2010. The schedule for 2012/13 was likewise approved by the Board in December 2011. The schedule reflects the key programmed activities of the Board and Committees, covering statutory and regulatory obligations. The Board meets at least four times a year.

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 twice 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 Creative Scotland's new HR policies. The Committee at future meetings will also, as required, consider matters in relation to Board governance including consideration of Board skills and expertise composition and advising Scottish Government on Board recruitment; Board induction and training; Board performance; and matters relating to Board code of conduct and conflicts of interest.

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

The Chairs' Committee did not meet during the financial year as was only formally constituted in March 2012. However since then the Committee has met three times, with findings reported to the Board at the next scheduled meetings in June and September 2012.

The Board performance has been assessed during the year. The Chairman has conducted interviews and completed formal appraisals for all Board members, which have been submitted to the Scottish Government in line with our formal reporting requirement. As part of our focus on continual improvement we are currently considering how we can further develop the Board performance management process both in terms of individual member's performance as well as that of the Board and Committees. We are looking to other organisations for examples of best practice to inform this work.

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 2012 and up to the date of approval of the annual report and accounts.

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 reports found that there are adequate controls in place within Creative Scotland.

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 2012 and up to the signing of the accounts the organisation has continued progressing through the final areas of transition, in the development and establishment of effective and appropriateness systems, processes and controls.

Significant further developments have been made during the financial year, including the development of our budgetary and management reporting processes and schedules including the production of monthly management accounts and reports; project/adhoc budget reporting and monthly scheduled budget meetings. New terms and conditions of employment have been agreed and implemented during the year. A communications strategy has been developed and approved by the Board focusing on our engagement with our sector and key stakeholders. As scheduled we have also undertaken a full review of our investment programmes and processes, informed by a comprehensive 'lessons learnt' log which recorded all issues or ideas identified post initial implementation of the programmes and processes. The revised programmes and processes from this review were implemented at the start of the financial year 2012/13. A further review is programmed for later in the year, again informed by the 'lesson learnt' log.

At present we are also progressing with the development of a suite of integrated software solutions, including Finance (processing and reporting), Investment Administration and reporting and CRM/Contacts management, which will be implemented during 2012/13. During 2012/13 we will also be implementing the new HR system as well as the new Pay and Grading and job evaluation framework.

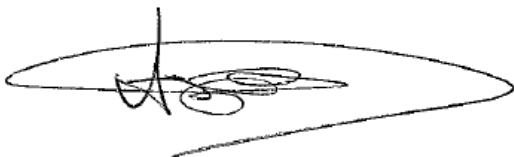
Risk management

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 standing agenda item at weekly senior management meetings and risk management is fully incorporated into the corporate planning and decision making processes of the organisation. The Register is also a standing item at each Audit and Risk Committee meeting and in addition to ongoing 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 successfully 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 with the Accountable Officer/Chief Executive and Director of Finance and Operations and further guidance is given before any action is taken.



Andrew Dixon
Chief Executive of Creative Scotland and Accountable Officer
13 September 2012

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 was reimbursed to board members in accordance with established expenses policies:

	2011/12	2010/11
	£	£
Travel	2,087	561
Subsistence	418	7
Accommodation	176	225
Other	<u>1,431</u>	-
	<u>4,112</u>	<u>793</u>

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
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.

Chief Executive's remuneration

	2010-12	2010/11
	£'000s	£'000s
Emoluments of the Chief Executive:		
Remuneration*	130	97*
Other taxable benefits	-	-
Employer's pension scheme contributions	<u>31</u>	<u>31</u>
	<u>161</u>	<u>128</u>

* 2010/11 comparators are for the nine month period 1 July 2010 to 31 March 2011. For the period from 1 May 2010 to 30 June 2010, the Chief Executive was paid through a separate legal entity, Creative Scotland 2009 Limited, which was established to support the transition to Creative Scotland.

The Chief Executive is an ordinary member of the Arts Council Retirement Plan (1994) pension scheme. Pension disclosures for 2010/11 include a backdated contribution for May and June 2010, as Andrew was unable to join the pension scheme prior to 1 July as Creative Scotland 2009 Limited was not an admitted body.

