



## **Creative Scotland**

National Lottery Distribution Fund Annual Report and Accounts  
For the year ended 31<sup>st</sup> March 2011





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For the year ended 31<sup>st</sup> March 2011

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

Ordered by the House of Commons to be printed  
19 December 2011

Laid before the Scottish Parliament by the Scottish Ministers  
December 2011

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This publication is also available for download at [www.official-documents.gov.uk](http://www.official-documents.gov.uk).

ISBN: 9780102952391

Printed in the UK for The Stationery Office Limited  
on behalf of the Controller of Her Majesty's Stationery Office.

12/11

Printed on paper containing 75% recycled fibre content minimum.

## **National Lottery Distribution Fund Annual Report and Accounts**

### **Statement of Account Prepared Pursuant to Section 35 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 is the National Body responsible for distribution of lottery funds towards the support of cultural, artistic and creative activities.

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.

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 35 of Part II of the National Lottery etc. Act 1993.

The annual report and accounts for 2010/11 are being produced in line with merger accounting and therefore reflect the period from 1 April 2010 to 31 March 2011. Additional detailed reporting is disclosed within the annual report and accounts showing the assets vested from Scottish Screen and the Scottish Arts Council.

The Accountable Officer authorised these annual report and accounts for issue on 16 September 2011.

#### National Lottery Distribution Fund

At 31 March 2011 the balance held under the stewardship of the National Lottery Distribution Fund available to Creative Scotland was £29.389 million (2009-2010, £26.591 million). During the year to 31 March 2011 £16.499 million (2009-2010, £24.782 million), was called down from the Distribution Fund for the payment of approved awards and administration of Creative Scotland's Lottery Fund.

#### Review of Activities

Firm commitments of awards totalling £12.939 million (2009-2010, £19.964 million) were made during the year in support of a range of projects.

Firm commitments over £100k made during the year:

<b>Creative Industries partnerships:</b>		£
	Wasp Creative Industries	704,866
<b>Film Skills &amp; Talent Development:</b>		
	Initialize Films (Scotland)	115,000
	Docscene	125,000
	Incubator	125,000
	Citadel	150,000
	You Instead (aka In the Park)	200,000
	Field Of Blood	250,000
	The Decoy Bride	300,000
	Outpost II	300,000
	The Awakening	300,000
<b>Technology Digital Media &amp; Market Development:</b>		
	Festivals Edinburgh Limited	300,000
<b>Participation, Equalities &amp; Audience Development:</b>		
	National Lottery Charities Board	123,699
<b>Special Projects:</b>		
	Arts Council England	100,000
	The WASPS Trust	112,000
	Invergordon Off The Wall	200,174
	Culture And Sport Glasgow	500,000
	Workshop And Artists' Studio Provision (Scotland)	709,975
<b>Festivals, Touring &amp; Dance:</b>		
	Festival City Theatres Trust	105,000
<b>International, Cultural Export &amp; Visual:</b>		
	Centre for Contemporary Arts	515,658
<b>Theatre &amp; Broadcasting:</b>		
	Royal Lyceum Theatre Company Limited	100,000
<b>Our place in Creative Scotland:</b>		
	EIFF Resilience	150,000
<b>Broadcasting Partnership:</b>		
	Channel 4	100,000
<b>TOTAL</b>		<b>5,586,372</b>

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

## Board of Directors

The Creative Scotland Board of Directors was appointed on the 1<sup>st</sup> July 2010:

Sir Sandy Crombie (Chair)  
Peter Cabrelli  
Gwilym Gibbons  
Steve Grimmond  
Robin Macpherson  
Gayle McPherson  
Barclay Price  
Gary West  
Ruth Wishart

The Board have been appointed for periods of either two or four years. These differing periods have been set to reflect previous membership of associated Boards 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, to be appointed by Scottish Ministers. Work is commencing to recruit additional members.

Comprehensive Board induction was undertaken at the first meeting of the Board on the 12 August 2010 and this has been further supported by the provision of CIPFA 'On Board' training as required. Key governance arrangements were also established at the first meeting and include the adoption of the Model Code of Conduct and responsibilities under the Ethical Standards in Public Life etc (Scotland) Act 2000; establishment of the Committee structure, membership and terms of reference; Board quorum; delegated authority levels and the Board and Committee meeting schedule, reflecting the key corporate duties to March 2012.

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.

The Scottish Screen and Scottish Arts Council Board directors resigned 30 June 2010 (1 April to 30 June 2010):

Richard Holloway (Chair)  
Ray Macfarlane (Deputy Chair)  
Donald Emslie  
Steve Grimmond  
Charles Lovatt  
Barbara McKissack

James McSharry  
John Mulgrew  
Robert Noakes  
Benjamin Twist

The Board of Scottish Screen and the Scottish Arts Council resigned on the 30<sup>th</sup> June on the establishment of Creative Scotland. We would like to extend our sincere thanks to them for their support during their terms of appointment.

Reflecting Scottish Screen and Scottish Screen Enterprises' status as companies limited by guarantee, Andrew Dixon was appointed as sole Director of Scottish Screen and Scottish Screen Enterprises effective from 1st July 2010 to undertake all necessary duties in transferring the assets and activities of both companies to Creative Scotland and striking off.

#### External Assessors and Specialist Advisors

Scottish Screen and Scottish Arts Council both utilised external experts to support effective decision making. Creative Scotland continues to recognise the importance of external experts' input into our decision making process and has during the year continued to call on an established resource of external experts covering a wide spectrum of knowledge and experience.

All external assessors and specialist advisors are contracted and paid for their services.

During the financial year a review of use of specialist advisors/external assessors was undertaken to ensure the use of external advice complements our newly developed Investment Programmes, launched in May 2011. All existing contracts were cancelled as at 31 March 2011. Moving forward we will not be establishing decision making panels but will utilise contracted external expertise as we require.

#### Property, Plant and Equipment

The intention is to write off the property, plant and equipment presented at note 9 to the accounts. No future assets will be held solely for Lottery use.

#### Pensions

Details of the treatment of pension liabilities are included within the accounting policy notes and in note 7 to the accounts.

#### Appointment of Auditors

Creative Scotland's accounts are audited by Scott-Moncrieff, as appointed by Audit Scotland. The fees chargeable for audit services provided by the appointed auditors in the year to 31 March 2011 were £33,622 (2010: £43,940). No non-audit work was undertaken by the auditors during the financial year.



## 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 fair and robust job matching and internal recruitment process, in consultation with union representatives, ensuring effective staff transition to roles within the Creative Scotland structure. 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 2010/11 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. To ensure Creative Scotland staff were best equipped to manage the Creative Scotland transition process the training programme also incorporated Change Management and Career Management training for all staff. On a more technical area, the programme also included Project Management training. This recognised that although project management was a standard activity across the organisation that knowledge and understanding of project management methodology would enhance existing skills and therefore improve organisational effectiveness. In the delivery of the training programme a wide range of development mechanisms were utilised - external training suppliers, internally developed training sessions, 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. Providing and promoting equality of opportunity through the employment and services we provide is of fundamental importance to us and during the year Creative Scotland has achieved re-accreditation of Disability 2 Ticks status and membership of Stonewall's Diversity Champions programme. To ensure we deliver against our commitments, and as part of our development programme, all Creative Scotland staff attend 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.

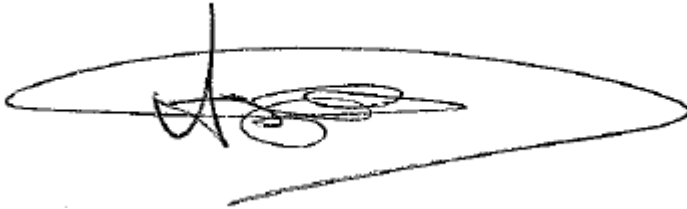
## Payment of creditors

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 2011, 99% of invoices were paid within the terms of the payment policy (31 March 2010: Scottish Screen 99%; Scottish Arts Council 96%).

