



Creative Scotland

Annual Report and Accounts

For the year ended 31 March 2018

SG/2018/235

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Performance Report

Overview

Joint Report by the Chair and the Acting Chief Executive

2017/18 has been a year of change for Creative Scotland, a year where a great deal has been achieved but also a year of significant challenge. Through the year we made £69.6 million of awards to 1,059 organisations, projects and individuals and we also worked hard through our Creativity Matters campaign, and with the vital support of the sector, to secure a stable budget outcome for the arts, screen and creative industries in a time of continued pressure on public finances. We would like to thank all of our hard-working and dedicated staff who have been central to delivering our work throughout the year.

It was with great sadness that our Chair, Richard Findlay, died on 8 July 2017. He made an enormous contribution to the arts, screen and creative industries in Scotland over his lifetime and Creative Scotland benefited significantly from two and a half years of his leadership.

Ben Thomson took on the Chair role on an interim basis at short notice on 26th July 2017 until 9 February 2018. On 10 February 2018, Robert Wilson was appointed Chair on a permanent basis and his significant experience in leadership roles in the arts in Scotland and in business internationally will develop further the work done by his predecessors.

In July 2018, after five years, Janet Archer stepped down from her role as Chief Executive of Creative Scotland and Iain Munro stepped up from his role as Deputy Chief Executive to become Acting Chief Executive.

A major focus for Creative Scotland through 2017/18 has been the work to develop *Screen Scotland*, which was formally launched on 21 August 2018. This follows the commitment made in the Scottish Government's 2017/18 Programme for Government to create a new Screen Unit within Creative Scotland and an increase in public funding via Creative Scotland for our film and screen sector to £20 million a year. To deliver the ambitions set out for Screen Scotland in the collaborative agreement published in December 2017, we welcome the additional funding and further development of partnerships with Scottish Enterprise, Highlands and Islands Enterprise, the Scottish Funding Council and Skills Development Scotland. Screen Scotland is leading the growth of the sector through increased funding and support for film and television production, an increase in specialist staff, marketing and promotion, and further investment in skills, festivals, audiences and education.

A significant part of the activities of the year related to the 2018/19 to 2020/21 Regular Funding process. In April 2017, we received 184 eligible applications requesting a total of £153 million for the three-year period. At the time it was flagged that, given pressure on both grant-in-aid and National Lottery budgets, it was unlikely that there would be an uplift in funding to many existing Regularly Funded Organisations (RFOs), and overall the number of RFOs was likely to be reduced.

Funding decisions were delayed until after the Scottish Government 2018/19 Draft Budget announcement on 14 December, when the organisation was awarded an additional £6.6 million to support Regularly Funded Organisations, addressing the fall in National Lottery income. This enabled the announcement early in 2018 of 121 organisations to be awarded a total £101.6 million over 3 years. This includes 19 organisations new to regular funding and 15 organisations which would no longer be funded in this way. Although the decision process was challenging and attracted significant negative publicity and sector criticism, we have been able to fund 121 organisations which demonstrate creative excellence, potential and ambition, with significant reach throughout Scotland, and internationally, and across many areas of creative practice including craft, dance, literature, music, screen, theatre and visual arts.

We have carried out a formal, independent review of the Regular Funding Process and the findings from this review will help to inform the broader review of our overall funding approach which we intend to complete during 2018/19.

In terms of Creative Scotland's Board, in February 2018 the Cabinet Secretary for Culture, Tourism and External Affairs, Ms Fiona Hyslop, accepted the resignations of Ruth Wishart and Maggie Kinloch. We thank them for their contribution as Board members. Barclay Price stood down as a Board member on 30 June 2018 at the end of his second term. We thank him for the major contribution he has made to the organisation in the 8 years since Creative Scotland's inception.

In August 2018 we welcomed the appointment by the Cabinet Secretary of Elizabeth Partyka, David Strachan and Ewan Angus as Members of the Board of Creative Scotland. They bring impressive knowledge, expertise and extensive experience of broadcasting, television and film which will be hugely beneficial in helping drive further growth for Scotland's film and TV sector as set out in the ambition for Screen Scotland.

Isabel Davis joined the organisation in September 2018 as Executive Director, to lead the delivery of Screen Scotland. Isabel brings extensive international production, editorial and policy experience and expertise in growing the screen industries on an international scale. Well-known in the UK and international film industry, Isabel joins Creative Scotland with a strong reputation and established relationships with international talent, producers, financiers and funders.

Creative Scotland welcomes the development of the Scottish Government's Culture Strategy. We are particularly pleased to see an emphasis on achieving long term change through collaboration across different areas of society and different areas of Government policy. The emphasis on place and on equalities, diversity and inclusion is also significant in terms of how we all provide support for artists, cultural organisations and communities in order to see Scotland's culture continue to thrive.

Throughout 2017/18, the Scottish Parliament's Culture Tourism, Europe and External Relations Committee has taken a keen interest in Creative Scotland and we have given evidence five times during the year to the Scottish Parliament on the Committee's reviews of the 2018/19 Draft Budget, Screen Sector and Regular Funding. We take all feedback very seriously, fully recognise the need for full trust and confidence in our organisation, and we are implementing a broad range of changes in 2018/19 in terms of our overall approach to funding and through a review of our operations, values, structure and behaviours, work which is being led by the Chair and Board.

We remain committed to moving forwards positively and with ambition, working collaboratively with the people and organisations we are here to support and to the benefit of all aspects of public life in Scotland for those that live, work or visit here.

Structure, Governance and Management

Creative Scotland was established on the 1st July 2010 through enactment of the Public Services Reform (Scotland) Act 2010. It has the status of a Non-Departmental Public Body (NDPB) and has a Board, appointed by the Scottish Ministers.

Creative Scotland is the public body that supports the arts, screen and creative industries across all parts of Scotland on behalf of everyone who lives, works or visits here. It enables people and organisations to work in and experience the arts and creative sectors in Scotland by helping others to create culture through developing great ideas and bringing them to life.

Creative Scotland's role as a development agency is to be an intelligent funder of the arts, screen and creative industries, to be a national and international advocate on their behalf and to positively influence attitudes, behaviours and policies.

Funding is received from both the Scottish Government and the National Lottery. A separate National Lottery Distribution Fund Annual Report and Accounts is produced for the activities undertaken as a Lottery Distributor under the National Lottery etc. Act 1993.

These accounts have been prepared under an Accounts Direction issued by the Scottish Government on page 51.

Unlocking Potential, Embracing Ambition

In 2013/14, Creative Scotland published its 10 Year Plan, Unlocking Potential, Embracing Ambition. The Plan sets out a clear set of longer term ambitions, underpinned by shorter term priorities, to ensure that the arts, screen and creative industries in Scotland continue to thrive. Complementary annual plans provide detail on delivery of this long-term plan. All plans are available at creativescotland.com.

The five ambitions for the arts, screen and creative industries over the next ten years are:

- Excellence and experimentation across the arts, screen and creative industries is recognised and valued
- Everyone can access and enjoy artistic and creative experiences
- Places and quality of life are transformed through imagination, ambition and an understanding of the potential of creativity
- Ideas are brought to life by a diverse, skilled and connected leadership and workforce
- Scotland is a distinctive creative nation connected to the world

As well as the ambitions, there are four connecting themes that run through all aspects of Creative Scotland's work, these are:

- Creative learning- increasing the quantity and quality of opportunity for people of all ages to learn through engagement with the arts, screen and creative industries
- Equalities and diversity- we are committed to putting equalities and diversity at the heart of all our activity, enabling people from different backgrounds, from diverse communities and of all ages to access increased opportunity through access to the arts and culture
- Digital- supporting the arts and creative sectors to fully utilise all the benefits that new digital tools can bring
- Environment- We are committed to operating in an environmentally sustainable manner and will work to ensure that the individuals and organisations that we support do the same

Going concern

At 31 March 2018, Creative Scotland had net assets of £1.8 million (2017: £1.4 million). As Creative Scotland has positive reserves and continues to receive funding from the Scottish Government, the Accountable Officer believes it is appropriate to continue to prepare the accounts on a going concern basis as set out in the accounting policies (1.3).

Risk management

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

The main risks identified for Creative Scotland are:

1. Available funding from National Lottery and other sources reduces resulting in less funding for the arts, screen and creative industries which adversely impacts delivery of the 10 Year Plan.
2. Uncertainty around future political and economic policy at a UK level may result in a de-prioritisation of culture in Scotland.
3. Funding decisions and communications that support strategic ambitions result in criticism.
4. The number of change management commitments could negatively impact operational capacity.
5. The creation of the Screen Unit in 2018/19 will present operational and reputational risk to ensure it is delivered effectively.

Performance summary- review of the year

In 2017/18, Creative Scotland committed £69.6 million of grant funding to the arts, screen and creative industries in Scotland arising from £41.9 million of Scottish Government grant-in-aid funding and £27.7 million of National Lottery funds. The annual levels of grant commitments are shown below for the five-year period.

Grant Commitments- five-year view

	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Grant-in-aid	48.1	46.0	46.6	40.3	41.9
National Lottery	41.4	30.5	30.0	26.9	27.7
Total	89.5	76.5	76.6	67.2	69.6

Note 8 on page 37 provides a breakdown of grant commitments funded from grant-in-aid for 2017-18.