Salary and pension entitlements

Name	2011/12			2010/11		
	Salary £'000	Bonus £'000	Benefits in kind	Salary £'000	Bonus £'000	Benefits in kind
Venu Dhupa	70-75	-	-	70-75	-	-
Kenneth Fowler (from 15/08/11)	40-45	-	-	-	-	-
Alyson Hagan	65-70	-	-	65-70	-	-
Karen Lannigan (salary shown reflects 0.8fte)	35-40	-	-	35-40	-	-
Iain Munro	60-65	-	-	60-65	-	-
Caroline Parkinson	60-65	-	-	60-65	-	-

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. The Fund is recharged a proportion of the Senior Management Team's salaries based on an established methodology for recharges. For the year ending 31 March 2012, recharges of £148,000 were made to the Fund from Creative Scotland for the Senior Management Team's salaries.

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 are paid.

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. No benefits in kind are paid.

Senior staff pension accrued as at 31 March 2011:

Name	Accrued pension (lump sum) 31 March 2012	Accrued pension (lump sum) 31 March 2011	Real increase in pension (lump sum)	CETV 31 March 2012	CETV 31 March 2011	Real increase in CCTV
£'000						
Andrew Dixon	0-5 (5-10)	0-5 (0-5)	0-2.5 (2.5-5)	44	17	27
Venu Dhupa	0-5 (0-5)	0-5 (0-5)	0-2.5 (2.5-5)	19	6	12
Kenneth Fowler	0-5 (0-5)	-	0-2.5 (0-2.5)	6	-	6
Alyson Hagan	10-15 (15-20)	5-10 (15-20)	0-2.5 (0-2.5)	110	80	30
Karen Lannigan	0-5 (5-10)	0-5 (0-5)	0-2.5 (0-2.5)	39	24	15
Iain Munro	10-15 (35-40)	10-15 (30-35)	0-2.5 (2.5-5)	138	91	43
Caroline Parkinson	0-5 (0-5)	0-5 (0-5)	0-2.5 (0-2.5)	15	4	11

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 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.

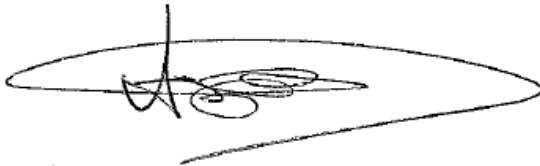
Median pay multiples

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 2011/12 was £125-£130,000. This was 4.56 times the median remuneration of the workforce, which was £28,373.

In 2011/12 there were no employees receiving remuneration in excess of the highest-paid director (2010/11: 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.

A handwritten signature in black ink, appearing to read 'AD', enclosed within a large, irregular oval shape.

Andrew Dixon
Chief Executive of Creative Scotland and Accountable Officer
13 September 2012

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

We have audited the financial statements of Creative Scotland National Lottery Fund for the year ended 31 March 2012 set out on pages 24 to 41. 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 HM Treasury Financial Reporting Manual 2011-12.

This report is made solely to Creative Scotland 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 Creative Scotland 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 13, the Accountable Officer is responsible for the preparation of financial statements which 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 2012 and of its net increase in funds 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 HM Treasury Financial Reporting Manual 2011-12; and
- have been prepared in accordance with the requirements of the National Lottery etc. Act 1993 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.

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 National Lottery etc. Act 1993 and directions made thereunder by the Scottish Ministers; and
- the information given in the Directors' 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.

DJ Watt
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ
13 September 2012

Statement of Comprehensive Income
for the year ended 31 March 2012

	Notes	2011/12 £'000s	2010/11 £'000s
Income			
National Lottery Fund proceeds	3	27,342	23,159
Other income	4	<u>450</u>	<u>761</u>
		<u>27,792</u>	<u>23,920</u>
Expenditure			
Award commitments	5a	20,218	12,939
Less: de-commitment of prior year awards	5b	(545)	(4,862)
Project expenditure		574	375
Staff costs	6	1,240	1,341
Depreciation	9	-	-
Other Operating costs	8	951	498
Transfer to Olympic Lottery Distribution Fund	3	<u>3,862</u>	<u>3,862</u>
		<u>26,300</u>	<u>14,153</u>
Operating surplus (before tax)		<u>1,492</u>	<u>9,767</u>
Corporation tax	8	=	=
Increase in the Fund		<u>1,492</u>	<u>9,767</u>

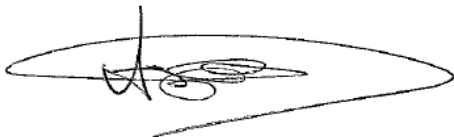
All the results of the Fund relate to continuing activities.