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 2011, 90% of invoices were paid within 10 days.

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

A handwritten signature in black ink, consisting of a large, sweeping oval shape with a vertical line extending upwards from the center, and several smaller loops and strokes within the oval.

Andrew Dixon  
**Chief Executive and Accountable Officer**  
**16 September 2011**

## **Management Commentary**

2010/11 has been a year of transition for Creative Scotland. Establishing a new organisation; winding down two predecessor organisations and managing all the highly technical as well as cultural and practical issues which that brings.

The transition work continues into 2011/12 but a lot has been achieved already in Creative Scotland's nine months of existence, some details of which are reflected through the annual report. One of the key successes was the fit out and relocation of the Edinburgh Office from its site at Manor Place to its newly designed office space at Waverley Gate. This brought practical benefits in moving from three Georgian townhouses to an open plan environment as well as cultural benefits in encouraging greater cross discipline working supporting our objective in moving away from 'silo' working. During 2011/12 a full Estate Strategy will be developed.

### Investment

Creative Scotland was established at the start of the second quarter of the financial year and as such a large number of Scottish Screen and Scottish Arts Council programmes of activity and investment were already 'live'. Creative Scotland committed to ensuring that there was no detrimental impact on our supported sectors during the 'transition' process by committing to continue to manage the inherited programmes. The legacy investment administration systems were also maintained to support the administration and management of the retained programmes. The programmes ran throughout the financial year and concluded on the 31 March 2011.

An extensive exercise was undertaken to consolidate the transferred budgets for 2010/11 into a newly developed format of 'portfolios', reflecting the new structure of Creative Scotland. These portfolios operate across all aspects of Creative Scotland with 'groups' of portfolios managed by each Creative Director:

- Creative industries - partnerships
- Film, skills & talent development
- Music, IP development
- Technology, digital media & market development
- Education, learning & young people
- Organisational development
- Participation, equalities & audience development
- Special projects
- Festivals, touring and dance
- International, cultural export and visual arts
- Literature, publishing and language
- Special projects – development
- Theatre and broadcasting partnerships

In addition to the inherited programmes a range of new Creative Scotland programmes were developed to compliment the legacy programmes and also to reflect Creative Scotland's early strategy development:

- Partnership match funding
- Our Place in a creative Scotland
- Film production investment
- Broadcasting partnerships
- Creative capital map
- Traditional arts
- Year of Creative Scotland 2012

All of the legacy and new programmes were managed through the new Creative Directorate. This team is led by the three Creative Directors who are supported by 15 Portfolio Managers and 31 Development Officers. The Creative Directorate was directly supported in this work by the Investment Administration, Business Affairs and Finance teams, who managed the complexities of running dual systems and processes throughout the year while developing the new processes and controls to support the new investment programmes for 2011/12.

A key element of the comprehensive strategy development work the senior management team have been undertaking during the financial year has been the development of a range of new investment programmes aligned to and reflecting Creative Scotland's Corporate plan and strategy published 15 March 2011.

There are 15 programmes in total, which will be launched during the course of the financial year 2011/12. They reflect Creative Scotland's high level objectives, as below, and our strategic 'shift' away from silo of provision:

- Invest in talent
- Invest in quality artistic production
- Invest in audience, access and participation
- Invest in the cultural economy
- Invest in places and their contribution to a creative Scotland.

Our aim in all of this work is to ensure that our investments have the maximum level of impact within our areas of responsibility. Our objectives compliment the Scottish Government's purpose, *'to focus Government and public services on creating a more successful country, with opportunities for all Scotland to flourish, through increasing sustainable economic growth'* and while working across all 15 National Outcomes, we will focus and measure our delivery against Outcomes, 1,2,3,4,13,14 and 15. Details of these are presented in the Corporate Plan, 'Investing in Scotland's Creative Future'.

To support the new programmes new single Investment Administration and Business Affairs processes; documentation, forms and template contracts were developed. The focus in this exercise being on simplifying processes where possible while maintaining key, robust controls.

Creative Scotland is committed to transparency and consistency in approach in the distribution of Lottery funds and to instilling a principle of continual development and improvement. In line with this commitment we have utilised inherited good practice in our system development work.

As part of our commitment to continuous improvement, a review will be undertaken later in 2011 and a 'lessons learnt' log has been established to capture any issues, suggested improvements both in terms of the processes but also importantly in the investment programmes and guidelines.

## Future Developments

During the year the 'The Apportionment of Money in the National Lottery Distribution Fund Order 2010' was approved by the House of Lords, 23 November 2010. This order amended the percentage apportionment of money held in the National Lottery Distribution Fund for each of the four good causes, stating that from 1 April 2011 the shares for the arts, heritage and sport will increase from the current 16.66% to 18% and on the 1 April 2012 to 20%. This has increased Creative Scotland's percentage share from 1.483% in 2010/11 to 1.602% in 2011/12 and 1.78% in 2012/13.

Contributions to the Olympic Lottery Distribution Fund will cease at the final quarterly payment on the 1 August 2012. 2011/12 is therefore the final year of full contribution levels.

As new Investment Administration ICT system is currently being specified as part of the wider ICT strategy and systems development project. The detailed specification is being designed to align with Creative Scotland's ambitions and developing working practices, with a focus on a user friendly, web based interface for applicants.

## Position of CSNLDF at the end of the year

### Income and Expenditure Account

Creative Scotland's share of proceeds from the National Lottery Fund during the year to 31 March 2011 was £22.892 million, (2009-2010, £21.913 million). A total of £0.085 million (2009-2010, £0.041 million) was recouped from projects funded in previous years. Interest and return on investments of £0.269 million (2009-2010, £0.182 million) and other income £0.674m (2009-2010, £0.682) brought the total income to £23.920 million (2009-2010, £22.818 million).

Commitments entered into during 2010-2011 totalled £12.939million (2009-2010, £19.964 million). Expenditure on projects during the year was £0.375million (2009-10, £0.163million). Expenditure on staff and other operating costs was £1.839 million (2009-2010, £2.272 million). De-commitments during 2010-2011 of prior year awards amounted to £4.862 million (2009-2010, £2.007 million). Staff, overhead and related costs were recharged from Creative Scotland's grant in aid funded statements. In addition, during the year there was a transfer of £3.862 million to the Olympic Lottery Distribution Fund (2009-2010, £3.861million) bringing total expenditure to £14.153 million (2009-2010, £24.253 million).

The net result for the period is a surplus of £9.767 million, (2009-2010, loss of £1.435 million). This balance reflects the fact that Creative Scotland was in and indeed still is in a transition period. The £9.767 million surplus does not reflect the additional £5.228 million 'soft' and 'other' commitments, also made. During the financial year the focus was on maintaining existing activity to support stability within our sectors, while developing a new strategy for Creative Scotland. Part of the strategy development work is the introduction in 2011/12 of a new capital programme. The £20 million capital programme will run over a four year period and the surplus from 2010/11 has been budgeted as the first allocation to this programme.

### Balance Sheet

The total net assets of £11.827 million (2009-2010, £2.060 million) are represented by a general fund balance for future commitments.

## Environmental

Creative Scotland is committed to reducing the environmental impact of its operations and to promote resource efficiency, recognising the contribution that this will make to the wider sustainability agenda. The Climate Change (Scotland) Act 2009 sets clear and ambitious targets for emissions reduction and Creative Scotland is committed to reducing its own carbon footprint as well playing a crucial leadership role by acting sustainably and encouraging best practice.

The relocation of the Edinburgh office from three Georgian townhouses to newly fitted premises has improved Creative Scotland's environmental impact through the environmentally focused heating and air conditioning systems in place at the Waverley Gate premises. In addition the open plan working environment has facilitated practices already in place in our open plan premises in Glasgow such as centralised printing; full recycling facilities and plumbed cooled water. We will ensure that our on-going work on developing new policies and procedures for Creative Scotland reflect our commitment to reducing environmental impact. A key area for Creative Scotland reflecting our national and international role is on travel, with the majority being on public transport in addition to, where possible, replacing air with train travel.