Creative Scotland's funding programmes are categorised into three routes: regular funding, open project funding and targeted funding for specific purposes.

Regular Funding.

Regular Funding seeks to ensure Scotland has a wide range of arts and creative organisations through which artists and creative people can deepen and deliver their work, their engagement with the public, and their professional networks. Regular funding is one of the key means by which the ambitions, priorities and connecting themes highlighted in the 10-year plan will be addressed.

2017/18 was the final year of regular funding for the three-year period from April 2015 to March 2018. There were 118 organisations receiving regular funding in 2017/18, and £26.6 million was allocated from grant-in-aid in 2017/18 to the portfolio.

Open Project Funding

Open project funding aims to support the arts, screen and creative industries, with projects that explore, realise and develop creative potential, widen access to their work, and enrich Scotland's reputation as a distinctive creative nation connected to the world. The fund is open to both individuals and organisations for awards up to £150,000 and the fund awarded 464 grants consisting of £0.7 million of grant-in-aid and £9.8 million of National Lottery funding during 2017/18.

Targeted Funding

Targeted funding is used to address specific activities and development needs in a sector, specialism, or geographic area. In 2017/18, total targeted grant funding was £25.2 million of which £14.6 million was funded from grant-in-aid and £10.6 million was from National Lottery. The £14.6 million of grant-in-aid funded targeted includes £13.8 million of grants relating to restricted funding for specific Scottish Government sponsored projects.

Key examples of targeted funding during 2017/18 include:

- The Youth Music Initiative (YMI) continued to create access to high quality music making opportunities for young people, offering them the chance to achieve their potential through music making, and supporting the development of the youth music sector. Creative Scotland received £9.25 million in funding from the Scottish Government in support of YMI.
- A new three year programme (Phase 4) for the Cashback for Communities commenced in 2017/18 with a total budget of £2.6 million. This initiative sees funds recovered through the Proceeds of Crime Act, reinvested back into communities to benefit Scotland's young people. During the year, £766,000 of grant funding was distributed, with project expenses of £36,000 for marketing and evaluation incurred.
- The Production Growth Fund is jointly funded by the Scottish Government and Creative Scotland's National Lottery Distribution Fund, with £750,000 allocated during 2017/18 from Scottish Government funds to continue to incentivise film and high-end TV production to locate in Scotland.

These are just some examples of the range of work supported by Creative Scotland in 2017/18 in our role as funder, advocate, influencer and development body on behalf of the arts, screen and creative industries in Scotland.

Operations

In 2017/18, Creative Scotland undertook work to deliver a proposal for a screen unit, which will deliver a more collaborative inter-agency approach and clear leadership on public sector interventions and support for Scotland's screen sector. As part of this, a collaborative proposal was developed by Creative Scotland and other partners, which include Scottish Enterprise, Highlands and Islands Enterprise, Skills Development Scotland and the Scottish Funding Council, as well as input from people and organisations working in the screen sector. The Scottish Government confirmed an additional £10 million of grant-in-aid funding for the new screen unit from 2018/19.

During the year, the Director of Screen Natalie Usher resigned and was replaced by an interim director.

A recruitment process for a new post, the Executive Director of Screen and Creative Enterprise, commenced in 2017/18. The Executive Director will have responsibility leading Screen Scotland, and with its team and partnership agencies, deliver the ambition and outcomes set out in the Collaborative Screen Proposal.

Future developments

In April 2014, Creative Scotland published its 10 Year Plan: Unlocking Potential Embracing Ambition: a shared plan for the arts, screen and creative industries 2014-2024. The Plan highlighted Creative Scotland's five ambitions and the priorities over the next 3 years to help achieve these ambitions. These priorities were reviewed at the end of this period and were not changed. The annual plan for 2018/19 sets out how Creative Scotland will continue to develop strategies for its three key areas of responsibilities: the Arts, Screen and Creative Industries.

The new funding round for regularly funded organisations begins on 1 April 2018, and will run for three years to 31 March 2021. Funding of £101.6 million was awarded to 121 organisations over the three year period. The announcement of the regular funding portfolio was met with criticism, and Creative Scotland recognised the difficulties and challenges for both applicants and staff in the process for awarding this round of funding. A number of key tasks for 2018/19 will seek to address the issues raised from the regular funding process including:

- An independent review of the process for regular funding will be undertaken. This work was carried out over the Summer of 2018. The review found that overall the delivery of the 2018-21 RFO process against the stated aims and guidance was broadly compliant across all stages up to the announcement of the funding decisions taken by the Board in January 2018.
- Following the independent review, this will be followed up with a review of how Creative Scotland's funding works across the creative sectors, including the consideration of different funding models to ensure effectiveness in supporting the different ways artists and creative people work.
- A strategic and operational review will also be undertaken. This will review the strategies, funding mechanisms, business processes, and management and governance structures. The review will be undertaken under the direction of a board subcommittee.

The Arts Strategy published in 2016, sets out the ambitions for the arts in Scotland. As part of furthering this strategy, Creative Scotland will develop two new major funding routes for artists and producers:

- A strategic fund for the development of artist run initiatives

- A Strategic Touring Fund, which will be launched in 2018 in collaboration with the touring sector. The funding will begin from 1 April 2019.

The Scottish Government's 2017 Programme for Government announced a doubling of resources for the Screen Sector in Scotland from £10 million per annum to £20 million from 1 April 2018. As part of this, a Screen Unit within Creative Scotland will be created which will involve a more collaborative inter-agency approach and clear leadership on public sector interventions and support for Scotland's screen sector.

During 2018/19, the key task in Screen will be:

- Recruitment of a newly created Executive Director, Screen and Creative Enterprise role, which will be responsible for leading the work of the Screen Unit across the partnership
- Launching and refreshing new dedicated screen funding routes, including:
 - A newly expanded £2 million Production Growth Fund
 - A refreshed £4 million Film Development and Production Fund
 - A new £3 million Content Development and Production Fund
- Finalisation of the business case for new studio capacity and secure new space for future productions.

In 2018/19, work on the creative industries strategy will continue and this forms the basis of Creative Scotland's work in this area. Joint working will continue with our partners such as Scottish Enterprise, the Scottish Funding Council and Scotland's Creative Industries Partnership (SCIP) to help creative businesses find the best route to support and investment, as well as offering support and information on how to access creative and business skills development and stimulating sector development initiatives.

Creative Scotland will continue to emphasise the value that public funding of the arts, screen and creative industries delivers and will further enhance its communications approach to ensure that this is better understood.

Centre for Contemporary Art Building

Creative Scotland owns the Centre for Contemporary Art Building in Sauchiehall Street, Glasgow. The building is listed leased to the Centre for Contemporary Arts for use as an arts centre. The building hosts the CCA and a number of other cultural organisations that Creative Scotland has a funding relationship with.

In June 2018, there was a major fire in the adjacent buildings, the Glasgow School of Art building which spread to another neighbouring property. Although the CCA building was not directly impacted by the fire, and there are no obvious signs of damage, a survey of the building's condition will be undertaken in 2018/19.

Performance Analysis

Performance overview

Under each of our five ambitions we have identified priorities to inform our work over a three-year period. These priorities inform our funding guidelines and decisions, as well as our own development, advocacy and influencing activity.

Each year we publish an Annual Plan which sets out how we will achieve our ambitions and priorities for that year and summarises our planned income and expenditure. Our Annual Plans include a detailed performance management framework comprising performance indicators which we report against in the Annual Review of Performance, which is published separately. Performance is measured with regards to statistical information from our grants management system, funding data supplied by regularly funded organisations and other applicants, third party data and from stakeholder surveys.

Financial performance

The financial statements for 2017/18 have been prepared under an Accounts Direction, on page 51, issued by the Scottish Ministers to meet the accounting and disclosure requirements of applicable accounting standards so far as these requirements are appropriate and comply with the Government Financial Reporting Manual (FReM).

The budget is approved by the Board and actual out-turn is shown below.

Creative Scotland- Results for the year ending 31 March 2018 versus Budget

	<u>Actual</u> <u>£m</u>	<u>Budget</u> <u>£m</u>	<u>Variance</u> <u>£m</u>
Income			
Project	(1.1)	0.0	1.1
Other	(3.6)	(2.8)	0.8
Expenditure			
Grants awards and investments	41.9		
Project Expenditure	0.2		
Less de-committed awards	(0.3)		
Total net grants and project expenses	41.8	40.9	(0.9)
Staff costs	5.8	5.2	(0.6)
Other operating expenditure/income	2.4	2.3	(0.1)
Net expenditure	45.3	45.6	0.3

The variances in income relate to: the in-year reclassification of Cashback for Communities funding from grant-in-aid to direct grant included in project income, and additional project income from third parties for jointly funded programmes.

There was an increase in grants expenditure for the year against the original budget due to both additional grant-in-aid allocations in the year of £700,000 relating to the Production Growth Fund, Expo Fund and the Youth Music Initiative; and also the additional project income from third parties noted above.

An overspend in staff costs relates to strain in the fund costs relating to pension liabilities (£0.5 million), which was fully funded from an insurance policy (the funds received are shown in other income).

