

NATIONAL GALLERIES OF SCOTLAND
ANNUAL ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

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The Board of Trustees for the National Galleries of Scotland is a registered Scottish Charity No SC003728

Authorised for Issue

NATIONAL GALLERIES OF SCOTLAND
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CHAIRMAN'S FOREWORD

I am pleased to present the Annual Report and Accounts for 2007-08, another successful year for the National Galleries of Scotland.

The most exciting development of 2007-08 was undoubtedly the announcement of the acquisition, in conjunction with Tate, of the *ARTIST ROOMS* Collection of modern and contemporary art from Anthony d'Offay. This was made possible by the extreme generosity of Mr d'Offay and donations from the government (both Scotland and Westminster), National Heritage Memorial Fund, The Art Fund and the Henry Moore Foundation.

Our exhibitions programme once again attracted a broad range of visitors. The National Gallery Complex hosted the highly acclaimed *Bank of Scotland totalART: Andy Warhol: A Celebration of Life... and Death* during the summer months. The advertising campaign won a series of awards for its innovative approach and the education programme, thanks to the sponsor Bank of Scotland, was the most ambitious and successful ever developed by NGS. By November the walls had been repainted and we were graced with the presence of the work of the Scottish artist Joan Eardley, including her famous images of Glasgow street children in the 1950s.

Partnerships were forged with the National Library of Scotland to produce an exhibition on the work of Thomas Telford, the great Scottish engineer, and with the Royal Commission for Ancient and Historical Monuments in Scotland for an exhibition on the work of the architect Sir Basil Spence, the latter funded in part by the Heritage Lottery Fund. Those exhibitions, together with the permanent collection and a number of other exhibitions and displays, attracted over 1.5m visitors.

The Scottish entry to the 2007 Venice Biennale was led by NGS and developed in partnership with the Scottish Arts Council. On its return from Venice the works toured to a number of venues in Scotland. This is an important platform from which to showcase the talent of young Scottish contemporary artists and NGS is proud to be associated with this ongoing venture. This association will continue in 2009.

Education continues to be at the heart of what we do. The extensive programme of activities is too great to mention in detail, but some are outlined in the following report. We are indebted to Scottish Widows for their continued support of the annual Art Competition for Schools. This is another important initiative to encourage young artists and ensure the future of the galleries in terms of both visitors and the development of the collection.

Our ambitious programme of acquisitions continued, a number of which were purchased with the assistance of The Art Fund. The Art Fund contributed £260,000 towards acquisitions in 2007-08 and without their assistance there is no doubt that those purchases could not have gone ahead. This figure does not take into account their very generous contribution of £1m towards the *ARTIST ROOMS* Collection.

The NGS brings the best of Scotland's art to a wide audience. After another good year, we look forward to continuing success at the galleries in 2008-09.

Sir Brian Ivory CBE, FRSE
Chairman

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REPORT OF THE TRUSTEES

Management, Structure and Governance

1. Status

The Board of Trustees is a corporate body appointed by the Scottish Ministers in terms of the National Galleries of Scotland Act 1906, as amended by the National Heritage (Scotland) Act 1985, in pursuance of which this report and the attached accounts are prepared and submitted. It is a registered Scottish charity (Number SC003728).

2. History

The Board of Trustees traces its origins to the Board of Manufactures established after the Act of Union of 1707. The foundation stone of the National Gallery, laid by the Prince Consort in 1850, was pursuant to a Treasury Minute.

3. The Galleries

The National Galleries of Scotland comprises five Galleries in Edinburgh and two partner galleries in the North and South of Scotland, whose collections of fine art are amongst the best in the world.

The collections are displayed to the public at the following locations:

- National Gallery of Scotland at the Mound (since 1859),
- Scottish National Portrait Gallery in Queen Street (since 1882)
- Scottish National Gallery of Modern Art (since 1961) in Belford Road and
- Dean Gallery, in Belford Road (since 1998).

The fifth gallery is the Royal Scottish Academy building, which provides international exhibition facilities. The Weston Link, which links the National Gallery of Scotland and the Royal Scottish Academy, provides visitor facilities including a restaurant, lecture theatre and shop as well as a first class education centre.