Creative Scotland is also committed to supporting environmentally focused projects through its investments in artists and cultural organisations and we are considering how we 'bed' this into our investment processes. We will also identify climate change and the environment as a theme in our artists' residencies programme and in the longer term consider how we work with the Creative and Cultural sector in progressing opportunities in the year of Natural Scotland in 2013.

## Equalities

Creative Scotland is committed to placing the principles of equality, access and diversity at the heart of our activity. We aim to acknowledge and reflect the diversity of Scotland today in all our work. We aim to go beyond legislative requirements towards best practice in supporting our employees, working with artists and engaging audiences in an exciting and inclusive way.

We are making progress with our aim of embedding equalities into our corporate processes. The legislative context is changing, with the introduction of the Equality Act 2010. While we await details of the specific duties for Scotland, we continue to maintain compliance with existing equality legislation relating to public sector equality duties, and aim to extend our work to cover the additional protected characteristics, as defined in the Equality Act 2010. The Equality Duty covers; age, disability, gender, gender reassignment, pregnancy and maternity, race, religion or belief and sexual orientation. The duty to have due regard to the need to eliminate discrimination also covers marriage and civil partnerships.

Creative Scotland's new Investment Programmes are being launched in 2011/12. We are working to reflect our commitment to equality, ensure accessibility in the application process, provide guidance and ensure data collection around equalities.

An on-going training and events programme in equalities is underway for all staff. In 2010/11 staff took part in general equalities training exploring the implications of the Equality Act 2010 for Creative Scotland, and our duties as a public body. Further training is planned, including equality impact assessment training, disability equality sessions, deaf awareness, and LGBT sessions with Stonewall. In March 2011 we held a session for staff around gender issues on International Women's Day, and further events are planned for Black History Month and LGBT History Month.

Staff organisation wide, have volunteered to be Equality Champions and to promote our work in, for example, disability, LGBT issues, gender, BME communities, mental health, and ageing. We are in the process of setting up a new staff Equalities Advisory Group (EAG), chaired by one of the Directors of Creative Development. The EAG will promote and monitor equalities in our policy and decision making, and support our Equality Impact Assessment process.

In 2010, Creative Scotland became a member of Stonewall Scotland's Diversity Champions programme. Stonewall is the national body for lesbian, gay and bisexual (LGB) issues, and their Workplace Equality Index is regarded as a significant measure of equality in the workplace in the UK. We will take part in the Index in 2011/12, and in the meantime we will continue to implement good practice equality initiatives, with advice from Stonewall Scotland.

An Access Audit was commissioned for our new offices in Waverley Gate prior to our move, and the findings were reflected within the design. We have been awarded the Disability Symbol by Jobcentre Plus indicating our commitment to employing, retaining and developing the abilities of disabled staff.

## Remuneration report

### Creative Scotland

The Chair, Board and Chief Executive are appointed by 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 where reimbursed to directors in accordance with established expenses policies:

Travel	£560.63
Subsistence	£ 6.83
Accommodation	<u>£224.93</u>
	£792.39

The Remuneration Committee meets twice yearly, as a minimum and additional meetings have been held to consider the new Creative Scotland HR policies.

Creative Scotland Remuneration 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 and for the Chief Executive by the Chair, and the latter ratified by the Remuneration Committee. Satisfactory performance by attainment of set objectives is decided at the end of the objective period, via one to one meetings with the Chief Executive for the senior manager and by the Chair and Remuneration Committee for the Chief Executive. Proposed remuneration increases are submitted to the Remuneration 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 month, excluding the Chief Executive's of six months.

### Scottish Screen and Scottish Arts Council

The Chair, Board and Chief Executives were appointed by Scottish Ministers. The Chair of Scottish Screen and the Scottish Arts Council received remuneration in relation to attendance at board meetings and other business events. The payment made in period to 30 June was £5,534 (2010: £22,560). The Chair was not a member of the Arts Council Retirement Plan (1994). The remaining directors of Scottish Screen and Scottish Arts Council were unpaid and received no remuneration or taxable emoluments during the year. Incidental travel and subsistence expenditure where reimbursed to Scottish Screen and Scottish Arts Council directors in accordance with established expenses policies:

Travel	£2,702.55
Subsistence	£ 48.34
Accommodation	<u>£ 95.00</u>
	£2,845.89



The Remuneration Committee meets twice yearly, as a minimum.

Scottish Screen and Scottish Arts Council Remuneration Committee – resigned 30 June 2010:

Richard Holloway - Chair  
Ray MacFarlane  
Donald Emslie  
John Mulgrew  
Charles Lovatt  
Steve Grimmond

The Chief Executives' 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 were set for all senior management, by the respective Chief Executive and for the Chief Executives by the Chair, and ratified by the Remuneration committee. The objectives set for individuals were directly linked to the organisational objectives as stated in the respective operational plans for the year. Satisfactory performance by attainment of set objectives was decided at the end of the objective period, via one to one meetings with the respective Chief Executive for the senior manager and by the Chair and Remuneration Committee for the Chief Executive. Proposed remuneration increases were submitted to the Remuneration Committee through the pay remit process before formal submission to the Scottish Government for approval.

Each Chief Executive was eligible to receive an additional performance related payment in the form of an annual, one off non-pensionable bonus. The award of any such payment in any year was entirely at the discretion of the Board and determined on the appraisal carried out of the Chief Executive's performance in the previous appraisal year and his attainment of stretching targets and criteria.

The Chief Executive's and senior management's contracts were on a permanent basis reflecting legislation regarding fixed term contracts. The Scottish Screen senior management were on a written notice period of one month, excluding the Chief Executive's of six months. The Scottish Arts Council's Chief Executive and senior management were on a written notice periods of between three and six months.

Ken Hay was in post as Chief Executive of Scottish Screen to 30 June 2010 and remained with Creative Scotland to complete key handover of work in relation to specific Scottish Screen responsibilities and the creative industries. Thereafter Ken resigned at the end of September 2010.

Jim Tough was in post as Chief Executive of the Scottish Arts Council until his resignation at the 30 April 2010.

Morag Arnot was in post as Acting Chief Executive of the Scottish Arts Council for the period 1 May to 30 June 2010. Morag remained with Creative Scotland having been matched to the post of Director of Communications and External Relations until she resigned at the 14 January 2011.

All of the following information is subject to audit.

**Andrew Dixon was appointed Chief Executive of Creative Scotland on the 1 May 2010.** The following was his remuneration from 1 July 2010 to 31 March 2011. The period from 1 May 2010 to 30 June 2010 Andrew was paid through the separate legal entity, Creative Scotland 2009 Ltd.

	2010-11 £000s
Emoluments of the Chief Executive:	
Remuneration	97
Other taxable benefits	-
Pension scheme contributions	<u>31</u>
	<u>128</u>

The Chief Executive was an ordinary member of the Arts Council Retirement Plan (1994) pension scheme. Andrew's pension includes a backdated contribution for May and June, as Andrew was unable to join the ACRP pension scheme prior to 1 July as Creative Scotland 2009 Ltd was not an admitted body.

As at 31<sup>st</sup> March 2011, the pension accrued and Cash Equivalent Transfer Value was as follows:

	2010-11 £000s
<b>Chief Executive – pension accrued as at 31 March</b>	
Pension	2
Lump sum	5
Widow's pension	-
	<u>7</u>
<b>Cash equivalent transfer value as at 31 March</b>	<b><u>17</u></b>

**Ken Hay was Chief Executive of Scottish Screen to 30 June 2010.** The following was his remuneration from 1 April to 30 June 2010.