Environmental Sustainability

Creative Scotland is committed to reducing the environmental impact of its operations, as well as promoting carbon efficiency and sustainable behaviours across the arts, screen and creative industries. An environment policy sets out Creative Scotland's statutory requirements under the Climate Change (Scotland) Act 2009 and to assist the Scottish Government's target of cutting CO2 emissions by 42% by 2020. Our work in this area includes:

- Working in conjunction with Creative Carbon Scotland in promoting the environment to support funded organisations, enabling them to report on their sustainable behaviour and contribution to CO2 emission reduction. Environmental sustainability is a criterion in the assessment of applications from organisations for regular funding and carbon reporting will be mandatory for these organisations during the period of funding.
- Ensuring environmental sustainability is a key criterion in the assessment of tenders during the procurement processes.
- Establishing an environmental working group to co-ordinate and lead on environmental sustainability issues

Monitoring of GHG emissions in tonnes of CO₂ for 2 key areas for our operations for 2016/17 and 2017/18 were undertaken, with key results shown in the table below:

	2017-18 GHG (tCO₂e)	2016-17 GHG (tCO₂e)	% change
Energy	41.8	57.6	-27%
Business Travel	116	88.1	+31%

Business travel outputs have increased due to a higher number of overseas trips undertaken in the year compared to the previous year.

More information on our environment policy can be found at creativescotland.com

Social matters

Creative Scotland is committed to ensuring people of all ages and from different types of communities throughout the country can have deep and meaningful engagement with the arts, screen and creative industries. Access and place are key ambitions in the 10 year plan to help achieve this. The following activities have taken place in 2017/18 to help achieve this:

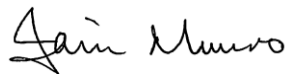
- Continuing to work on the Corporate Parenting Plan, which identifies opportunities for young people from care backgrounds
- Working with local authorities throughout Scotland on our Place programme, which ensures Creative Scotland works closely with local partners over time to build and maintain a good working knowledge of local authority areas and their creative communities.
- Continuing to embed the concepts of equality and diversity in all our funding streams, and delivering targeted funds to support key projects. An Equalities, Diversity and Inclusion report is produced biennially.

Anti-bribery and corruption

Creative Scotland has well developed policies and procedures to address anti-corruption and anti-bribery matters. All staff are required to act honestly and to safeguard the public resources for which they are responsible and are encouraged to raise concerns about possible improprieties. This includes: financial reporting, fraud, bribery or blackmail, criminal offences, failure to comply with a legal or regulatory obligation, miscarriages of justice, endangering the health and safety of an individual or concealment of any of these matters. Policies are designed to support Creative Scotland values and ensure that staff can raise concerns without fear of suffering retribution and ensure there is a transparent and confidential process for dealing with concerns.

Payment of creditors

The Scottish Public Finance Manual requires that invoices be paid within ten days of a valid invoice. During the year ended 31 March 2018, 76% of invoices were paid within ten days (2017: 74%), with an average payment date of 12 days (2017: 10.1).



Iain Munro
Acting Chief Executive and Accountable Officer
12 October 2018

Accountability Report

Corporate Governance Report

Director's Report

Officers in place as at 12 October 2018:

Board Members

Iain Aitchison
Ewan Angus (appointed 1 August 2018)
David Brew
Karen Forbes
Erin Forster
Sheila Murray
Cate Nelson-Shaw
Elizabeth Partyka (appointed 1 August 2018)
David Strachan (appointed 1 August 2018)
Karthik Subramanya
Robert Wilson (Chair)

Senior Leadership Team

Iain Munro, Acting Chief Executive
Isabel Davis, Executive Director, Screen and Creative Enterprise
Kenneth Fowler, Director, Communications
Ian Stevenson, Director, Finance
Karen Lannigan, Director, HR & Office Services
Philip Deverell, Director, Strategy
Clive Gilman, Director, Creative Industries
Scott Donaldson, Acting Director, Screen
Joan Parr, Acting Director, Arts & Engagement

Offices:

Waverley Gate	The Lighthouse
2-4 Waterloo Place	Mitchell Lane
Edinburgh	Glasgow
EH1 3EG	G1 3NU

External Auditors:

Audit Scotland
Athenaeum Building,
8 Nelson Mandela Place
Glasgow
G2 1BT

Internal Auditors:

Henderson Loggie
11-15 Thistle Street
Edinburgh
EH2 1DF

Bankers:

National Westminster Bank PLC
Government Banking Service
2nd Floor, 280 Bishopgate
London
EC2M 4RB

Creative Scotland Board

The Public Services Reform (Scotland) Act 2010 allows for up to a maximum of fourteen members, in addition to the Chair, all to be appointed by Scottish Ministers. The membership of the Board during the year was as follows:

Name	Date of appointment	Term	End of current term
Robert Wilson (Chair)	10 February 2018	1 st	9 February 2022
Richard Finlay (Chair)	1 January 2015	1 st	5 July 2017
Ben Thomson (Interim Chair)	26 July 2017	-	9 February 2018
Barclay Price	1 July 2010	2 nd	30 June 2018
Ruth Wishart	1 July 2010	2 nd	1 February 2018
David Brew	1 August 2015	1 st	31 July 2019
Erin Forster	1 August 2015	1 st	31 July 2019
Professor Maggie Kinloch	1 August 2015	1 st	1 February 2018
Shelia Murray	1 August 2015	1 st	31 July 2019
Iain Aitchison	1 August 2016	1 st	31 July 2020
Karen Forbes	1 August 2016	1 st	31 July 2020
Karthik Subramanya	1 August 2016	1 st	31 July 2020
Cate Nelson-Shaw	1 August 2016	1 st	31 July 2020

Ben Thomson, was appointed as the Interim Chair by the Scottish Ministers commencing from 26 July 2017, following the death of the previous Chair, Richard Findlay. Following an open recruitment process to appoint a permanent chair, Robert Wilson was appointed on 10 February 2018. Ruth Wishart and Professor Maggie Kinloch resigned from the Board on 1 February 2018.

A recruitment process to appoint additional board members with screen experience commenced in April 2018.

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 Accountable Officer. The Board is supported by an Audit and Risk Committee, and a Financial and General Purposes Committee. Members of these committees are appointed by the Board from their membership. There is also a Screen Committee made up of three Creative Scotland Board members, sector representatives and public sector partners.

A register of interests for Board members is maintained and is available on the Creative Scotland website. No board members, including the Chair, are remunerated for their roles.

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

Political and Charitable Donations

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

Data loss

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

Statement of Accountable Officer's responsibilities

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

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

- observe the Accounts Direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements;
- and prepare the financial statements on a going concern basis.

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

Creative Scotland's external auditor is appointed by the Auditor General for Scotland, and for the year ended 31 March 2018, Audit Scotland is the appointed auditor. So far as the Accountable Officer is aware, there is no relevant audit information of which the auditor is unaware and the Accountable Officer has taken all the steps that he ought to have taken in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

As far as the Accountable Officer is concerned, the annual report and accounts as a whole is fair, balanced and understandable, and he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance Statement

Scope of Responsibility

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

Governance framework

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

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

The Board has corporate responsibility for ensuring that Creative Scotland fulfils the aims and objectives set by the Scottish Ministers. The Board is supported in its activities by two standing committees: the Audit and Risk Committee; and the Finance and General Purposes Committee (previously known as the Remuneration and Governance Committee). As is good practice, terms of reference are in place for the Board and its standing committees. These pull together the Board's statutory and regulatory responsibilities, as detailed within key governance documentation including the Public Services Reform (Scotland) Act 2010 and Creative Scotland's Management Statement and Framework Document.

Operation of the Board

During 2017-18, the Board met on 9 occasions. During the year the Board approved the 2018/19 budget, large scale capital applications, and the regular funding programme for the three year period from 2018/19 to 2020/21.

The Audit and Risk Committee met four times during the year and is responsible for reviewing and monitoring all aspects of and issues relating to the preparation and production of all annual financial statements for Creative Scotland and the Creative Scotland National Lottery Distribution Fund. This includes consideration of accounting policies, levels of disclosure, risk management policies, internal control systems, compliance with applicable corporate governance requirements and reviewing any relevant matters relating to financial statements and reports raised by external or internal auditors as a result of their audit work.

The Finance and General Purposes Committee met five times during the year to review financial performance, the performance against objectives and set remuneration for the Chief Executive; consider and approve proposals on remuneration for staff, via review of pay remit submissions and consider and scrutinise budgets at a detailed level.

The Screen Committee's role is to oversee the delivery of Screen Scotland (previously the Screen Unit) as described in the Screen Unit Proposal published in December 2017. It is made up of three Creative Scotland Board members, sector representatives and public sector partners: Scottish Enterprise, Highland and Islands Enterprise, Skills Development Scotland and The Scottish Funding Council.

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

Accountable officer

The Accountable officer during the period to 31 March 2018 was Janet Archer, the Chief Executive of Creative Scotland, who resigned on 30 June 2018. I was appointed Accountable Officer with effect from 12 June 2018.

Assessment of corporate governance in the period

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

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

The process within the organisation accords with guidance from the Scottish Ministers provided in the Scottish Public Finance Manual and has been in place for the year ended 31 March 2018 and up to the date of approval of the annual report and financial statements.