The notes on pages 25 to 38 form part of these annual report and accounts.

Statement of Financial Position
as at 31 March 2012

	Note	31 March 2012 £'000s	31 March 2011 £'000s
Non-Current Assets			
Property, plant and equipment	9	<u>0</u>	<u>0</u>
<i>Total non-Current Assets</i>		0	0
Current assets			
Trade and other receivables	10	23	737
Loan receivables	11	167	135
Investments in the NLDF	12	29,770	29,389
Cash and cash equivalents	13	<u>299</u>	<u>292</u>
Total current assets		<u>30,259</u>	<u>30,553</u>
Total Assets		<u>30,259</u>	<u>30,553</u>
Current liabilities			
Trade and other payables	14	<u>16,674</u>	<u>16,371</u>
Total current liabilities		<u>16,674</u>	<u>16,371</u>
Non-current assets plus/less current assets/liabilities		<u>13,585</u>	<u>14,182</u>
Non-current liabilities			
Provisions for liabilities and charges	15	122	122
Grants: amounts falling due after more than one year	14	<u>144</u>	<u>2,233</u>
		<u>266</u>	<u>2,355</u>
Assets less liabilities		<u>13,319</u>	<u>11,827</u>
Represented by:			
Reserves			
General reserve		<u>13,319</u>	<u>11,827</u>

The Accountable Officer authorised this annual report and accounts for issue on 13 September 2012.



Andrew Dixon
Chief Executive of Creative Scotland and Accountable Officer
13 September 2012

The notes on pages 25 to 38 form part of these annual report and accounts.

Statement of Cash Flows
for the year ended 31 March 2012

	2011/12 £'000s	2010/11 £'000s
Cash flows from operating activities		
(Deficit) / surplus on ordinary activities	1,492	9,767
<i>Movements in working capital</i>		
Decrease/(Increase) in trade receivables	682	(431)
(Decrease)/Increase in trade payables	(1,786)	(7,239)
Decrease/(Increase) in NLDF investments	<u>(381)</u>	<u>(2,798)</u>
Net cash flow from operating activities	7	(701)
Net increase / (decrease) in cash and cash equivalents	<u>7</u>	<u>(701)</u>
Net cash and cash equivalents as at 1 April	292	993
Net cash and cash equivalents as at 31 March	299	292

<i>Analysis of changes in net funds</i>	1 April 2011 £'000s	Movement £'000s	31 March 2012 £'000s
Cash at bank and in hand	292	7	299
Bank overdrafts	-	-	-
	<u>292</u>	<u>7</u>	<u>299</u>

Statement of changes in equity
for the year ended 31 March 2012

	2011/12 £'000s	2010/11 £'000s
Opening general reserve at 1 April	11,827	2,060
Transferred from income and expenditure account	<u>1,492</u>	<u>9,767</u>
Closing general reserve at 31 March	<u>13,319</u>	<u>11,827</u>

The notes on pages 25 to 38 form part of these annual report and accounts.

Notes to the accounts for the year ended 31 March 2012

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 2011/12 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.

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 2011/12 by the National Lottery Commission.
- Completion of the audit of the National Lottery Distribution Fund accounts for 2011/12 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.

n) Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit and loss.

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 2011/12 have been based on the advice of our tax advisors and correspondence with Her Majesty's Revenue and Customs.