	2010-11 £000s	2009-10 £000s
Emoluments of the Chief Executive:		
Remuneration	19	75
Other taxable benefits (bonus)	-	5
Pension scheme contributions	<u>3</u>	<u>13</u>
	<u>22</u>	<u>93</u>

The Chief Executive was an ordinary member of the organisation's pension scheme, the Strathclyde Pension Fund. As at 30 June 2010, the pension accrued and Cash Equivalent Transfer Value was as follows:

	2010-11 £000s	2009-10 £000s
<b>Scottish Screen's Chief Executive – pension accrued as at 30 June</b>		
Pension	5	4
Lump sum	10	11
Widow's pension	<u>3</u>	<u>2</u>
	<u>18</u>	<u>17</u>
<b>Cash equivalent transfer value as at 30 June</b>	<b><u>65</u></b>	<b><u>69</u></b>

Voluntary Early Severance was paid to Ken Hay during the year. We have not received permission to disclose this information.

**Jim Tough was Chief Executive of Scottish Arts Council to 30 April 2010.** The following was his remuneration from 1 April to 30 April 2010. The bonus payment relates to the periods 2008/09 and 2009/10, no accrual was made in relevant years:

	2010-11 £000s	2009-10 £000s
Emoluments of the Chief Executive:		
Remuneration	5	88
Other taxable benefits (bonus)	9	-
Pension scheme contributions	<u>1</u>	<u>23</u>
	<u>15</u>	<u>111</u>

The Chief Executive was an ordinary member of the organisation's pension scheme, the Arts Council Retirement Plan. As at 30 April 2010, the pension accrued and Cash Equivalent Transfer Value were as follows:

	2010-11 £000s	2009-10 £000s
<b>Scottish Arts Council's Chief Executive – pension accrued as at 30 April 2010.</b>		
Pension	34	33
Lump sum	<u>104</u>	<u>100</u>
	<u>138</u>	<u>133</u>
<b>Cash equivalent transfer value as at 30 April</b>	<b><u>489</u></b>	<b><u>473</u></b>

**Morag Arnot was Acting Chief Executive of Scottish Arts Council from the 1 May to 30 June 2010.** The following is her remuneration for this period.

	2010-11 £000s	2009-10 £000s
Emoluments of the Chief Executive:		
Remuneration	12	-
Other taxable benefits (bonus)	-	-
Pension scheme contributions	<u>3</u>	-
	<u>15</u>	-

The Acting Chief Executive was an ordinary member of the organisation's pension scheme, the Arts Council Retirement Plan. As at 30 June 2010, the pension accrued and Cash Equivalent Transfer Value was as follows:

	2010-11 £000s	2009-10 £000s
<b>Scottish Arts Council's Chief Executive – pension accrued as at 30 June 2010</b>		
Pension	27	-
Lump sum	83	-
Widow's pension	<u>0</u>	-
	<u>110</u>	-
<b>Cash equivalent transfer value as at 31 March</b>	<b><u>343</u></b>	<b><u>0</u></b>

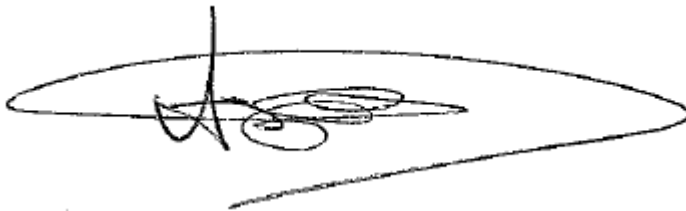
**Disclosure of senior staff names and annual salaries:**

<b>Name</b>	<b>Job Title</b>	<b>Pay rate</b>
Andrew Dixon	Chief Executive	£125,000-£129,999
Venu Dhupa	Director of Creative Development	£70,000-£74,999
Iain Munro	Director of Creative Development	£60,000-£64,999
Caroline Parkinson	Director of Creative Development	£60,000-£64,999
Alyson Hagan	Director of Finance and Operations	£65,000-£69,999

**Senior staff pension accrued as at 31 March 2011:**

	Venu Dhupa £000s	Iain Munro £000s	Caroline Parkinson £000s	Alyson Hagan £000s
Pension	1	11	1	7
Lump Sum	2	32	2	15
Widow's Pension	0	0	0	3
<b>Cash equivalent transfer value</b>	<b>6</b>	<b>91</b>	<b>4</b>	<b>80</b>

Andrew Dixon's pension details are disclosed in the Chief Executive's remuneration section.



Andrew Dixon  
Chief Executive and Accountable Officer  
16 September 2011

### **Statement of Accounting Officer's responsibilities**

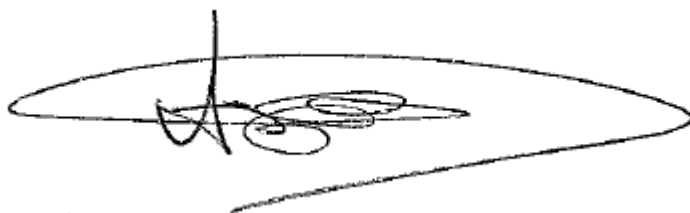
Under Section 35 of Part II of the National Lottery etc Act 1993, the Scottish Government has directed Creative Scotland to prepare for each financial year

- 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.

A handwritten signature in black ink, consisting of a large, stylized 'A' followed by several loops and a long horizontal stroke extending to the right.

Andrew Dixon  
**Chief Executive and Accountable Officer**  
16 September 2011

## **Statement on internal control**

### **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.

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 (SAC) and Scottish Screen subsisting immediately before that date, were transferred to, and now vest in, Creative Scotland. The process of transition from Scottish Screen and the Scottish Arts Council to Creative Scotland has been complex due to the significantly different corporate structure of the three bodies, Scottish Screen being a Company Limited by Guarantee; registered with HMRC as a charity for tax purposes and the holding company of a wholly owned subsidiary, Scottish Screen Enterprises. The Scottish Arts Council being established by Royal Charter and a charity registered with OSCR and Creative Scotland in turn established by legislation and not a charity registered with OSCR. This has required extensive technical work to manage the transition and set-up of the new organisation and wind down of the predecessors organisations. With regard to statutory reporting the annual accounts, in accordance with merger accounting, have been prepared for a 12 month period from 1 April 2010 to 31 March 2011, and therefore incorporates 3 months operations of the two predecessor bodies. To ensure transparency and recognise the requirements of section 42(b) of Part 4 of the Public Services Reform (Scotland) Act 2010, the annual accounts incorporates a detailed note showing the assets and liabilities vested from Scottish Screen and the Scottish Arts Council, and any subsequent restatement of those by Creative Scotland to give the opening Creative Scotland balance sheet position as at 1 July 2010 (the effective date).

Comprehensive consideration has been given, ensuring that all statutory reporting requirements for the predecessor bodies and for Creative Scotland has been identified and undertaken. In addition to provide assurance to the Chief Executive as Accountable Officer of Creative Scotland, and reflecting the adoption of merger accounting, the Chief Executives as Accountable Officers of Scottish Screen and the Scottish Arts Council, both provided letters of assurance in relation to the transactions undertaken in the first three months of the financial year through the predecessor organisations.

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.

### **Purpose of the System of Internal Control**

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the 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 the SPFM and has been in place for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts.

## **Risk and Control Framework**

All bodies to which the SPFM is directly applicable must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

The Accountable Officer and Board have ultimate responsibility for the control of all identified organisational risks. The Senior Management Team is currently working to ensure the system of risk management is embedded within the organisation, this includes the inclusion of Risk Management as a standing agenda item on all Senior Management Team meeting agendas. A Business Risk Assessment Register has been developed, with clearly defined processes and specific areas of responsibility identified. 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.

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 2011 and up to the signing of the accounts the organisation has been progressing through the various aspects of transition period, in the development and establishment of effective and appropriateness systems, processes and controls.

Creative Scotland has undergone an extensive organisational review and restructure, to ensure it meets the needs of the developing organisation. This has generated significant efficiency savings.