The Accountable Officer is responsible for reviewing the effectiveness of the system of internal control and is informed by:

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

All recommendations from Internal and External audit are responded to by management and both the recommendations and responses for implementation are reviewed by the Audit and Risk Committee before being either approved or amended, for implementation. The findings from the Audit and Risk Committee are reported to the Board by way of submission of minutes of each meeting and an annual report on the committee's work. The independent Internal Auditor's Annual Report found that Creative Scotland has adequate and effective arrangements for risk management, control and governance and that proper arrangements are in place to promote and secure value for money.

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 2018 and up to the signing of the financial

statements, the organisation has initiated reviews of the regular funding process, and a wider review of funding models and organisational development.

Risk management

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

Creative Scotland's Risk Management Strategy outlines the key activities undertaken to manage risk.

The Board approves the strategic plan, and risks which may impact its delivery are identified through senior leadership team, Board and sub-committee discussions. These are recorded in the Strategic Risk Register, which identifies the organisation's risks and the relevant control strategy for each. The register has been developed in line with relevant guidance issued by the Scottish Ministers and with clearly defined processes and specific areas of responsibility.

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

Internal Audit Reviews are undertaken by a third-party organisation. These Reviews are focussed on key risks identified in the risk register. In addition, professional advisors are used as appropriate to ensure legal compliance and minimisation of risk.

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

Conclusion

Based on the above and my own knowledge of the organisation, and review of the certificates of assurance completed by the Senior Leadership Team, I am satisfied that, during the year under review, the overall control environment within Creative Scotland operated effectively and supported the organisation in meeting its aims and objectives.

Remuneration and staff report

The Chair, Board and Chief Executive are appointed by the Scottish Ministers. The Chair and Board receive no remuneration, the Chair having declined the offer of a remuneration package linked to the role. Incidental travel and subsistence expenditure are reimbursed to Board members in accordance with an established expenses policy. Board expenses for the year to 31 March 2018 were £3,424 (2017: £822).

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

The sections marked * are subject to a separate opinion by Audit Scotland. The other sections were reviewed by Audit Scotland to ensure they were consistent with the financial statements.

Salary entitlements of the Senior Leadership Team*

Name	2017/18				2016/17			
	Salary/ (Bonus) £'000	Benefit in kind £'000	Pension Benefits £'000	Total	Salary/ (Bonus) £'000	Benefit in kind £'000	Pension Benefits £'000	Total
Janet Archer Chief Executive	115-120 (0)	-	25-30	140-145	115-120 (0)	-	30-35	145-150
Iain Munro Deputy Chief Executive	90-95 (0)	-	25-30	115-120	85-90 (0)	-	30-35	125-130
Kenneth Fowler Director, Communications	70-75 (0)	-	15-20	85-90	70-75 (0)	-	15-20	90-95
Karen Lannigan Director, HR & Office Services	65-70 (0)	-	25-30	85-90	60-65 (0)	-	25-30	85-90
Ian Stevenson Director, Finance	60-65 (0)	-	15-20	80-85	60-65 (0)	-	20-25	80-85
Leonie Bell ¹ Director, Arts & Engagement	60-65 (0)	-	15-20	80-85	60-65 (0)	-	15-20	80-85
Phillip Deverell Director of Strategy	60-65 (0)	-	15-20	75-80	60-65 (0)	-	15-20	75-80
Clive Gillman ² Director, Creative Industries	60-65 (0)	-	15-20	75-80	55-60 (0)	-	15-20	70-75
Claire Byers Interim Director, Arts & Engagement	55-60 (0)	-	10-15	70-75	0-5 (0)	-	0-5	0-5
Scott Donaldson ³ Acting Director, Screen	0-5 (0)	-	-	0-5	-	-	-	-
Natalie Usher ⁴ Director of Screen	50-55 (0)	-	15-20	70-75	55-60 (0)	-	15-20	75-80

Figures shown are for the Senior Leadership Team in place during 2017-18.

1. Ms Bell is seconded to the Scottish Government Culture Division for the whole of 2017/18, and salary costs are reimbursed to Creative Scotland.
2. Mr Gillman is employed by Creative Scotland and the post is part funded (50%) by the Scottish Funding Council
3. Mr Donaldson is also Head of Film Education, and was appointed Acting Director, Screen from 12 March 2018. Remuneration shown is for salary paid for both roles from the period of his appointment to the Senior Leadership Team.
4. Mrs Usher resigned from Creative Scotland on 9 March 2018.

Salary

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

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by Creative Scotland and treated by HMRC as a taxable emolument, and any non-taxable emoluments not subject to taxation.

Bonus

No bonuses were paid during the period (2016/17- Nil).

Pension benefits

Pension benefits are calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum, less contributions made by the member.

Senior staff pension accrued as at 31 March 2018 and 31 March 2017*:

Name	Accrued pension (lump sum) 31 March 2018 £'000	Accrued pension (lump sum) 31 March 2017 £'000	Real increase in pension (lump sum) £'000	CETV 31 March 2018 £'000	CETV 31 March 2017 £'000	Real increase in CETV £'000
Janet Archer	5-10 (20-25)	5-10 (15-20)	0-2.5 (2.5-5)	140	123	22
Iain Munro	20-25 (70-75)	20-25 (65-70)	0-2.5 (2.5-5)	428	462	20
Kenneth Fowler	5-10 (15-20)	5-10 (15-20)	0-2.5 (0-2.5)	105	104	11
Karen Lannigan	10-15 (10-15)	10-15 (0-5)	0-2.5 (0-2.5)	142	121	21
Ian Stevenson	5-10 (15-20)	0-5 (10-15)	0-2.5 (2.5-5)	111	100	10
Leonie Bell	5-10 (20-25)	5-10 (15-20)	0-2.5 (0-2.5)	107	113	12
Philip Deverell	0-5 (10-15)	0-5 (5-10)	0-2.5 (0-2.5)	63	53	13
Natalie Usher	0-5 (5-10)	0-5 (5-10)	0-2.5 (0-2.5)	50	42	11
Clive Gillman	0-5 (5-10)	0-5 (0-5)	0-2.5 (0-2.5)	42	29	13
Claire Byers	0-5 (0-5)	0-5 (0-5)	0-2.5 (0-2.5)	15	1	12

Pension scheme

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of a pension benefit in another scheme or arrangement which the individual has transferred to Creative Scotland's pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take into account any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Exit packages*

Exit package cost band	Total number of packages by cost band (2017/18)	Total number of packages by cost band (2016/17)
Less than £10,000	-	-
£10,000 to £24,999	-	-
£25,000 to £49,999	-	-
£50,000 to £100,000	-	1
Over £100,000	-	-
Total number of exit packages	-	1

Median pay multiples*

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

	2017/18	2016/17
Banded remuneration of the highest paid director in Creative Scotland (the Chief Executive)	£115,000 to £120,000	£115,000 to £120,000
Median Remuneration of Creative Scotland staff	£33,468	£28,715
Ratio	3.52	4.11
Range of staff remuneration below highest paid director (bands of £5,000)	£15,000 - £95,000	£15,000 - £95,000
Employees receiving remuneration in excess of the highest-paid director	0	0

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

Staff numbers*

	2017/18	2016/17
Average number of persons employed (FTE)		
Arts & Engagement	30.5	30.7
Creative Industries	5.8	7.5
Screen	10.8	12.0
Strategy	9.0	9.5
Executive Office	8.0	7.0
Communications	12.4	13.1
Finance & Funding Operations	20.4	20.8
HR & Office Services	9.1	8.5
	106.0	109.1

Staff costs are disclosed in Note 7.

Breakdown of employee groups by gender*

At 31 March 2018, Creative Scotland employed 111 members of staff, and the table below shows the breakdown by employment grade across the two genders.

Grade	Males	Females
A	1	9
B	6	14
C	13	34
D	13	11
F (Director)	5	3
Deputy Chief Executive	1	-
Chief Executive	-	1
Total	39	72

Sickness absence

In the year to 31 March 2018, an average of 4.5 working days (2017: 4.5 days) was lost per staff member working in the year.

Equalities and diversity

Creative Scotland is a 'Disability Two Ticks' organisation. This means that Creative Scotland guarantees that all disabled applicants who meet the minimum criteria for a job vacancy will be interviewed.

Creative Scotland is committed to ensuring equality of opportunity for those members of staff who are disabled or become disabled for the purposes of the Equality Act 2010 during their employment with Creative Scotland.

Creative Scotland is also a member of Stonewall's Diversity Champions Programme, the world's largest best practice employer's forum on sexual orientation in the workplace.

External contractors

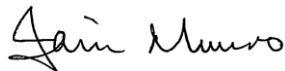
In the year to 31 March 2018, Creative Scotland incurred expenditure of £199,000 on external contractors, which is made up of:

	£'000
External assessors	198
Artistic & Creative Review Framework	1
	<hr/>
	199

All contractors and external assessors are employed in line with Creative Scotland's procurement policy.

Trade Union Relations

There are two unions currently at Creative Scotland: PCS and Unite and any employee can join either of the two unions. Employee representatives of both unions meet regularly with the Senior Leadership Team, and the Chair of the Board to discuss matters relating to working at Creative Scotland. In particular both unions are involved in negotiating the annual pay settlement, and the terms and conditions of employment.