2 Segmental Analysis as at 31 March 2012

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 income and expenditure account, whereas soft and other commitments are disclosed by way of a note:

Award commitments	Hard	Soft	Other
Legacy programmes			
Creative Industries Partnership	10	3	-
Film, Skills & talent development	323	-	-
Technology, digital media & market development	2	22	-
Education, learning & young people	300	-	-
Participation, equalities & audience Development	173	-	-
Special Projects	891	65	-
Festivals, Touring & Dance	528	-	-
International, Cultural Export & Visual	70	-	-
Film Locations and Production Investments	500	500	-
Our Place In a Creative Scotland	80	-	-
Partnership Match Funding	520	154	-
Broadcasting Partnership	50	-	-
Year Of Creative Scotland	512	-	-
Traditional Arts	80	-	-
Legacy Awards (Scottish Screen and Scottish Arts Council)	201	14	-
Film & Broadcasting - Broadcasting Partnerships	23	-	-
Creative Scotland current programmes			
Flexible Funded Organisation	495	-	-
Talent	105	100	-
Film & TV Production	2,434	568	325
Quality Arts Production	2,729	606	-
Theatre, Festivals & Events	1,896	614	9
Access, Audience Development & Participation	553	112	320
Capital	698	539	5
Place - Partnership with LA's	150	1,055	-
Cultural Economy	2,040	149	100
National Events 2012/14	3,304	1,248	40
Education Strategic Development	55	117	-
Equalities - Strategic Development	95	53	-
Network Agencies	940	2	-
Advocacy	5	-	-
Awards for all	456	-	-
	20,218	5,921	799
Other expenditure			
Project expenditure	574		
Staff costs	1,240		
Other operating costs	951		
Transfer to Olympic Lottery Distribution Fund	3,862		
De-commitment of prior year awards	(545)		
Total expenditure	6,082		
Income			
National Lottery proceeds	27,342		
Other income	450		
	27,792		

3 National Lottery Proceeds

	2011/12 £'000s	2010/11 £'000s
Share of income from NLDF	26,848	22,937
Investment income	193	267
Movement in revaluation reserve	301	(45)
	27,342	23,159

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

4 Other income

	2011/12 £'000s	2010/11 £'000s
Bank interest	-	2
Legacy Trust UK	237	674
Award repayments	213	85
	450	761

Legacy Trust UK income represents income due from that organisation to the Fund for a series of joint projects.

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

5a) Award Commitments (hard)

	2011/12 £'000s	2010/11 £'000s
Legacy programmes		
Creative Industries Partnership	10	827
Film, Skills & talent development	323	3,299
Music, IP development	-	204
Technology, digital media & market development	2	1,019
Education, learning & young people	300	15
Participation, equalities & audience development	173	1,161
Special Projects	891	2,807
Festivals, Touring & Dance	528	2,249
International, Cultural Export & Visual	70	637
Film Locations and Production Investments	500	-
Our Place In a Creative Scotland	80	150
Partnership Match Funding	520	76
Broadcasting Partnership	50	100
Year Of Creative Scotland	512	-
Traditional Arts	80	-
Legacy Awards (SS/SAC)	201	-

Film & Broadcasting - Broadcasting Partnerships	23	-
Literature, publishing & language	-	175
Theatre & broadcasting partnerships	-	220
Creative Scotland current programmes		
Flexible Funded Organisation	495	
Talent	105	-
Film & TV Production	2,434	-
Quality Arts Production	2,729	-
Theatre, Festivals & Events	1,896	-
Access, Audience Development & Participation	553	-
Capital	698	-
Place - Partnership with LA's	150	-
Cultural Economy	2,040	-
National Events 2012/14	3,304	-
Education Strategic Development	55	-
Equalities - Strategic Development	95	-
Network Agencies	940	-
Advocacy	5	-
Awards for all	456	-
	20,218	12,939

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

This represents a total of £545,000 of awards relating to prior year (hard) commitments, which were de-committed during 2011/12 (2010/11: £4,862,000).

6 Staff costs

	2011/12 £'000s	2010/11 £'000s
Staff costs during the year		
Wages and salaries	992	1,059
Social security costs	73	75
Other pension costs	175	210
Holiday accrual	-	(3)
	1,240	1,341

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 37% (2010/11: 30%).

	Number 2011/12	Number 2010/11
Average number of persons employed on NLDF activities (FTE)	33	31

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 2012. No asset or liability for Creative Scotland's pension schemes are held within these accounts.