A new Corporate strategy has been developed and is presented within the 3 year Corporate plan 2011-2014 – ‘Investing in Scotland’s Creative Future’, this includes the development of 15 new Investment Programmes, presenting a new cross creative/art form approach, with a focus on strategic interaction with the sectors we support. A key element of the corporate planning work was the development (through the principle of zero based budgeting) of detailed budgets for 2011/12. Part of the development work has also included a full review of how engage with potential investment applicants, and from this a new application, assessment and decision making process has been developed.

As good practice and as part of our commitment to continuous improvement we will, later through the 1<sup>st</sup> full year of operation for Creative Scotland, 2011/12, undertake reviews of all new processes and systems to evaluate for appropriateness and for further improvement. Reflecting our objective of embedding project management practice within our work, a ‘lessons learnt’ log has been established to record any issues or ideas identified post implementation of the programmes and the supporting processes, and captures them in

relation to the full process from programme launch to communication style . This log will be key in feeding into the process review.

To support the new processes and reflect Creative Scotland's operational approach, a suite of integrated software solutions is planned, including Finance (processing and reporting), Investment Administration, CRM/Contacts management and HR. A detailed specification of requirements is nearing completion. This has been developed through a series of detailed discussions with the Senior Management Team and key internal managers and stakeholders as well as through consideration of Creative Scotland's strategic direction and investment model as outlined within the Corporate plan. The scheduled end date for full implementation is the end of the calendar year. To minimise risk a phased approach will be utilised, with the HR system implementation scheduled first. To determine existing 'solutions' and therefore value for money, a 'Request for information' was issued through the Scottish Government procurement portal and review of packages implemented in other organisations will be undertaken. Another key ICT focus has been on the development of technical solutions to support remote working – improved data connections; security; video conferencing, skype etc, thereby supporting Creative Scotland's operational approach of staff being out in the sector as well as environmental impact and cost saving improvements.

Recognising the importance of effective procurement and contracts managements, the 1<sup>st</sup> policy developed and presented to the Board for approval was the Procurement Policy, which was approved by the Board at its 2<sup>nd</sup> meeting on the 22<sup>nd</sup> September 2010. From this a full procurement procedures framework with templates were developed and are in use within the organisation.

A new Creative Scotland Board was selected and appointed from 1 July 2010. At their first meeting on the 12 August 2010 the Board undertook a 4 hour induction session. This considered the Board's formal responsibilities, through review of and discussion on a number of key documents, including the Public Services Reform (Scotland) Act; correspondence from the Minister; draft Management statement and Financial Memorandum; Scottish Government National Framework and strategic planning undertaken by CS09 Ltd, Scottish Screen and SAC. At the Board meeting immediately following the induction section, the Board reviewed and approved; the Board quorum; the Committee structure, membership and terms of reference each for an Audit and Risk Committee and a Remuneration Committee; the Board and Committee meeting schedule for the next 20 months and delegated authority levels. Creative Scotland's key corporate document, the Management Statement and Financial Memorandum was approved by the Board at its meeting of the 10 December 2010.

Further development on budgetary and management reporting processes and schedules will be undertaken in 2011/12 and will include as standard, the production of monthly management accounts and reports; project budget reporting; monthly scheduled budget meetings; monthly scheduled project budget meetings; adhoc reporting; on-going development and enhancement of management/project reporting for 'audiences' and budget holder training. This work will be supported later in the year with the implementation of the new Finance processing and reporting package, the focus of which in the specification development has been on reporting and budget holder access. We will continue work on documenting existing finance processes; controls and policies as well as further development.

The significant work in the harmonisation of the terms and conditions of the predecessor bodies and the development of new HR policies for Creative Scotland is underway and being reviewed and approved by the Remuneration Committee. The policies are now with the Unions for consultation.



## **Review of Effectiveness**

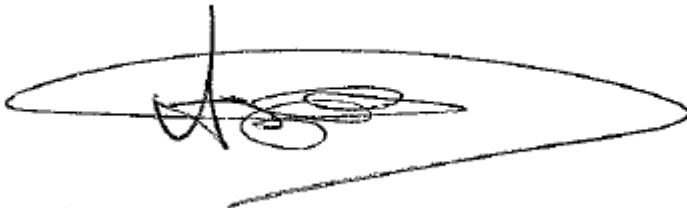
As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by:

- the executive managers within the organisation 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 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.

A Business Risk Assessment Register has been developed, which identifies the organisation's risks. A control strategy has been identified for each of the significant risks and a process has been established 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 on Audit and Risk Committee's schedule. The Committee have reviewed the format and content of the Register and are happy that the risk management controls in place within the organisation are good.

The organisation's internal auditors submit stringent reports on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement. All recommendations from the audit process are responded to by management, the recommendations and responses for implementation being rigorously 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.

Appropriate action is in place to address any weaknesses identified and to ensure the continuous improvement of the system. The independent Internal Auditor's reports found that there are adequate controls in place within Creative Scotland.

A handwritten signature in black ink, consisting of a large, sweeping oval shape with a vertical line extending upwards from the center, and several smaller loops and strokes below it.

Andrew Dixon  
**Chief Executive and Accountable Officer**  
**16 September 2011**

## **Independent auditors' 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 Distribution Fund for the year ended 31 March 2011 under the National Lottery etc Act 1993. The financial statements comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow and the related notes. 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 2010/11 Government Financial Reporting Manual (the 2010/11 FReM).

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

### **Respective responsibilities of Accountable Officer and auditor**

As explained more fully in the Statement of the Accountable Officer's Responsibilities set out on page 17, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and receipts. 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. We are also responsible for giving an opinion on the regularity of expenditure and receipts.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and receipts 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 in accordance with the National Lottery etc Act 1993 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2011 and of its net increase in funds for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 FReM; 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**

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

**Opinion on other prescribed matters**

In our opinion:

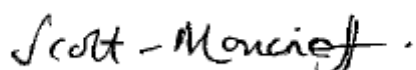
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the National Lottery etc Act 1993 and directions made thereunder by the Scottish Ministers; and
- the information given in the Management Commentary included in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We are required 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 Statement on Internal Control does not comply with Scottish Government guidance.

We have nothing to report in respect of these matters.



**Scott Moncrieff**  
**Chartered Accountants**  
**Exchange Place 3**  
**Seample Street**  
**Edinburgh**  
**EH3 8BL**

16 September 2011

**Statement of Comprehensive Income**  
*for the year ended 31 March 2011*

<b>Income</b>	Notes	2010-11 £000s	2009-10 £000s
National Lottery Fund proceeds		22,892	21,913
Other income	4	<u>1,028</u>	<u>905</u>
		<u>23,920</u>	<u>22,818</u>
 <b>Expenditure</b>			
Award commitments	5a	12,939	19,964
De-commitment of prior year awards	5b	(4,862)	(2,007)
Project expenditure	6	375	163
Staff costs	7	1,341	1,617
Other Operating costs	8	498	655
Transfer to Olympic Lottery Distribution Fund		<u>3,862</u>	<u>3,861</u>
		<u>14,153</u>	<u>24,253</u>
 <b>Increase / (Decrease) in Fund</b>		 <u>9,767</u>	 <u>(1,435)</u>

All the results of the Fund relate to continuing activities.

**Statement of recognised gains and losses**

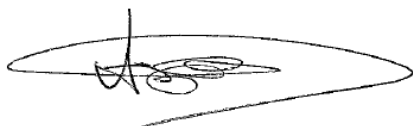
The Fund has no recognised gains and losses other than those included in the surplus above and therefore, no separate statement of total recognised gains and losses has been presented.