National Galleries of Scotland also has a purpose-built centre for those objects not on general display or on loan, which is located at Granton. There is regular public access to the centre via an appointment system. In 2007-08 91 people visited the centre, including members of the public and individuals undertaking research and academic studies.

The two partner galleries are:

- Paxton House, Berwickshire (since 1993)
- Duff House, Banff (since 1995)

Our principal place of business is The Dean Gallery, 73 Belford Road, Edinburgh, EH4 3DS.

4. The Collection

The National Gallery's collection ranges in date from the early Renaissance to the end of the nineteenth century. It covers paintings, prints and drawings and sculpture, and includes most of the major figures of Western art such as Raphael, Titian, Velázquez, Vermeer, Watteau, Constable and nearly all of the Impressionists and Post-Impressionists. It also houses the national collection of Scottish art c.1600 – c.1900.

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REPORT OF THE TRUSTEES - Continued

The Scottish National Portrait Gallery collects, displays and interprets portraits of a number of Scotland's inspirational men and women for the interest of the present generation and for the future. It also houses the National Photography Collection.

The Scottish National Gallery of Modern Art and The Dean Gallery house the national collection of modern Scottish and international art from 1900 to the present day. This includes the world's most comprehensive collection of modern Scottish art, with fine holdings of the Colourists and the Edinburgh School in addition to the recently acquired *ARTIST ROOMS* collection.

There are 66,857 permanent objects catalogued at present in the National Gallery of Scotland's collection broken down as follows:

National Gallery	20,713
Portrait Gallery	37,854*
Gallery of Modern Art and the Dean Gallery	8,052**
Duff House	238

**This figure does not include an estimated 13,000 bequeathed uncatalogued photographs and around 60,000 Tassie paste gems.*

*** This figure does not include archive material.*

In the collection there are 3,076 paintings of which there are usually between 1,000 to 1,500 on display at any given time.

All the above are based in Edinburgh. Works are also on permanent display in our partner galleries at Paxton House, Berwickshire and Duff House, Banff.

5. Management and Principal Functions

5.1 Corporate Governance

The National Galleries of Scotland is a non-departmental public body primarily funded by the Scottish Government and managed on its behalf by a Board of Trustees, appointed by the Minister for Europe, External Affairs and Culture.

As provided by the National Heritage (Scotland) Act 1985 the principal functions of the Board are:

- to care for, preserve and add to the objects in their collections;
- to ensure that the objects are exhibited to the public;
- to ensure that the objects are available to persons seeking to inspect them in connection with study or research; and generally to promote the public's enjoyment and understanding of the Fine Arts both by means of the Board's collections and by such other means as they consider appropriate;
- for those purposes to provide education, instruction and advice and to carry out research.

There is a Board of a maximum of 12 (minimum of 7) Trustees, appointed by Scottish Ministers, that meets bi-monthly. Trustees are recruited by the Scottish Government through an open appointments system. Appointments are advertised in the press following a thorough appraisal of the skills required to balance the Board. The process follows the strict guidance laid down by the Office of the Commissioner for Public Appointments in Scotland.

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REPORT OF THE TRUSTEES - Continued

All Trustees follow a thorough induction programme, covering the aims of the organisation, the Code of Conduct and an introduction to the work of individual departments. New Trustees also obtain guidance from the Scottish Government "On Board" training manual.

The National Galleries of Scotland has adopted the recommended Codes of Conduct for both Trustees and Staff. Registers of Interests and Gifts and Hospitality are maintained in accordance with best practice.

The Board delegates authority on financial matters to the Audit sub-committee. The Audit Committee, comprising three trustees, the Director-General and the Chief Operating Officer, has full delegated authority to take decisions on behalf of the Board. There are also sub-committees for Remuneration and Major Capital Projects.

The Accounts of National Galleries of Scotland are audited by Audit Scotland, who were appointed by the Auditor General for Scotland. Audit Scotland's remuneration of £23,000 is disclosed in Note 13 to the Accounts. No other services were supplied by Audit Scotland.

So far as the Director General is aware, there is no relevant audit information of which the NGS' auditors are unaware, and the Director General has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the NGS' auditors are aware of that information.