Iain Munro
Acting Chief Executive and Accountable Officer
12 October 2018

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

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 120 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Creative Scotland for the year ended 31 March 2018 under the Public Services Reform (Scotland) Act 2010. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayer's Equity and notes to the financial statements, including a summary of significant accounting policies. 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 2017/18 Government Financial Reporting Manual (the 2017/18 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Public Services Reform (Scotland) Act 2010 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2018 and of its net expenditure 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 2017/18 FReM; and
- have been prepared in accordance with the requirements of the Public Services Reform (Scotland) Act and directions made thereunder by the Scottish Ministers.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of the Accountable Officer Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

In my opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Public Service Reform (Scotland) Act 2010 and directions made thereunder by the Scottish Ministers.

In my opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Services Reform (Scotland) Act 2010 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Services Reform (Scotland) Act 2010 and directions made thereunder by the Scottish Ministers.

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters

Liz Maconachie

Senior Audit Manager

Audit Scotland

4th Floor

8 Nelson Mandela Place

Glasgow

G2 1BT

22 October 2018

Statement of Comprehensive Net Expenditure

For the year ending 31 March 2018

	Notes	2017/18	2016/17
		£'000s	£'000s
Income			
Project income	5	1,115	160
Other operating income	6	3,556	2,917
		<u>4,671</u>	<u>3,077</u>
Expenditure			
Staff costs	7	5,762	4,898
Grant commitments	8	41,915	40,287
Less: de-commitment of prior year grants		(367)	(722)
Project expenditure	9	218	232
Other operating expenditure	10	2,233	2,564
Depreciation		133	181
		<u>49,894</u>	<u>47,440</u>
Net operating costs for the year		<u>(45,223)</u>	<u>(44,363)</u>
Other finance (costs)/ income	18	(30)	(8)
		<u>(30)</u>	<u>(8)</u>
Net expenditure		<u>(45,253)</u>	<u>(44,371)</u>

Other comprehensive expenditure

	2017/18	2016/17
	£'000s	£'000s
Retained deficit for the financial year	(45,253)	(44,371)
Actuarial gain/(loss) on the Strathclyde Pension Fund	410	(827)
Capital grant net income	(30)	(29)
Net gain/(loss) on revaluation of property	-	26
Total comprehensive expenditure	<u>(44,873)</u>	<u>(45,201)</u>

The notes on pages 30-50 form part of these accounts.

Statement of Financial Position

As at 31 March 2018

	Notes	2017/18	2016/17
		£'000s	£'000s
Non-current assets			
Property, plant and equipment	12	1,708	1,736
Intangible assets	13	32	8
Total non-current assets		<u>1,740</u>	<u>1,744</u>
Current assets			
Trade and other receivables	14	1,600	2,440
Cash and cash equivalents	15	2,593	2,636
Total current assets		<u>4,193</u>	<u>5,076</u>
Total assets		5,933	6,820
Current liabilities			
Trade and other payables	16	(3,023)	(4,079)
Provisions	19	(167)	(167)
Total current liabilities		<u>(3,190)</u>	<u>(4,246)</u>
Non-current assets plus net current assets		2,743	2,574
Non-current liabilities			
Provisions	19	(105)	(105)
Pension liabilities	18	(825)	(1,085)
Total non-current liabilities		<u>(930)</u>	<u>(1,190)</u>
Assets less liabilities		<u>1,813</u>	<u>1,384</u>
Reserves			
General fund		1,646	1,244
Revaluation reserve		167	140
Total reserves		<u>1,813</u>	<u>1,384</u>

The Accountable Officer authorised these financial statements for issue on 12 October 2018.



Iain Munro
Acting Chief Executive and Accountable Officer
12 October 2018

The notes on pages 30-50 form part of these accounts.

Statement of Cash Flows

	2017/18	2016/17
	£'000s	£'000s
Cash flows from operating activities		
Net expenditure	(45,253)	(44,371)
<i>Adjustments for non-cash items</i>		
Adjustments for IAS 19	150	42
Depreciation on property, plant and equipment	130	105
Amortisation of intangible fixed assets	3	76
Capital grants released	(30)	(29)
<i>Movements in working capital</i>		
(Increase)/decrease in trade and other receivables	840	(1,051)
Decrease in trade and other payables	(1,106)	(5,870)
<i>Movements in provisions</i>		
Decrease in provisions	-	(731)
Net cash outflow from operating activities	(45,266)	(51,829)
Cash flows from investing activities		
Purchase of property, plant and equipment	(25)	(102)
Purchase of intangible assets	(27)	(11)
Net cash outflow from investing activities	(52)	(113)
Cash flows from financing activities		
Scottish Government funding for the year	45,275	51,838
Net decrease in cash and cash equivalents	(43)	(104)
Net cash and cash equivalents as at 1 April	2,636	2,740
Net cash and cash equivalents as at 31 March	2,593	2,636
Analysis of changes in net funds		
	Cash at bank and in hand	Net cash and cash equivalents
	£'000	£'000
1 April 2017	2,636	2,636
Cash flows	(43)	(43)
31 March 2018	2,593	2,593

The notes on pages 30-50 form part of these accounts.

Statement of Changes in Taxpayers' Equity

	General Fund	Revaluation Reserve	Total
	£'000s	£'000s	£'000s
Balance as at 31 March 2016	(5,366)	114	(5,252)
Changes in taxpayers' equity 2016/17			
Actuarial loss	(827)	-	(827)
Retained deficit	(44,371)	-	(44,371)
Grant in Aid transfer	51,838	-	51,838
Revaluation of property	-	26	26
Movement in capital grant	(30)	-	(30)
Balance as at 31 March 2017	1,244	140	1,384
Changes in taxpayers' equity 2017/18			
Actuarial loss	410	-	410
Retained deficit	(45,253)	-	(45,253)
Grant in Aid transfer	45,275	-	45,275
Revaluation of property	-	27	27
Movement in capital grant	(30)	-	(30)
Balance as at 31 March 2018	1,646	167	1,813

The notes on pages 30-50 form part of these accounts.

Notes to the financial statements

(Forming part of the financial statements)

1 Accounting policies

1.1 Basis of accounting and preparation

In accordance with the accounts direction issued by Scottish Ministers under section 13(1) of Schedule 9 of the Public Services Reform (Scotland) Act 2010, these financial statements have been prepared in accordance with the 2017/18 Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) and IFRIC Interpretations as adapted or interpreted for the public-sector context.

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

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.

1.2 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets, and, where material, financial asset investments and inventories to fair value as determined by reference to their current costs.

1.3 Going Concern

These accounts have been prepared on the going concern basis. The Accountable Officer is of the view that the going concern basis remains appropriate. In common with similar public bodies, the future financing of Creative Scotland's liabilities will be met by future grants-in-aid approved by the Scottish Parliament.

1.4 Property, Plant & Equipment (PPE)

Recognition

All Property Plant and Equipment (PPE) assets will be accounted for as non-current assets, subject to the capitalisation limits noted below.

Assets classified as under construction are recognised in the statement of financial position to the extent that money has been paid or a liability has been incurred.

Capitalisation

The minimum levels for capitalisation of PPE assets per individual item or group of related items are as follows:

• Land, dwellings and other buildings	£10,000
• Leasehold improvements	£10,000
• Plant and machinery	£5,000
• Furniture, fixtures and fittings	£5,000
• ICT systems	£5,000

Measurement

Valuation

All property, plant and equipment assets are measured initially at cost, representing the costs directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management.

All assets are measured subsequently at fair value as follows:

Land and buildings have been stated at fair value using open market value for existing use, under a 3-year programme of professional valuations and appropriate indices in intervening years.

All other property, plant and equipment assets are valued at fair value using the most appropriate valuation methodology available (for example, appropriate indices). A depreciated historical cost basis is used as a proxy for fair value in respect of such assets which have short useful lives or low values (or both).

Subsequent expenditure:

Subsequent expenditure is capitalised into an asset's carrying value when it is probable the future economic benefits associated with the item will flow to Creative Scotland and the cost can be measured reliably. Where subsequent expenditure does not meet these criteria, the expenditure is charged to the Statement of Comprehensive Net Expenditure. If part of an asset is replaced, then the part it replaces is de-recognised, regardless of whether or not it has been depreciated separately.

Revaluations and Impairment:

Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse an impairment previously recognised in the Statement of Comprehensive Net Expenditure, in which case they are recognised as income. Movements on revaluation are considered for individual assets rather than groups or land/buildings together.

Decreases in asset values and impairments that are the result of a loss of economic value or service potential are taken to the Statement of Comprehensive Income with any balance on the revaluation reserve to which the impairment would have been charged under International Accounting Standard 36, *Impairment of Assets*, being transferred to the general fund. Other impairments are charged to the revaluation reserve to the extent that there is an available balance for the asset concerned, and thereafter are charged to the Statement of Comprehensive Net Expenditure.

Depreciation

Land is considered to have an indefinite life and is not depreciated.

Depreciation is provided at rates calculated to write off the valuation of buildings and other PPE assets on a straight-line basis, by equal annual instalments, over their estimated useful lives which are normally in the following ranges:

- Dwellings and other buildings - 35 years

- Leasehold improvements - life of the lease
- Plant and machinery - 5 years
- Furniture, fixtures and fittings - 5 - 10 years
- ICT systems - 3 years
- Motor vehicles - 4 years

1.5 Intangible Assets

Intangible assets are recognised where the costs can be measured reliably and there is a clear future economic benefit attributable from the asset.