*The notes on pages 27 to 42 form part of these annual report and accounts.*

**Statement of Financial Position**  
as at 31 March 2011

	Notes	2010-11 £000s	2009-10 £000s
<b>Non-Current Assets</b>			
Property, plant and equipment	9	<u>0</u>	<u>0</u>
<b>Non-Current Assets</b>		<b>0</b>	<b>0</b>
<b>Current assets</b>			
Trade and other receivables	10	737	283
Loan receivables	11	135	158
Cash and cash equivalents	12	<u>29,681</u>	<u>27,584</u>
<b>Total current assets</b>		<b><u>30,553</u></b>	<b><u>28,025</u></b>
<b>Total Assets</b>		<b><u>30,553</u></b>	<b><u>28,025</u></b>
<b>Current liabilities</b>			
Trade and other payables	13	<u>16,371</u>	<u>24,805</u>
<b>Total current liabilities</b>		<b><u>16,371</u></b>	<b><u>24,805</u></b>
<b>Non-current assets plus/less current assets/liabilities</b>		<b><u>14,182</u></b>	<b><u>3,220</u></b>
<b>Non-current liabilities</b>			
Provisions for liabilities and charges	14	122	122
Grants: amounts falling due after more than one year	13	<u>2,233</u>	<u>1,038</u>
		<b><u>2,355</u></b>	<b><u>1,160</u></b>
<b>Assets less liabilities</b>		<b><u>11,827</u></b>	<b><u>2,060</u></b>
Represented by:			
<b>Reserves</b>			
General reserve	15	<u>11,827</u>	<u>2,060</u>

The Accountable Officer authorised these annual report and accounts for issue on 16 September 2011.



Andrew Dixon  
**Chief Executive and Accountable Officer**  
16 September 2011

The notes on pages 27 to 42 form part of these annual report and accounts.

## Statement of Cash Flows

	2010-11 £000s	2009-10 £000s
<b>Cash flows from operating activities</b>		
(Deficit) / surplus on ordinary activities	9,767	(1,435)
<i>Movements in working capital</i>		
Decrease/(Increase) in trade receivables	(431)	(202)
(Decrease)/Increase in trade payables	(7,239)	(4,174)
Increase in provision for dilapidation	-	<u>3</u>
<b>Net cash flow from operating activities</b>	2,097	(5,808)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<u>2,097</u>	<u>(5,808)</u>
<b>Net cash and cash equivalents as at 1 April</b>	27,584	33,392
<b>Net cash and cash equivalents as at 31 March</b>	29,681	27,584

<i>Analysis of changes in net funds</i>	1 April 2010 £000s	Movement £000s	31 March 2011 £000s
Cash at bank and in hand	993	(701)	292
Bank overdrafts	-	-	-
	<u>993</u>	<u>(701)</u>	<u>292</u>
NLDF	<u>26,591</u>	<u>2,798</u>	<u>29,389</u>
Total	<u>27,584</u>	<u>2,097</u>	<u>29,681</u>

*The notes on pages 27 to 42 form part of these annual report and accounts.*

Notes to the accounts for the year ended 31 March 2011

**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 annual report and accounts have been prepared in accordance with the 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards and IFRIC Interpretations as adapted or interpreted for the public sector context.

The annual report and accounts 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 are prepared on a historical cost basis, as modified by the revaluation of property, plant and equipment, intangible assets and, where material, financial assets and liabilities at fair value.

**c. Going concern**

These accounts have been prepared on the going concern basis. The Board is of the view that the going concern basis remains appropriate. In common with other lottery distributors, the future financing of Creative Scotland's liabilities will be met by National Lottery Distribution Fund proceeds.

**d. Transfer of functions/ merger accounting**

During the year the Scottish Arts Council and Scottish Screen merged to form the new body Creative Scotland following the enactment of the Public Services Reform (Scotland) Act 2010. As this was a transfer of function merger accounting has been applied as set out in the FReM. Comparative figures reflect the combined activities of Scottish Screen Lottery Fund and the Scottish Arts Council Lottery Fund.

**e. Accruals convention**

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

**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 balance sheet as current liabilities. Those payable in more than one year from the balance sheet date are shown as Grants: amounts falling due after one year.

### **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.

#### **f. Property, Plant & Equipment (PPE)**

Existing property, plant and equipment will be written off and no future assets will be held solely for Lottery use.

#### **g. 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 Balance Sheet date has been certified by the Secretary of State for Culture, Media & Sport as being available for distribution by the body in respect of current and future commitments subject to:

- Completion of the Statement of Assurance of Payments due to the National Lottery Distribution Fund for 2010/11 by the National Lottery Commission.
- Completion of the audit of the National Lottery Distribution Fund accounts for 2010/11 by the National Audit Office.
- The NLDF balance is brought to account at market value reflecting the requirements of IFRS.

#### **h. 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 balance sheet 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 companies will not be eligible to apply for further funding if repayments are not made.

#### **i. 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 (FRoM). 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:



## **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.

## **Other financial liabilities**

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

## **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.

### **j. Pensions**

#### **Creative Scotland as an employer**

Pension costs for creative Scotland staff are recharged to the Lottery Distribution Fund for staff employed on lottery related activities. Past employees of Creative Scotland 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 were admitted to the Arts Council Retirement Plan 1994.

#### **Strathclyde Pension Scheme**

The Organisation is an admitted body of the Strathclyde Pension Fund which is a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Organisation.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on an AA corporate bond of equivalent term and currency to the liability.

#### **Arts Council Retirement Plan 1994**

The Arts Council Retirement Plan 1994 provides defined benefits based on final pensionable pay and covers a number of UK arts organisations. Creative Scotland is unable to identify its share of the underlying notional assets and liabilities of the scheme on a consistent and reasonable basis and therefore accounts for the scheme as if it were a defined contribution scheme, as required by IAS 19 'Employee Benefits'. As a result, the amount charged to the operating cost statement represents the employer contributions payable to the scheme in respect of the year. The pension cost is assessed every three years by an Actuary who determines the rate of contributions required. The most recent actuarial valuation took place in the year to 31 March 2010.

**k. 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.

**l. Notional costs**

HM Treasury, under the Clear Line of Sight (Alignment Project) removed the cost of capital charge from accounts from 1st April 2010. The cost of capital charge is therefore no longer applicable. The removal of the cost of capital charge is a change in accounting policy under IAS 8. Applying paragraph 31 of IAS 1 and, noting that the removal of the cost of capital charge has no effect on the statement of financial positions, a specific disclosure is not required. The impact on the prior-year operating cost statement/statement of comprehensive expenditure is nil.

**m. Segmental reporting**

IFRS 8 Segmental Reporting requires operating segments to be identified on the basis of internal reports about components of Creative Scotland that are regularly reviewed by the chief decision maker in order to allocate resources to the segments and assess their performance.

**n. 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.

**o. 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.

## 2. Assets and liabilities vested from Scottish Screen and the Scottish Arts Council

Scottish Screen assets and liabilities to 30 June 2010:

2010-11	£000s
Non-current assets	0
Current assets	3,237
<b>Total assets</b>	<b>3,237</b>
Current liabilities	(3,881)
<b>Non-current assets plus net current assets</b>	<b>(644)</b>
Non-current liabilities	0
<b>Assets less liabilities</b>	<b><u>(644)</u></b>
<b>Reserves</b>	<b><u>(644)</u></b>

Reflects position as at 30 June 2010, incorporating holiday accrual as at 31 March 2010. The deficit out turn for the three month period, due to timing of the grant in aid drawdown.

Scottish Arts Council assets and liabilities to 30 June 2010:

2010-11	£000s
Non-current assets	0
Current assets	23,774
<b>Total assets</b>	<b>23,774</b>
Current liabilities	(25,196)
<b>Non-current assets plus net current assets</b>	<b>(1,422)</b>
Non-current liabilities	0
<b>Assets less liabilities</b>	<b><u>(1,422)</u></b>
<b>Reserves</b>	<b><u>(1,422)</u></b>

Deficit out turn for the three month period, due to timing of the grant in aid drawdown.

### 3. Segmental Analysis as at 31 March 2011

During the financial year 2010/11, the following investments were made against the portfolios, 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.