7 Other operating expenses

	2011/12 £'000s Direct	2011/12 £'000s Recharged	2011/12 £'000s Total	2010/11 £'000s Total
HR costs	-	-	-	1
Establishment costs	-	348	348	248
ICT costs	-	65	65	49
Operations costs	13	-	13	23
Office services costs	-	33	33	(22)
Audit fees	32	9	41	43
Depreciation	-	-	-	8
Legal & professional fees	89	-	89	61
Communications costs	-	15	15	1
External Relations	122	-	122	2
Direct delivery (inc external assessors)	105	-	105	46
Policy and Research	46	-	46	-
Awards for all overheads	74	-	74	38
	481	470	951	498

8 Corporation tax

Corporation tax is due on the bank interest received in the year based on the standard rate of corporation tax of 21%. For the year ending 31 March 2012, corporation tax of £16.82 was payable to HMRC for Lottery activities.

9 Property, plant and equipment

	Fixtures and fittings £'000s	IT Equipment £'000s	Total £'000s
Cost or revaluation			
As at 1 April 2010	35	15	50
Disposals	(35)	(15)	(50)
As at 31 March 2011	<u>-</u>	<u>-</u>	<u>-</u>
Depreciation			
As at 1 April 2010	35	15	50
Disposals	(35)	(15)	(50)
As at 31 March 2011	<u>-</u>	<u>-</u>	<u>-</u>
Net Book value as at 31 March 2012	-	-	-
Net Book value as at 31 March 2011	-	-	-

10 Trade receivables and other current assets

	31 March 2012 £'000s	31 March 2011 £'000s
Trade receivables	-	27
Recoupment receivables	20	83
Sundry receivables	3	627
	<u>23</u>	<u>737</u>

11 Loan receivables

	31 March 2012 £'000s	31 March 2011 £'000s
Balance at 1 April	135	158
New loans advances in year	50	-
Repayments	(4)	(23)
Impairment charge	(14)	-
Balance at 31 March	<u>167</u>	<u>135</u>

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 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 2012 £'000s	31 March 2011 £'000s
Brought forward at 1 April	29,389	26,591
Adjustment to reflect market value	-	(14)
Brought forward market value	29,389	26,577
Income received from Lottery	26,848	22,937
Investment Income	193	267
Funds Drawn Down	(23,099)	(16,499)
Transfer To Olympic Lottery Distribution Fund	(3,862)	(3,862)
Carried forward at 31 March	<u>29,469</u>	<u>29,420</u>
Movement in revaluation reserve	301	(31)
Closing market value at 31 March	<u>29,770</u>	<u>29,389</u>

The closing market value as at 31 March 2012 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, Olympics, 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 2012 £'000s	31 March 2011 £'000s
Balance at 1 April	292	993
Net change in cash and cash equivalents	7	(701)
Balance at 31 March	<u>299</u>	<u>292</u>
The following balances at 31 March 2012 were held at:		
Commercial banks	299	292
Cash in hand	-	-
	<u>299</u>	<u>292</u>

14 Trade and other payables

	31 March 2012 £'000s	31 March 2011 £'000s
Trade Creditors	258	-
Awards outstanding (hard commitments)	13,295	13,207
Accruals	228	92
Due to Creative Scotland	2,833	3,072
Deferred income	60	-
	16,674	16,371
Non-current liabilities	144	2,233
Awards outstanding (hard commitments)	144	2,233

15 Provisions for liabilities and charges

Lease dilapidation

Creative Scotland holds three leases; 249 West George Street, Glasgow; 10-14 Manor Place, Edinburgh and 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.

In relation to 249 West George Street a provision was established in 2006-07 and was made in subsequent years to 2008-09, based on the best estimate of the present value of expenditure required to settle the obligation. The total estimate of dilapidation costs of £167,000 has now been fully recognised and as such, it is not anticipated that any future provision will be required to cover dilapidation expenses. The lease for this property expires on 27 May 2014 and at that point, the provision will be expended.