5.2 Trustees 1/4/07 – 31/3/08

Sir Brian Ivory, Chairman
Ian Barr
Anne Bonnar (until 31 October 2007)
Richard Burns
Herbert Coutts (from 1 August 2007)
James Dawnay
Marc Ellington
James Knox
Ray Macfarlane (from 1 April 2007)
Gordon Mackie (until 31 July 2007)
Alasdair Morton (from 1 April 2007)
Professor Richard Thomson
Dr Ruth Wishart

The operational management of the National Galleries of Scotland is delegated by the Board of Trustees to the Director-General and his Senior Management Team.

5.3 Senior Management Team: 1/4/07 – 31/3/08

John Leighton, Director-General
Michael Clarke, Director of the National Gallery
Nicola Catterall, Chief Operating Officer (from 1 August 2007)
Richard Calvocoressi, Director of the Gallery of Modern Art (until 8 June 2007)
Dr Simon Groom, Director of Modern and Contemporary Art (from 19 November 2007)
James Holloway, Director of the Portrait Gallery
Jacqueline Ridge, Keeper of Conservation
Catrin Tilley, Director of Development and Communications
Ian Harrington, Director of Finance and Resources (until 4 May 2007)

For details of staff numbers employed in 2007-08, see note 12 in the Notes to the Accounts.

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REPORT OF THE TRUSTEES - Continued

5.4 Equal Opportunities and Diversity

It is NGS' policy to treat all job applicants and employee's fair and equally, regardless of their sex, trans-gender status, sexual orientation, religion or belief, marital status, age, race, colour, nationality, national origins, ethnic origin or disability. NGS will monitor the composition of the workforce and introduce positive action if it appears that this policy is not fully effective.

5.5 Employees with Disabilities

NGS has developed a Disability Equality Scheme under the terms of the Disability Discrimination Act 2005. This scheme was introduced following consultation with staff and external parties and covers steps which NGS will take over the next 1 – 2 years to improve access to the collection and buildings for both staff and visitors.

5.6 Funding

The running costs of the galleries, capital expenditures and the cost of additions to the collections are provided from grant-in-aid from the Scottish Ministers augmented by other grants and income from shops, publications, catering, corporate hire, sponsorship and admission charges for some exhibitions.

The programme to encourage philanthropic support for the Galleries continues, with a view to expanding the network of support from individuals, companies, trusts and foundations to create a source of sustainable income.

NGS operates a scheme of tiered membership with different levels of giving. The largest group in the scheme is the Friends. Friend's membership stood at 4,055 at 31 March 2008. In 2007-08 their funds contributed £30,000 towards the cost of exhibitions and education material: £10,000 for The Naked Portrait exhibition at the Portrait Gallery; £15,000 towards Joan Eardley at the National Gallery Complex; and £5,000 towards the Art Cart for Education use. NGS is most grateful to the Friends for this invaluable support.

In addition, the Trustees have funds comprising gifts and bequests, principally earmarked for the purchase of works of art for the collections, many specifically directed, and some of which are endowments.

The National Galleries of Scotland is also grateful for the support provided during the year by the Patrons of the National Galleries of Scotland, which is a separate charitable body.

5.7 Accountable Officer

John Leighton is Director-General and Accountable Officer for National Galleries of Scotland.

5.8 Investments

The NGS, as a Scottish registered charity, is governed by the Charities and Trustees Investment (Scotland) Act 2005 and is subject to regulations and any relevant guidance issued by OSCR. NGS also adopts the prudent investment principles of the Charity Commission of England and Wales, particularly CC14 "Investment of Charitable Funds: Basic Principles". The NGS investment policy and financial performance are reviewed periodically.

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REPORT OF THE TRUSTEES - Continued

5.9 Reserves Policy

The National Galleries of Scotland reserves are held within Trusts and Bequests. At 31 March 2008 the cumulative balance is £3,122,000. £547,000 has been added to the reserves in the year. This comprises the profit on revenue earning activities together with bank interest. The Trustees review the level of retained surpluses against foreseen financial risks as part of the ongoing financial and risk control process.

5.10 Payment of Creditors

It is our policy to pay suppliers within thirty days of invoice date unless alternative payment terms have been agreed. From a random sample, this was achieved on 83% of payments in 2007-08 (2006-07: 84%).