<b>Award commitments 2010/11</b>	<b>Hard</b>	<b>Soft</b>	<b>Other</b>
Creative industries - partnerships	827	13	-
Film, skills & talent development	3,299	264	300
Music, IP development	204	-	-
Technology, digital media & market development	1,019	24	-
Education, learning & young people	15	-	300
Organisational development	-	-	-
Participation, equalities & audience development	1,161	155	19
Special projects	2,807	250	707
Festivals, touring & dance	2,249	520	9
International, cultural export & visual arts	637	70	-
Literature, publishing & language	175	-	-
Theatre & broadcasting partnerships	220	-	-
Partnership match funding	76	159	715
Our place in a creative Scotland	150	-	80
Film production investment	-	-	1000
Broadcasting partnerships	100	50	-
Traditional arts	-	-	80
Year of Creative Scotland	-	-	513
<b>Total award commitments</b>	<b>12,939</b>	<b>1,505</b>	<b>3,723</b>
Project expenditure	375		
Staff costs	1,341		
Other operating costs	498		
Transfer to Olympic Lottery Dist Fund	3,862		
De-commitment of prior year awards	(4,862)		
<b>Total expenditure</b>	<b>1,214</b>		
<b>Income</b>			
National Lottery Fund proceeds	22,892		
Other income	1,028		
	<b>23,920</b>		
<b>Increase / (Decrease) in Fund</b>	<b>9,767</b>		

**4. Other income**

	2010-11 £000s	2009-10 £000s
Investment income	267	176
Bank interest	2	6
Other income (inc. legacy trust)	674	682
Award repayments	85	41
Business development loan interest	-	-
	<u>1,028</u>	<u>905</u>

**5a. Award Commitments (hard)**

	2010-11 £000s	2009-10 £000s
Creative industries - partnerships	827	148
Film, skills & talent development	3,299	2,776
Music, IP development	204	1,379
Technology, digital media & market development	1,019	201
Education, learning & young people	15	7,762
Participation, equalities & audience development	1,161	2,396
Special projects	2,807	621
Festivals, touring & dance	2,249	708
International, cultural export & visual arts	637	985
Literature, publishing & language	175	556
Theatre & broadcasting partnerships	220	2,432
Partnership match funding	76	-
Our place in a creative Scotland	150	-
Broadcasting partnerships	<u>100</u>	-
	<u>12,939</u>	<u>19,964</u>

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

This represents a total of £4.862 million of awards relating to prior year (hard) commitments, which were de-committed during 2010-11 (2009-10, £2.007 million).

**6. Project expenditure**

	2010-11 £000s	2009-10 £000s
Project expenditure	375	163

**7. Staff costs**

	2010-11 £000s	2009-10 £000s
<b>Staff costs during the year</b>		
Wages and salaries	1,059	1,259
Social security costs	75	90
Other pension costs	210	265
Holiday accrual	<u>(3)</u>	<u>3</u>
	<u>1,341</u>	<u>1,617</u>

Creative Scotland's total payroll costs for the year to 31 March 2011 adjusted for IAS19 were £5,821 thousand. The average number of staff employed during the year was 103. The amount recharged in respect of the National Lottery Distribution Fund's share of Creative Scotland's payroll costs was 29.77% of £4,440 thousand, which comprises of staff salaries, social security costs, pension contributions and project staff costs. (2009-10, 35.48%).

	Number 2010-11	Number 2009-10
Average number of persons employed on NLDF activities (FTE) during year ended 31 March 2011	31	42

Creative Scotland Lottery 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 were 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 income and expenditure account 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 IAS 19.

Further details on Creative Scotland's pension scheme can be found in Creative Scotland's Annual Report and Accounts 2010/11. No asset or liability for Creative Scotland's pension schemes are held within these accounts.

## 8. Other operating expenses

	2010-11 £000s Direct	2010-11 £000s Recharged	2010-11 £000s Total	2009-10 £000s Total
HR costs	-	1	1	30
Establishment costs	-	248	248	156
ICT costs	-	49	49	69
Operations costs	7	16	23	25
Office services costs	1	(24)	(23)	39
Audit fees	32	11	43	44
Depreciation	-	8	8	36
Legal & professional fees	65	(3)	62	64
Communication costs	-	1	1	22
External relations	-	2	2	5
Direct delivery (inc. external advisors)	18	28	46	112
Awards for All overheads	<u>38</u>	-	<u>38</u>	<u>53</u>
	<u>161</u>	<u>337</u>	<u>498</u>	<u>655</u>

**9. Property, plant and equipment**

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

**10. Trade receivables and other current assets**

	2010-11 £000s	2009-10 £000s
Trade receivables	27	273
Recoupment receivables	83	10
Sundry receivables	<u>627</u>	-
	<u>737</u>	<u>283</u>

**11. Loan receivables**

	2010-11 £000s	2009-10 £000s
Business Development Loans	<u>135</u>	<u>158</u>
	<u>135</u>	<u>158</u>

**12. Cash and cash equivalents**

	2010-11 £000s	2009-10 £000s
Balance at 1 April	27,584	33,392
Net change in cash and cash equivalents	<u>2,097</u>	<u>(5,808)</u>
Balance at 31 March	<u>29,681</u>	<u>27,584</u>

The following balances at 31 March 2011 were held at:

Commercial banks and cash in hand	292	993
Balance held in NLDF	<u>29,389</u>	<u>26,591</u>
	<u>29,681</u>	<u>27,584</u>

Movement in balance held at NLDF made up as follows:

	2010-11 £000s	2009-10 £000s
Brought forward at 1 April 2010	26,591	33,146
Adjustment to reflect market value	<u>(14)</u>	<u>5</u>
Brought forward market value	26,577	33,151
Income received from Lottery	22,937	21,961
Investment Income	267	178
Funds Drawn Down	(16,499)	(24,782)
Transfer To Olympic Lottery Distribution Fund	<u>(3,862)</u>	<u>(3,861)</u>
Carried forward at 31 March 2011	<u>29,420</u>	<u>26,647</u>
Movement in revaluation reserve	<u>(31)</u>	<u>(56)</u>
Closing market value at 31 March 2011	<u>29,389</u>	<u>26,591</u>

### 13. Trade payables and other current liabilities

	2010-11 £000s	2009-10 £000s
Awards outstanding (hard commitments)	13,207	24,385
Accruals & sundry payables	<u>3,164</u>	<u>420</u>
	<u>16,371</u>	<u>24,805</u>

### Creditors due after more than one year:

	2010-11 £000s	2009-10 £000s
Awards outstanding (hard commitments)	<u>2,233</u>	<u>1,038</u>
Total Creditors due after more than one year	<u>2,233</u>	<u>1,038</u>

### 14. 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.

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 2010-11 £000s	Total 2010-11 £000s	2009-10 £000s
Balance at 1 April 2010	122	122	119
Arising in the year	-	-	<u>3</u>
Balance at 31 March 2011	<u>122</u>	<u>122</u>	<u>122</u>

**15. General reserve**

	2010-11 £000s	2009-10 £000s
Balance at 1 April 2010	2,060	3,495
Change in fund in year	<u>9,767</u>	<u>(1,435)</u>
Balance at 31 March 2011	<u>11,827</u>	<u>2,060</u>

The General Fund represents the reserves recognised through the Statement of Comprehensive Income.

**16. Soft commitments**

	2010-11 £000s	2009-10 £000s
Balance at 1 April 2010	2,163	2,628
Awards withdrawn	(586)	(511)
Accepted in year	(1,338)	(17,721)
Amounts committed in year*	<u>1,266</u>	<u>17,767</u>
Balance at 31 March 2011	<u>1,505</u>	<u>2,163</u>

\*Awards made but not accepted at 31 March 2011

In addition to soft commitments Creative Scotland approved investments ('other') of £3.723 million, (2009/10 £1.310 million) within the year, for which offers had not been issued as at 31 March 2011.