Intangible assets are valued initially at cost and subsequently at fair value.

Non-income generating assets are carried at depreciated replacement cost. These valuation methods are considered to be a proxy for fair value.

Future economic benefit has been used as the criteria in assessing whether an intangible asset meets the definition and recognition criteria of International Accounting Standard 38, *Intangible Assets* where assets do not generate income. IAS 38 defines future economic benefit as, 'revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity.'

Intangible assets are amortised to their estimated residual value over their remaining useful economic lives in a manner consistent with the consumption of economic or service delivery benefits.

Amortisation is provided at rates calculated to write off the valuation of intangible assets on a straight-line basis, by equal annual instalments, over their estimated useful lives which are normally in the following ranges:

- Software -4 years
- Website development -3 years

Intangible assets under development are not amortised.

1.6 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 (FRm). 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 loans to creative organisations. 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 or non-current liabilities as appropriate. Creative Scotland's other financial liabilities comprise trade and other payables. 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.

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.

1.7 Recognition of income

Incoming resources are recognised when the organisation is entitled to the income, is reasonably certain of the receipt and can measure the income with reasonable accuracy. Where the income relates to the performance of a service over a defined period any amount relating to future periods would be included as deferred income at the end of the financial year. Grant-in-aid from the Scottish Ministers is classified as funding and is credited to the general fund when drawn down from the Scottish Government. Any element of the grant-in-aid funding that relates to capital expenditure is recognised in restricted funds. Other incoming resources are included within the category in the Statement of Comprehensive Net Expenditure most appropriate to the nature of the activity.

1.8 Resources Expended

Resources expended are included in the financial statements on an accruals basis. The expenditure is included in the category most appropriate to the nature of the expenditure. Grants are recognised when these are approved unless there are conditions which may reasonably stop the payment of future instalments of the grant. Projects awarded over a multi-year basis are accounted for on an annualised basis whereby awards are spread across the financial years of the project.

1.9 Pensions

Creative Scotland participates in two pension schemes providing benefits based on final pensionable pay, the Strathclyde Pension Fund (SPF) and Arts Council Retirement Plan 1994. Both schemes are available to staff of more than one employer, are contracted out of the State Earnings-Related Pension Scheme, and the assets of the schemes are held separately from those of Creative Scotland. The Funds are valued by actuaries, the rates of contributions being determined by the trustees on the advice of the actuaries.

Strathclyde Pension Scheme

Creative Scotland is an admitted body of the Strathclyde Pension Fund which is a defined benefits pension scheme. The scheme is no longer open to new employees of Creative Scotland.

Pension scheme assets are measured using market values. For quoted securities, the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and

discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between the income and expenditure account and, in the statement of other comprehensive income.

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* (revised). As a result, the amount charged to the Statement of Comprehensive Net Expenditure represents the employer contributions payable to the scheme in respect of the year.

The pension cost is assessed every five years by an Actuary who determines the rate of contributions required. The most recent actuarial valuation took place in the year to 31 March 2016.

1.10 Leases

Where substantially all the risks and rewards of ownership of a leased property are borne by the entity, it should be recorded as a non-current asset and a corresponding obligation recorded in respect of the debt due to the lessor, with the interest element of the finance lease payment charged to the Statement of Comprehensive Net Expenditure. Rentals payable in respect of operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the term of the lease.

1.11 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.

1.12 Taxation and VAT

Creative Scotland is not registered for VAT as its activities fall outside the scope of VAT and therefore does not charge VAT on supplies or reclaim VAT on eligible expenditure.

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

1.13 Short Term Employee Benefits

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 Critical accounting estimates and judgements

The following critical accounting estimates and judgements in the accounts are as follows:

- The present value of pension obligations is dependent on actuarial valuations, which are based on assumptions for the discount rate, the rate of inflation, and the rate of future salary and pension increases. These are set out in Note 18, and the sensitivities to any changes in the assumptions used and the impact on the obligation and monetary value are disclosed on page 47.
- Creative Scotland has recognised provisions for dilapidations on rented premises. These provisions are based on expert valuations and are subject to agreement with landlords.
- Creative Scotland recharges 40% of applicable operating costs to the Creative Scotland National Lottery Distribution Fund. This is based on management's judgement of the most appropriate recharge rate based on a number of factors, including the proportion of income from each fund over the medium term of operations.

3 Reconciliation of net expenditure to grant-in-aid

	£'000s
Net expenditure per SoCNE	(45,253)
Capital	(101)
Grant-in-aid for 2017/18	45,275
Net deficit for the year to 31 March 2018	<u>(79)</u>

Grant-in-aid allocated to Creative Scotland for the year to 31 March 2018 was £45,275,000.

4 External auditor's remuneration

	2017/18	2016/17
	£'000s	£'000s
Audit of these financial statements	44	37
Total external auditor's remuneration	<u>44</u>	<u>37</u>

The above audit fee amounts represent amounts paid to Audit Scotland for the provision of external audit during the year.

5 Project income

	2017/18	2016/17
	£'000s	£'000s
Creative Europe	47	43
Paul Hamlyn Foundation	76	117
CashBack for Creativity	867	-
Royal Edinburgh Military Tattoo	123	-
Other	2	-
	<u>1,115</u>	<u>160</u>

Project income for the Creative Europe programme is received from the European Commission via the British Film Institute.

The Paul Hamlyn Foundation provided income of £76,000 towards the Teacher Development Fund for 2017-18.

Cashback for Creativity is provided by the Scottish Government, and is a programme for activities and opportunities for young people, utilising funds seized from criminals under the proceeds of crime legislation. Phase 4 of the programme commenced on 1 April 2017, and funding is now provided by direct grant from the Scottish Government, whereas in previous phases it was provided through grant-in-aid.

The Royal Edinburgh Military Tattoo provided project funding of £123,000 for the Youth Talent Development Fund, which is a pilot fund during the Year of Young People, aimed at nurturing the ambition, enthusiasm and talent of exceptional young artists engaged in traditional music and dance.

6 Other operating income

	2017/18	2016/17
	£'000s	£'000s
Recharges to Creative Scotland NLDF	2,616	2,484
Amortisation of capital grant	30	29
Event space rental income	155	192
Office space rental income	114	139
Miscellaneous	641	73
	<u>3,556</u>	<u>2,917</u>

7 Staff costs

	2017/18	2016/17
	£'000s	£'000s
Staff costs during the year		
Wages and salaries	3,768	3,671
Social security costs	375	354
Pension costs	1,024	754
Apprenticeship levy	4	-
Strain on the Fund	499	-
Movement in holiday pay accrual	9	1
Other staff related costs: temporary staff	83	33
Deficit contribution to Arts Council Retirement Plan (1994)	-	85
	<u>5,762</u>	<u>4,898</u>

The amount recharged in respect of the National Lottery Distribution Fund's share of Creative Scotland's payroll costs was £2 million (40%) (2016-17: £1.9 million, 40%).

Strain on the fund costs of £499,000 were paid to the Strathclyde Pension Fund, which was fully funded from an insurance policy (the funds received are shown in Note 6).

8 Grant commitments	2017/18	2016/17
	£'000s	£'000s
Regular Funded Organisations¹	26,551	26,912
Open Project Funding	718	375
Scottish Government- restricted funds		
Youth Music Initiative ²	9,063	7,559
Expo Fund	2,246	1,804
Cashback for Communities ³	766	490
Sistema	455	415
Production Growth Fund	750	250
National Youth Performing Arts Companies	250	213
Festivals Edinburgh	200	200
National Youth Arts- Time to Shine ⁴	-	160
Glasgow Sculpture Studios ⁴	-	86
World War I Commemorations	50	50
Get Scotland Dancing ⁴	-	50
Total Scottish Government- restricted funds	13,780	11,277
Capital Grants	14	536
Targeted Funding		
Creative Industries ⁵	10	505
Sector Organisations	463	463
Strategic Fund	110	158
Teacher Development Fund	35	60
Arts Strategies	80	-
Royal Edinburgh Military Tattoo	123	-
Trad Arts	31	-
Total targeted funding	852	1,186
Total grant commitments	41,915	40,287

¹ Regular Funding is provided over three years, with annual variations based on an organisation's cashflow requirements.

² Youth Music Initiative Formula Funding was re-profiled in 2016-17, with funding provided for the first two payments of the 2016-17 academic year being funded from a reduced 2016-17 grant-in-aid allocation, and the third allocation funded from 2017-18.

³ Phase 4 of a three-year Cashback programme commenced on 1 April 2018.

⁴ Funding for these programmes ended on 31 March 2017.

⁵ Creative Industries was a one year fund during 2016-17 from Creative Scotland's core grant-in-aid, and is now funded through the National Lottery Distribution Fund.