5.11 Principal Advisors

Bankers: Bank of Scotland
The Mound
Edinburgh
EH1 1YZ

Legal Advisers:	Turcan Connell Princes Exchange 1 Earl Grey Street Edinburgh EH3 9EE	Dundas & Wilson Saltire Court 20 Castle Terrace Edinburgh EH1 2EN
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Internal Auditors: Baker Tilly
First Floor Quay 2
139 Fountainbridge
EH3 9QG

Taxation: RCB Partnership
Fairbairn House
Fairbairn Place
Livingston
EH54 6TN

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REPORT OF THE TRUSTEES - Continued

5.12 Financial Report

The financial results are shown in full in the Income and Expenditure account on page 24. The accounts meet the requirements of the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board so far as they are appropriate. They also comply with SORP 2005, the Statement of Recommended Practice on the preparation of accounts of charitable organisations.

The summary of the operational results for NGS are as follows:

	2008	2007
	£000	£000
Income		
Grant-in-aid received	11,465	11,165
Other income	3,410	3,572
Release from reserves	1,631	1,220
Total Income	16,506	15,957
Expenditure		
Staff costs	7,873	7,267
Other operating charges	5,769	6,347
Depreciation	1,736	1,025
Total Expenditure	15,378	14,639
Operational Results Surplus	1,128	1,318

The surplus for 2007/08 has been transferred to reserves.

National Galleries of Scotland is required to operate within the financial limits prescribed in the Financial Memorandum laid down by Scottish Government, and to follow the recommendations of Government Accounting. Thus we are generally not permitted to borrow funds, and our powers to invest are circumscribed.

The Operational Results Surplus shown above differs from the Excess of Expenditure over Income shown in the Income & Expenditure Account. This is because revenue grant-in-aid is shown as income above, but excluded from the Income & Expenditure Accounts and instead, in line with requirements of the Government Financial Reporting Manual (FReM), credited directly to the general fund in the year which it is received.

5.13 Risk Management

In accordance with Scottish Government requirements and best practice, National Galleries of Scotland operates a risk management policy. In accordance with this policy the Galleries monitors its business risks on two levels: operational; and senior management/Board level. The Board of Trustees and Senior Management Team have identified the key business risks including:

Collection

- Failure to attract adequate funding to acquire works for the collection.
- Failure to retain and attract curatorial and conservation staff with appropriate expertise to care for the collection.
- Change of policy by the Sutherland Trustees and other major lenders.

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REPORT OF THE TRUSTEES - Continued

Exhibitions

- Not securing adequate revenue to cover losses on the exhibitions programme.
- Failure to comply with Immunity from Seizure regulations, leading to potential claims.

Portrait Gallery Development

- Failure to raise sufficient funds to develop the Scottish National Portrait Gallery.
- Failure to control project costs.
- Failure to realise the vision and deliver the promised product.

ARTIST ROOMS Collection

- Failure to manage set-up of *ARTIST ROOMS* within allocated resources.
- Failure to manage effectively the partnership with Tate.
- Inadequate resources allocated to care for the collection.

Estates

- Ineffective management of estates due to continued cuts in maintenance budget.

Funding

- Loss of potential sponsors & benefactors.
- Failure to effectively manage commercial operations.
- Potential liquidity crisis arising from operating two major projects.

Staff & Organisation

- Failure to deliver new pay structure.

Those key business risks are being effectively managed by a series of control measures put in place by the Senior Management Team.

5.14 Remuneration Report

Part 1 – Unaudited Information

The Remuneration Committee is appointed by the Board and currently includes the Chairman and three Trustees. The Chairman of the Remuneration Committee is currently the Chairman of the Board of Trustees. The Director General of the National Galleries of Scotland in his role as Accountable Officer, the Chief Operating Officer (or her delegate) and the Head of Human Resources normally attend meetings of the Committee.

The remuneration for senior managers is based on the National Galleries of Scotland's pay policy as approved by Scottish Government. The Remuneration Committee is responsible for developing the remuneration policy for the Director-General, senior management and all other staff. No benefits-in-kind are given to any staff.

Senior managers' performance is assessed through the National Galleries of Scotland performance appraisal system which is used for all staff. A bonus system is in place for the Director-General, but at present not for any other members of the senior management team.