In relation to 10-14 Manor Place, Edinburgh during 2007-08 a provision 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, the figure below represents Creative Scotland GIA share of this cost, fully recognised by the Scottish Arts Council in 2009-10. The balance of the £393,000 had been allocated to Scottish Arts Council National Lottery Distribution fund, in line with their policy on recharge of costs and is presented as a carried forward provision in the Creative Scotland National Lottery Distribution Fund Accounts and Report for 2010/11.

2/4 Waterloo Place, Edinburgh is the new Edinburgh office. The period of the lease is 15 years from the date of entry of 20 October 2010, and after full fit out all Edinburgh based staff relocated from Manor Place on the 31 January 2011.

	Lease Dilapidation £'000s	Total £'000s	Total £'000s
Balance at 1 April 2011	122	122	119
Arising in the year	-	-	3
Balance at 31 March 2012	122	122	122

16 Soft commitments

	31 March 2012	31 March 2011
	£'000s	£'000s
Balance at 1 April	1,505	2,163
Awards withdrawn	(25)	(586)
Accepted in year	(1,267)	(1,338)
Amounts committed in year*	5,708	1,266
Balance at 31 March	5,921	1,505

*Awards made but not accepted at 31 March 2012

In addition to soft commitments Creative Scotland approved investments ('other') of £799,000, (2010/11 £3.723 million) within the year, for which offers had not been issued as at 31 March 2012.

17 Hard commitments

	31 March 2012	31 March 2011
	£'000s	£'000s
Balance at 1 April	15,440	25,423
De-commitment of prior year awards*	(545)	(4,862)
Committed in year	20,218	12,939
Paid in year	(21,674)	(18,060)
Balance at 31 March	13,439	15,440
Due within one year	13,295	13,207
Due within one to two years	111	2,083
Due within two to three years	33	150
	13,439	15,440

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 2011, the balance held at the NLDF was £29.4 million. This has increased to £29.7 million by 31 March 2012, at which point there were £13.4 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.

18a) Liquidity risk

During the financial year, 98.4% of the Fund's income derived from National Lottery proceeds. The remaining income is derived from bank interest and award repayments of 0.8%, and from other income in relation to the Legacy Trust project, of 0.9%.

At the balance sheet date, Creative Scotland National Lottery Distribution Fund had net assets of £13.3 million.

18b) 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.

18c) 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 £29.7 million. In the year, the average return on these investments was 2.26%.

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 £299,000. We consider that we are not exposed to significant interest rate risks on our cash balances.

18d) Foreign currency risk

Our exposure to foreign currency risk is not significant as less than -.4% of transactions by value are processed in currencies other than sterling when compared to total operating costs.

19 Olympic Lottery Distribution Fund contribution

	2011/12	2010/11
	£'000s	£'000s
Balance owing to OLDF	1,798	5,659

Creative Scotland, along with the other Lottery distributors, is required to make a contribution from balances to help fund the 2012 Olympics Games in London. Contributions of £1.870 million and £12.478 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.

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

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 (1 July 2010 to date)

Professor Robin MacPherson

- Professor at Edinburgh Napier University. The University received GIA funding for three awards: £8,305 for Talent and Professional Development to the Institute for Creative Industries; £60,000 for Screen Academy Scotland for Creative Futures; and £60,000 for Screen NETS for Talent and Professional Development.

Barclay Price

- Chief Executive of Arts and Business Scotland. The company received £24,000 in lottery funding for the development of the crowd funding site, angelshares.com

Gayle McPherson

- Board member of Glasgow East Arts Company, The organisation received £30,000 in lottery funding for development of office space for artists and creative companies.

Gwilym Gibbons

- Director of Shetland Arts Development Agency. The Agency received £50,000 in lottery funding for 2012/14 Festivals and Events.
- Director of the Promoters Arts Network (PAN). The organisation received £65,000 in lottery funding for Quality Arts Production

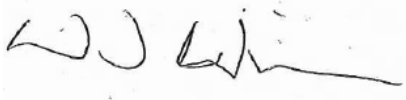


CREATIVE SCOTLAND

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 (FRM) 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 which ever is the lower,) it will be necessary to treat the repayment as an adjusting event in terms of IAS 10.



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