9 Project expenditure

	2017/18	2016/17
	£'000s	£'000s
Open Project Funding	-	2
Scottish Government- restricted funds		
Youth Music Initiative	68	14
National Youth Arts	-	56
Cashback for Communities	36	68
Other targeted programmes		
Creative Industries	-	17
Creative Europe	30	18
Teacher Development Fund	40	57
Strategic Fund	4	-
Arts Strategies	3	-
Trad Arts	4	-
Inward Investment	33	-
Total project expenditure	218	232

10 Other operating expenditure

	2017/18	2016/17
	£'000s	£'000s
HR	111	86
Office Services	73	63
Estates	851	1,002
Finance	132	106
Legal and contracts	3	29
ICT	173	193
Communications	107	111
Board and committee expenses	8	6
Central services	364	440
Locations	-	221
Marketing	72	91
Knowledge and Research	103	130
External assessors	198	5
Artistic & Creative Review Framework	1	81
Screen Unit	37	-
Total other operating expenditure	2,233	2,564

11 Corporation Tax

Corporation tax is due on the bank interest received in the year based on the standard rate of corporation tax for the year. For the year ending 31 March 2018, corporation tax of £19 was payable to HMRC.

12 Property, plant and equipment

	Land	Buildings	Buildings Leasehold	Fixtures and Fittings	IT equipment	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Cost						
1 April 2017	512	675	860	73	85	2,205
Revaluation	12	15	-	-	-	27
Additions	-	-	-	-	75	75
Disposals	-	-	-	-	-	-
31 March 2018	524	690	860	73	160	2,307
Depreciation						
1 April 2017	-	20	329	48	72	469
Revaluation	-	-	-	-	-	-
Charge for the year	-	19	68	8	35	130
Disposals	-	-	-	-	-	-
31 March 2018	-	39	397	56	107	599
NBV						
31 March 2018	524	651	463	17	53	1,708

	Land	Buildings	Buildings Leasehold	Fixtures and Fittings	IT equipment	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Cost						
1 April 2016	500	660	846	56	78	2,140
Revaluation	12	15	-	-	-	27
Additions	-	-	77	18	7	102
Disposals	-	-	(63)	(1)	-	(64)
31 March 2017	512	675	860	73	85	2,205
Depreciation						
1 April 2016	-	-	324	41	62	427
Revaluation	-	1	-	-	-	1
Charge for the year	-	19	68	8	10	105
Disposals	-	-	(63)	(1)	-	(64)
31 March 2017	-	20	329	48	72	469
NBV						
31 March 2017	512	655	531	25	13	1,736

Land and buildings were revalued at 31 March 2016, by J&E Shepherd, Chartered Surveyors, on the basis of open market value for existing use.

13 Intangible assets

	Computer software	Website	Work in progress	Total
	£'000s	£'000s	£'000s	£'000s
Cost				
1 April 2017	409	162	-	571
Revaluation	-	-	-	-
Additions	-	-	27	27
Disposals	-	-	-	-
31 March 2018	<u>409</u>	<u>162</u>	<u>27</u>	<u>598</u>
Depreciation				
1 April 2017	401	162	-	563
Revaluation	-	-	-	-
Charge for the year	3	-	-	3
Disposals	-	-	-	-
31 March 2018	<u>404</u>	<u>162</u>	<u>-</u>	<u>566</u>
NBV				
31 March 2018	<u>5</u>	<u>-</u>	<u>27</u>	<u>32</u>

	Computer software	Website	Work in progress	Total
	£'000s	£'000s	£'000s	£'000s
Cost				
1 April 2016	398	162	-	560
Revaluation	-	-	-	-
Additions	11	-	-	11
Disposals	-	-	-	-
31 March 2017	<u>409</u>	<u>162</u>	<u>-</u>	<u>571</u>
Depreciation				
1 April 2016	379	108	-	487
Revaluation	-	-	-	-
Charge for the year	22	54	-	76
Disposals	-	-	-	-
31 March 2017	<u>401</u>	<u>162</u>	<u>-</u>	<u>563</u>
NBV				
31 March 2017	<u>8</u>	<u>-</u>	<u>-</u>	<u>8</u>

14 Trade receivables and other current assets

	31 March 2018	31 March 2017
	£'000s	£'000s
Trade receivables	123	119
Due from Creative Scotland NLDF	928	1,777
Prepayments and accrued income	378	300
Grant advances	170	25
Staff advances	1	-
Tax Credit Advance Facility	-	219
	1,600	2,440

Trade receivables and other current assets can be analysed as:

	31 March 2018	31 March 2017
	£'000s	£'000s
Balances with other Central Government bodies	185	72
Balances with Local Authorities	-	101
Total intra Government balances	185	173
Balances with bodies external to Government	1,415	2,267
	1,600	2,440

15 Cash and cash equivalents

The following balances were held at:

	31 March 2018	31 March 2017
	£'000s	£'000s
Government Banking Service	2,593	2,500
Commercial banks	-	136
Cash in hand	-	-
	2,593	2,636

16 Trade payables and other current liabilities

	31 March 2018	31 March 2017
	£'000s	£'000s
Trade payables	24	96
Grants outstanding	1,756	2,620
Accruals	1,179	1,297
Deferred income	64	56
Tax Credit Advance Facility	-	10
	3,023	4,079

Trade payables and other current liabilities can be analysed as:

	31 March 2018	31 March 2017
	£'000s	£'000s
Balances with other Central Government bodies	227	447
Balances with Local Authorities	126	20
Total intra Government balances	353	467
 Balances with bodies external to government	 2,670	 3,612
	3,023	4,079

17 Commitments under operating leases

At 31 March 2018, Creative Scotland had future minimum lease payments under non-cancellable operating leases relating to annual rent for premises at Waverley Gate, 2-4 Waterloo Place, Edinburgh; and The Lighthouse, 11 Mitchell Lane, Glasgow.

There are two leases at Waverley Gate: one is for a period of 15 years from the date of entry of 20 October 2010 with no break option; the other is for a period of 13 years from 18 July 2012 with no break option. The lease at The Lighthouse, Glasgow is for a period of 5 years from 1 April 2016.

	31 March 2018	31 March 2017
	£'000s	£'000s
Operating leases commitments		
Not later than 1 year	512	512
Later than 1 year and not later than 5 years	2,122	2,111
Later than 5 years	1,288	1,811

18 Pension schemes

Creative Scotland participates in two defined benefit schemes: the Strathclyde Pension Fund and the Arts Council Retirement Plan (1994). Past employees of Scottish Screen are covered by the provisions of the Strathclyde Pension Scheme. On 1 July 2010, the Strathclyde Pension scheme was closed to new members and all new employees are admitted to the Arts Council Retirement Plan (1994).

The schemes are funded by payments from Creative Scotland and its employees to the trust administered funds, independent of Creative Scotland's finances. Contributions to the scheme are charged to the Statement of Comprehensive Net Expenditure so as to spread the cost of pensions over employees' working lives with the company.

Strathclyde Pension Fund

These figures are prepared by the Actuaries in accordance with IAS 19. As required under IAS 19, the actuaries have used the projected unit credit method of valuation to measure the pension obligations at 31

March 2018. The last full actuarial valuation of the Strathclyde Pension Fund was carried out on 31 March 2017.

	Assets	Obligations	Net (liability)/ asset
	£'000s	£'000s	£'000s
Fair value of employee assets	7,911		7,911
Present value of funded liabilities	-	8,996	(8,996)
Present value of unfunded liabilities	-	-	-
Opening Position as at 31 March 2017	7,911	8,996	(1,085)
Service cost			
- Current service cost	-	229	(229)
- Past service cost	-	-	-
- Effect of settlements	-	-	-
Total service costs	-	229	(229)
Net interest			
- Interest income on plan assets	205	-	205
- Interest cost on defined benefit obligation	-	235	(235)
- Impact of asset ceiling on net interest	-	-	-
Total net interest	205	235	(30)
Total defined benefit cost recognised	205	464	(259)
Cashflows			
- Planned participant's contributions	42	42	-
- Employer contributions	109	-	109
- Contributions in respect of unfunded benefits	-	-	-
- Benefits paid	(186)	(186)	-
- Unfunded benefits paid	-	-	-
Expected closing position	8,081	9,316	(1,235)
Remeasurements			
- Change in demographic assumptions	-	(59)	59
- Change in financial assumptions	-	(446)	446
- Other experience	-	-	-
- Return on assets excluding amounts included in net interest	(95)	-	(95)
- Changes in asset ceiling	-	-	-
Total remeasurements recognised	(95)	(505)	410
Fair value of employer assets	7,986		7,986
Present value of funded liabilities	-	8,811	(8,811)
Present value of unfunded liabilities	-	-	-
Closing Position as at 31 March 2018	7,986	8,811	(825)

	Assets	Obligations	Net (liability)/ asset
	£'000s	£'000s	£'000s
Fair value of employee assets	6,405		6,405
Present value of funded liabilities	-	6,621	(6,621)
Present value of unfunded liabilities	-	-	-
Opening Position as at 31 March 2016	6,405	6,621	(216)
Service cost			
- Current service cost	-	145	(145)
- Past service cost	-	-	-
- Effect of settlements	-	-	-
Total service costs	-	145	(145)
Net interest			
- Interest income on plan assets	224	-	224
- Interest cost on defined benefit obligation	-	232	(232)
- Impact of asset ceiling on net interest	-	-	-
Total net interest	224	232	(8)
Total defined benefit cost recognised	224	377	(153)
Cashflows			
- Planned participant's contributions	43	43	-
- Employer contributions	111	-	111
- Contributions in respect of unfunded benefits	-	-	-
- Benefits paid	(138)	(138)	-
- Unfunded benefits paid	-	-	-
Expected closing position	6,645	6,903	(258)
Remeasurements			
- Change in demographic assumptions	-	-	-
- Change in financial assumptions	-	2,093	(2,093)
- Other experience	-	-	-
- Return on assets excluding amounts included in net interest	1,266	-	1,266
- Changes in asset ceiling	-	-	-
Total remeasurements recognised	1,266	2,903	(827)
Fair value of employer assets	7,911		7,911
Present value of funded liabilities	-	8,996	(8,996)
Present value of unfunded liabilities	-	-	-
Closing Position as at 31 March 2017	7,911	8,996	(1,085)

	31 March 2018	31 March 2017
	%	%
Assumptions		
Financial assumptions		
Pension increase rate	2.4	2.4
Salary increase rate	3.6	4.4
Expected return on assets	2.7	2.6
	Males	Females
Mortality		
Current pensioners	21.4	23.7
Future pensioners	23.4	25.8

Historic Mortality

Life expectancies for the prior period end are based on the Fund's VitaCurves with allowance for future improvements are shown below:

- Prospective pensioners- CMI 2012 model assuming current rates of improvements have peaked and will converge to a long-term rate of 1.5% p.a. for males and 1.25% p.a. for females.
- Pensioners- CMI 2012 model assuming current rates of improvements have peaked and will converge to a long-term rate of 1.5% p.a. for males and 1.25% p.a. for females.