The majority of staff are employed on permanent contracts. Some staff working on discrete short term projects are employed on contracts which match the duration of the projects concerned. All staff employed on contracts of one year or more are entitled to join the Principal Civil Service Pension Scheme, a defined benefits scheme. The notice period and termination payments are in line with Scottish Government guidelines. All senior managers in post during the year were employed on permanent contracts, apart from the Chief Operating Officer who was employed on a 2 year contract from 1 August 2007.

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Part 2 – Audited Information

The salary and pension entitlements of Senior Management were as follows:

		2008 FTE £000	2008 Salary £000	2008 Real Pension Increase in £000	Total Accrued Pension at 60 at 31 March 2008 £000	2007 Salary £000
Richard Calvocoressi	Left 08/06/07	65-70	15-20	0-2.5	25-30	65-70
Michael Clarke			70-75	0-2.5	25-30	65-70
James Holloway			70-75	0-2.5	25-30	65-70
Catrin Tilley			65-70	0-2.5	10-15	60-65
John Leighton			100-105	0-2.5	15-20	110-115
Ian Harrington	Left 04/05/07	55-60	5-10	0-2.5	0-5	30-35
Jacqueline Ridge			55-60	0-2.5	10-15	25-30
Nicola Catterall	Began 1/08/07	80-85	50-55	0-2.5	0-5	n/a
Simon Groom	Began 19/11/07	55-60	20-25	0-2.5	0-5	n/a

Nicola Catterall was employed on a temporary contract from 17/04/07 to 31/07/07 as Finance Director. The information above reflects her employment as Chief Operating Officer on a 2 year contract from 01/08/07.

Other pension details as required by EPN 210 and 216 relating to senior management are as follows:

	CETV 31 March 2008 £000	2007 Real Increase in CETV £000	CETV 31 March 2007 £000	Lump sum at 31 March 2008 £000	2007 Real Increase in lump sum £000
Richard Calvocoressi	516	4	503	75-80	0.0-2.5
Michael Clarke	575	26	480	75-80	2.5-5.0
James Holloway	642	27	545	75-80	2.5-5.0
Catrin Tilley	201	13	161	n/a	n/a
John Leighton	292	10	240	n/a	n/a
Ian Harrington	8	1	7	n/a	n/a
Jacqueline Ridge	210	32	152	35-40	5.0-7.5
Nicola Catterall	19	17	n/a	n/a	n/a
Simon Groom	4	4	n/a	n/a	n/a

Details of pensions and Cash Equivalent Transfer Values are disclosed based on information supplied by the Department for Work and Pensions.

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Pension

Pension benefits are provided to senior management on the same basis as all other staff through the Principal Civil Service Pension Scheme (PCSPS). Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). This is an unfunded multi-employer defined benefit scheme but NGS is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary conducted a full valuation of the scheme liabilities as at 31 March 2007. Full details of the actuarial review are available on the Civil Service Pensions website (www.civilservice-pensions.gov.uk).

For 2007/08, employers' contributions of £1,102,734 were payable to PCSPS (2006/07: £1,000,015) at one of four rates in the range 17.1 to 25.5 per cent of pensionable pay (2006/07 rates were also 17.1% to 25.5%), based on salary bands. The Scheme Actuary reviews employer contribution rates every four years. The underlying salary bands are revaloured every year. The next review is planned for 31 March 2010, which is a year earlier than normal, to bring it in line with other public sector schemes. The contribution rates will remain the same until March 2012, subject to the annual revaluation of the salary bands.

The contribution rates reflect benefits as they accrue, not the costs as they are actually incurred, and reflect past experience of the scheme. From 30 July 2007, nuvos, a new defined benefits pension scheme, was introduced for new entrants to the Civil Service Pension scheme. This scheme provides a pension based on pensionable earnings in each year the employee is a member. From this date civil servants may be nuvos or in one of three 'final salary' defined benefit schemes now closed to new members - classic, classic plus and premium. New entrants after 30 July 2007 may choose between membership of nuvos or joining stakeholder arrangement with employer contribution (partnership pension account). Employers' contributions of £33,595 were paid to one or more of a panel of three appointed stakeholder pension providers.

Employer contributions are age related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £1,535, 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £Nil. Contributions prepaid at that date were £Nil.

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 CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETV's are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

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REPORT OF THE TRUSTEES - Continued

6 Key Priorities and Objectives 2007-10

Collections

Priority 1: To enhance our national and international reputation for the high quality of our collections, displays and exhibitions.