## 17. Hard commitments

	2010-11 £000s	2009-10 £000s
Balance at 1 April 2010	25,423	29,162
De-commitment of prior year awards*	(4,862)	(2,007)
Committed in year	12,939	19,964
Paid in year	<u>(18,060)</u>	<u>(21,696)</u>
Balance at 31 March 2011	<u>15,440</u>	<u>25,423</u>
Due within one year	13,207	24,385
Due within one to two years	2,083	971
Due within two to three years	<u>150</u>	<u>67</u>
	<u>15,440</u>	<u>25,423</u>

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

## 18. Financial Instruments

IAS 32 requires disclosure of financial instruments 'that are complex or play a significant medium to long-term role in the financial risk profile' that Creative Scotland National Lottery Distribution 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.

At 31 March 2010 the balance held at NLDF was £26.591 million. This has increased to £29.389 million by 31 March 2011, at which point there were £15,440 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

In 2010/11, 96% of Creative Scotland's income derived from the National Lottery. The remaining income derived from investment income from the balance held with the National Lottery Distribution Fund, bank interest and award repayments of 1%, and from other income in relation to the Legacy Trust project, of 3%.

At the balance sheet date, Creative Scotland National Lottery Distribution Fund had net assets of £11.827 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. Liquid assets as at 31 March 2011

	£000s
Market value of NLDF investments	29,389
Cash	292

#### 18d. Interest rate risk

In accordance with the National Lottery Act 1998, National Lottery income receivable by Creative Scotland is passed by the National Lottery Distribution Fund (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 £29.389 million. In the year, the average return on these investments was 1.13% (2009/10: 0.6%).

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 £0.292 million. We consider that we are not exposed to significant interest rate risks on our cash balances.

#### 18e. Foreign currency risk

Our exposure to foreign currency risk is not significant as less than 0.4% of transactions by value are processed in currencies other than sterling when compared to total operating costs.

#### 18f. Financial assets

	2010-11 £000s	2009-10 £000s
Sterling	<u>292</u>	<u>993</u>
	<u>292</u>	<u>993</u>

Creative Scotland does not hold investments, meaning that all sterling financial assets shown are held as cash at bank, meaning book value and fair value are the same.

#### 18g. Financial assets by category

	2010-11 £000s	2009-10 £000s
Trade receivables	27	273
Recoupment receivables	83	10
Sundry receivables	627	-
National Lottery Distribution Fund	29,389	26,591
Cash at bank and in hand	292	993
Business Development Loan Asset	<u>135</u>	<u>158</u>
	<u>30,553</u>	<u>28,025</u>

**18h. Financial liabilities by category**

	2010-11 £000s	2009-10 £000s
Awards outstanding (hard commitments)	15,440	25,423
Accruals & sundry payables	<u>3,164</u>	<u>420</u>
	<u>18,604</u>	<u>25,843</u>

**18i. Soft commitments**

	2010-11 £000s	2009-10 £000s
Balance at 31 March	<u>1,505</u>	<u>2,163</u>

Commitments accounted for are limited to those where there has been written acceptance from the grant recipient. Further analysis of soft commitment is shown in Note 16.

**18j. Olympic Lottery Distribution Fund contribution**

	2010-11 £000s	2009-10 £000s
Balance owing to OLDF	<u>5,659</u>	<u>9,521</u>

Creative Scotland, along with other Lottery distributors, is required to make a contribution from balances to help fund the 2012 Olympics. 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	<u>1,798</u>
	<b>14,348</b>

## 19. Reconciliation of movement in funds for the year ended 31 March 2011

	<b>Balances held in NLDF</b>	<b>Balances at Creative Scotland</b>	<b>Provisions for grant awards</b>	<b>Total</b>
	£000s	£000s	£000s	£000s
Opening Balance	26,591	892	(25,423)	2,060
Movement in Revaluation Reserve	(31)	-	-	(31)
NLDF proceeds	22,937	-	-	22,937
Unrealised loss on investment 0910	(14)			(14)
Drawn down funds	(16,499)	16,499	-	-
Transfer to Olympic Lottery Distribution Fund	(3,862)	-	-	(3,862)
Investment returns	267	-	-	267
Interest on cash balances	-	2	-	2
Other operating income	-	759	-	759
Grants paid	-	(18,060)	-	(18,060)
(Increase)/Decrease in grant creditors	-	-	9,983	9,983
Expenditure	-	(2,214)	-	(2,214)
<b>Closing Balance</b>	<b>29,389</b>	<b>(2,122)</b>	<b>(15,440)</b>	<b>11,827</b>

## 20. Related party transactions

Creative Scotland administers the Creative Scotland National Lottery Distribution Fund.

Creative Scotland is regarded as a related party by the Creative Scotland National Lottery Distribution Fund. 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 2011 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)**

**Gwilym Gibbons** is a Director of Shetland Arts Development Agency and Director of the Promoters Arts Network (PAN) and a Board Member of Creative Scotland. Shetland Arts Development Agency was awarded a Lottery partnership award of £50,000, in February 2011 to Between Weathers (Shetland Arts Development Agency) to which Shetland Arts Development Agency provided support of £28,000.

**Steve Grimmond** is a Board Member of the Collective Gallery, a Board Member of Creative Scotland and Chair of the Creative Scotland Audit and Risk Committee and was a member of the Joint Board, the Audit Committee and Remuneration Committee of Scottish Screen and the Scottish Arts Council and a member of the SAC Lottery Committee. During the financial year 2010/11 Creative Scotland awarded the Collective Gallery, £57,200 towards the cost of 'A direct experience in local time' a public art project produced by Collective, £8,000 towards 'How to Turn the world by hand' a programme of Curatorial development in three cities, Beijing, Istanbul and Edinburgh and £10,000 towards the cost of 'Against the Realm of the Absolute a new film and off site performance event and exhibition.

**Gayle McPherson** is a Board member of Glasgow East Arts Company and a Board Member of Creative Scotland. During the financial year 2010/11 Glasgow East Arts Company received, £10,000 towards the cost of staging a contemporary performing arts programme with audience development and marketing and £12,000 towards the cost of presenting 'The Incredible Swimming Baby Choir' in Glasgow and across Scotland.

**Gary West** is a lecturer at the University of Edinburgh and a member of the Creative Scotland Board and Remuneration Committee. During the financial year 2010/11, the University of Edinburgh received, £25,000 towards the cost of a curatorial fellowship that addresses under-representation of disabled people and those from BME backgrounds and £6,500 towards the cost of a collaborative exhibition of the work of Rosemarie Trockel, both awards related to the Talbot Rice Gallery.

### **Joint Board members – Scottish Screen and the Scottish Arts Council (to 30 June 2010)**

**Benjamin Twist** is a Consultant for North Edinburgh Arts and was a member of the Joint Board of the Scottish Arts Council and Scottish Screen and the SAC Lottery Committee. During the financial year 2010/11 Creative Scotland awarded North Edinburgh Arts £50,000 towards the cost of Dance Artist in Residence with the focus on benefits of dance for children and young people's health.

**Richard Holloway** is the Chair of Sistema Scotland and was Chair the Joint Board and the Remuneration Committee of the Scottish Arts Council and Scottish Screen. During the financial year 2010/11 Creative Scotland awarded Sistema Scotland £220,000 towards the cost of a residency and performance by Simon Bolivar Symphony Orchestra, Venezuela and Big Noise Raploch for London 2012.



## 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 2011, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRM) which is in force for financial year 2010-11.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. Clarification of the additional disclosure requirements are set out in Schedule 1 attached.
5. In respect of financial year 2010-11, to ensure transparency and recognise the requirements of section 42(b) of Part 4 of the Public Services Reform (Scotland) Act 2010, Creative Scotland will incorporate, as part of its **National Lottery distribution activities**, a detailed note showing the assets and liabilities vested from Scottish Screen and the Scottish Arts Council National Lottery distribution activities, and any subsequent restatement of those by Creative Scotland to give the opening Creative Scotland National Lottery distribution activities balance sheet position as at 1 July 2010 (the effective date).

Signed by the authority of the Scottish Ministers

Dated 27th June 2011

## 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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ISBN 978-0-10-295239-1



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