Assets

Asset Category	Quoted in active markets	Not Quoted in active markets	Total £'000s	%
	£'000s	£'000s		
Equity Securities				
Consumer	-	-	-	-
Manufacturing	-	-	-	-
Energy and Utilities	-	-	-	-
Financial Institutions	-	-	-	-
Health and Care	-	-	-	-
Information technology	-	-	-	-
Other	2,172.5	121.0	2,293.5	29
Debt Securities				
Corporate Bonds (non-investment grade)	-	-	-	-
Private Equity	-	707.7	707.7	9
Real Estate				
UK Property	-	946.2	946.2	12
Investment funds and unit trusts				
Equities	2,539.4	-	2,539.4	32
Bonds	345.1	489.4	834.5	10
Commodities	-	-	-	-
Infrastructure	-	-	-	-
Other	284.2	124.2	408.4	5
Derivatives				
Foreign Exchange	-	-	-	-
Other	0.6	2.4	3.0	-
Cash and Cash Equivalents	-	253.3	253.3	3
Total	<u><u>5,342</u></u>	<u><u>2,644</u></u>	<u><u>7,986</u></u>	<u><u>100</u></u>

Projected defined benefit cost for the period to 31 March 2019

	Assets	Obligations	Net (liability)/ asset
	£'000s	£'000s	£'000s
Service cost	-	241	(241)
Interest income on plan assets	216	-	216
Interest cost on defined benefit obligation	-	240	(240)
Total included in the SoCNE	216	481	(265)

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased/ (decreased) as a result of a change in the respective assumptions by 0.5% percent. In valuing the liabilities of the pension fund at 31 March 2018, mortality assumptions have been made as indicated below. The table below also shows the effect of changing life expectancy to assume that all members of the fund lived for one year longer.

Sensitivity analysis

	Approximate increase to Employer Obligation	Approximate monetary amount (£000)
0.5 % decrease in Real Discount Rate	11%	983
0.5% increase in Salary Increase Rate	2%	161
0.5% increase in Pension Increase Rate	9%	807

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 March 2017 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

Arts Council Retirement Plan (1994)

The Arts Council Retirement Plan (1994) is a multi-employer defined benefit scheme of which the following bodies are members: Arts Council England; Arts Council of Wales; Creative Scotland, Creative, Culture and Education; the Crafts Council; and Tŷ Cerdd. Although it is a defined benefit scheme, Creative Scotland has received advice from advisors, Hymans Robertson LLP that the share of assets and liabilities applicable to each employer could not be separately identified. The Arts Council Retirement Plan (1994) pension costs are therefore accounted for on a defined contribution basis as permitted by International Accounting Standard 19, Employee Benefits (IAS 19).

Contributions by each employer to the Plan are set out in a schedule of contributions which is agreed between the members of the Plan and the actuaries, which took effect on 1 April 2017. The contributions are set on recommendation from the actuary to meet the expected costs of benefits payable from the plan. Creative Scotland is not generally liable for the other member's liabilities under the scheme, although there

is no split of assets or liabilities under the current scheme rules. If any member were to leave the scheme, then they would need to cover any payments to the Plan relating to the liabilities for their members. The pension liabilities relating to a member's service with the Scottish Arts Council are guaranteed by the Scottish Ministers.

Creative Scotland's participation in the plan at the latest available date (31 March 2016) is shown below.

	Arts Council Retirement Plan (1994)- Total	Creative Scotland members- total (% of Plan)
Total members	2,221	275 (12%)

Expected employer contributions to the scheme in the 2018-19 financial year are £0.9 million.

19 Provisions

	Dilapidations £'000s	Total £'000s
1 April 2017	272	272
Arising in the year	-	-
Utilised in the year	-	-
Reversal	-	-
31 March 2018	<u>272</u>	<u>272</u>
Of which:		
Due within one year	167	167
Due greater than one year	105	105
	<u>272</u>	<u>272</u>

The Dilapidation provision relates to the costs of reinstatement under the leases for our former Glasgow office and current Edinburgh office, and is based on externally commissioned reports. We have now exited from the former Glasgow office and are negotiating the final dilapidation payments with the landlords.

20 Financial instruments

Creative Scotland has exposure to the following risks from the use of financial instruments:

- Liquidity risk
- Credit risk
- Market risk

This note presents information about Creative Scotland's exposure to each of the above risks. Further quantitative disclosures are included throughout these accounts.

The Board has overall responsibility for the establishment and oversight of the organisation's risk management framework. The Audit and Risk committee oversees how management monitors compliance with Creative Scotland's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to risks faced by Creative Scotland.

Creative Scotland does not utilise complex derivative financial assets or liabilities.

Fair values

There is no difference between the carrying value and fair value of Creative Scotland's financial instruments.

Liquidity risk

Liquidity risk is the risk that Creative Scotland will not be able to meet its financial obligations as they fall due. The organisation's approach to managing liquidity is to ensure that it will have sufficient liquid funds to meet its liabilities as they fall due. Creative Scotland's primary source of liquidity is the grant-in-aid provision from the Scottish Government.

Liquidity is managed by the use of the annual corporate and operational plan process and the monitoring of actual performance against budgets and forecasts.

Credit risk

Credit risk is the risk of financial loss to Creative Scotland if a customer or counter party fails to meet its contractual obligations.

Trade receivables are not a significant balance for Creative Scotland. Outstanding balances are reviewed regularly and subject to established credit control procedures.

Cash and cash equivalents are held with the National Westminster Bank plc (through the Government Banking Service contract). The credit risk for these deposits is considered to be low as the bank is majority owned by the UK government.

Although Creative Scotland's exposure to credit risk is likely to have increased in the current economic climate, management do not consider this to have had a significant impact.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

All trade receivables were either not past due or were within 30 days at the year end. No impairment of trade and other receivables has been made. Management consider all receivables to be fully recoverable.

Market risk

Market risk is the risk that market prices such as interest rates, foreign exchange rates and equity prices will affect income or the value of holdings in financial instruments. Creative Scotland's exposure to market risk is low as we do not depend on income from financial instruments.

Foreign exchange risk

Creative Scotland is exposed to currency risk on transactions and balances that are denominated in currencies other than sterling. Creative Scotland is exposed to currency risks from its activities conducted overseas, but does not enter into any hedge arrangements and does not consider currency risk to be material.

Tax Credit Advance Facility

Creative Scotland's Tax Credit Advance Facility operated during 2015-16 and offered loans against the proceeds of the UK Film, High-End TV and Animation Tax Credits available from HMRC. The facility was funded from financial transactions funding from the Scottish Government. Creative Scotland advances the tax credit to the producer, and incurs a liability for the repayment back to the Scottish Government.

All balances relating to this facility were repaid during 2017-18 and at 31 March 2018, Creative Scotland had a debtor balance of £0 (31 March 2017: £219,000) relating to the scheme. There was not judged to be any credit or liquidity risk arising from these balances, and all balances were settled in the year.

21 Related party transactions

All transactions with related parties are completed at arm's length and the relevant party does not take part in the decision.

Related party transactions in respect of Creative Scotland's National Lottery Distribution Fund are detailed in the Fund's financial statements for the year ended 31 March 2018. During the year, Creative Scotland invoiced the National Lottery Distribution Fund for £2.6 million in respect of recharges for the year for staff, overhead and related costs (see Note 7).

The Scottish Government's Directorate of Culture, External Affairs and Tourism is regarded as a related party. During the year, Creative Scotland had various material transactions with the Scottish Government Directorate of Culture, External Affairs and Tourism relating to grant-in-aid (Note 3).

Accounts Direction



**CREATIVE SCOTLAND
DIRECTION BY THE SCOTTISH MINISTERS**

The Scottish Ministers, in pursuance of section 13(1) of Schedule 9 of the Public Services Reform (Scotland) Act 2010 hereby give the following direction.

The statement of accounts for the financial year ended 31 March 2012, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.

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.

This direction shall be reproduced as an appendix to the statement of accounts.

Signed by the authority of the Scottish Ministers

Dated

25 Jan. 2012