Objectives:

1.1 Establish NGS as a national centre of excellence for conservation and collections management.

1.2 Continue to implement an ambitious policy of acquisitions and loans across the collections.

Performance Indicator:

Number of Acquisitions	371
Short Loans In for Exhibitions	1,174 (281 from abroad and 893 from the UK)
Long Loans In	9,089

1.3 Develop our role in promoting the national collection of Scottish and international art in this country and abroad.

1.4 Review and clarify NGS policy on photography.

1.5 Provide a strong programme of temporary exhibitions reflecting the full range of our collections.

Performance Indicator:

Number of small exhibitions and displays	27
Number of major (paying) exhibitions	6
Number of visitors to paying exhibitions	224,870

1.6 Improve the displays and interpretation at our sites in order to enhance access and the quality of our visitors' experience.

Performance Indicator:

Total number of visitors to all sites	1,521,109
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Knowledge

Priority 2: to develop our reputation for academic excellence and to make our research and expertise available to the widest possible public.

Objectives

2.1 Establish a new over-arching research strategy for the NGS.

People

Priority 3: to place people - enjoyment, inspiration and education - at the heart of what we do as an organisation.

Objectives

3.1 To develop existing audiences and attract new or under-represented audiences to the NGS.

3.2 Continue to develop and deliver relevant and sustainable educational and outreach programmes that suit the needs of different audiences.

Performance Indicator:	
Number of people taking part in outreach and community programmes	2,757
Number of education and outreach partnerships	99
Number of people participating in children and family events	5,973
Number of adult participants at talks, lectures and practical workshops	16,393
Number of visitors from schools	27,097

3.3 To extend our audience in Scotland by working in partnership with museums, cultural and other organisations across the country.

Performance Indicator:	
Number of Touring Exhibitions	9 (to 14 venues)

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3.4 Develop NGS website as a key tool for sharing collections, knowledge and engaging the public.

Performance Indicator:	
Number of sessions on the NGS website	675,931
Number of pages viewed per visit	4.82

3.5 To raise awareness of the NGS and its role in this country and abroad through effective communication.

3.6 Ensure that the NGS has a consistent and engaging corporate identity and reputation that reflects our aims and values as an organisation while still allowing for the different characters of the various Galleries.

Special Projects

Priority 4: to re-invent the Scottish National Portrait Gallery with a new vision, concept and facilities.

Priority 5: to improve and upgrade the existing possibilities for presenting modern and contemporary art in Edinburgh and Scotland.

Objectives

5.1 To acquire with Tate, the Anthony d'Offay collection of modern and contemporary art.

5.2 To maximise the potential of the Gallery of Modern Art.

Estates

Priority 6: make the best use of NGS estates.

Finance

Priority 7: continue to build on the financial stability, efficiency and sustainability of the NGS.

Objectives:

7.1 NGS will plan to generate an operating surplus each year, match its costs to its income and generate sufficient cash to finance its operations and to meet its liabilities.

7.2 NGS will maximise the potential for revenue from sponsorship and commercial activities

Performance Indicator:	
Income generated from commercial activities:	£2,654,000
Income raised from sponsorship:	£346,000

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REPORT OF THE TRUSTEES - Continued

Staff and Organisation

Priority 8: ensure that our organisation is in keeping with our aims and values

Objective

8.1 *NGS will continue to develop a well-trained, expert, flexible staff that feels recognised, involved and motivated.*

Security and Visitor Services

Priority 9: ensure the best possible protection for our collections, public and staff while maintaining high level experiences and services for visitors

Objectives

9.1 *To maximise security and protection of the collections and people.*

9.2 *To improve our visitor services.*

8. Achievements

8.1 Collections

Enhancing our national and international reputation for the high quality of our collections, displays and exhibitions.

The National Galleries of Scotland continues to build its extensive collection which covers from early renaissance to contemporary art. Often opportunity and funding determines what we purchase. We have been fortunate to receive additional funding from the Art Fund this year (£260,000). The Patrons have also been generous in their support. This enabled the purchase grant of £1.26m to be stretched to purchase major works of art which would otherwise be beyond our reach.

Acquisitions

Major Acquisitions in 2007-08 include:

- *The Transfiguration* by Lodovico Carracci
 - *Purchased by Private Treaty with the assistance of The Art Fund.*
- *Miracle of the Loaves (Jesus Feeds the Five Thousand)* by Abraham Bloemaert
 - *Purchased with the assistance of The Art Fund.*
- *A Jeering Crowd: Fragment of a Mocking of Christ* by Hans Memling
 - *Accepted in lieu of inheritance tax by HM Government and allocated to NGS with the aid of the Crescent Trust.*
- *A Cabbage Garden* by Arthur Melville (AM Patrick Collection)
 - *Purchased with the assistance of The Art Fund.*
- *The Herdboy* by Edward Arthur Walton (AM Patrick Collection)
 - *Purchased with the assistance of The Art Fund.*
- *Sous Bois (L'entrée du Dormir)* by Narcisse-Virgile Diaz de la Pena
- *A Composition of Three Figures* attributed to Titian
- *Heavy Insect* by William Turnbull
 - *Purchased with the assistance of the Ian Paul Fund and The Art Fund.*
- *The Awakening* by William McCance

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- *The Plane of Gods* by Charles Avery
 - *Purchased with the assistance of the Ian Paul Fund.*
- Paintings by Ben Nicholson
 - Bequeathed by Felicitas Vogler
- *Painting II* by John Cecil Stephenson
 - *Purchased with the assistance of The Art Fund.*
- Aerial photographs (20) by Alfred Buckham
 - *Purchased with the assistance of The Art Fund.*

Exhibitions

A wide and varied exhibitions programme took place in 2007-08. The most successful exhibition of the year was undoubtedly the Bank of Scotland totalART Andy Warhol: A Celebration of Life...and Death. It attracted over 95,000 visitors to the National Gallery Complex during the summer months in 2007 and followed on from the hugely popular contemporary exhibition of Ron Mueck's work the previous year. The excellent sponsorship from Bank of Scotland enabled an extremely popular education programme to be associated with the exhibition. This included the *Warhol Factory*. With six tailor-made activities inspired by Warhol's work, the Factory employed two artists and took place every day in August. This initiative proved extremely successful, attracting over one hundred visitors a day.

The major Scottish show of the year was Joan Eardley. The NG Complex played host to an exhibition of Eardley's work during the winter months of 2007-08, attracting just under 40,000 visitors. It was the first major show of her work in nearly twenty years.

The Sir Basil Spence exhibition, which took place at the Dean Gallery also during the winter months, was developed in conjunction with the Royal Commission for Ancient and Historical Monuments in Scotland (RCAHMS) with funding from the Heritage Lottery Fund. It was based on the archive of the great Scottish architect which was recently presented by the family to RCAHMS and was the first ever show in the NGS to be devoted to an architect.

There were 10 major exhibitions in total in 2007-08 along with a further 23 smaller shows and displays. The 10 major exhibitions were:

- Bank of Scotland totalART: Andy Warhol: A Celebration of Life... and Death
 - *Supported by Bank of Scotland*
- Joan Eardley
 - *Supported by the Friends of the National Galleries of Scotland*
- Turner in January (free entry)
- The Naked Portrait
- Telford: Father of Modern Engineering
- BP Portrait Award (free entry)
 - *Supported by BP*
- Richard Long: Walking and Marking
 - *Supported by the Henry Moore Foundation*
- Picasso on Paper
 - *Supported by Sundial and Arts & Business*
- Back to the Future: Sir Basil Spence 1907-1976 (HLF funded - free entry)
 - *Supported by the Heritage Lottery Fund*
- From Sickert to Gertler: Modern British Art from Boxted House (free entry)

NATIONAL GALLERIES OF SCOTLAND
ANNUAL ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

REPORT OF THE TRUSTEES - Continued

8.2 Knowledge

Developing our reputation for academic excellence and making our research and expertise available to the widest possible public.

Research and Scholarship

In the period 2007-08 NGS produced 10 publications for exhibitions, permanent collection and corporate use. NGS produces many publications each year both to complement our exhibitions programme and promote the permanent collection.

The National Galleries' international profile remains high with a number of curatorial staff taking part in events and lectures across the UK and abroad. As well as contributing to publications and articles, presenting lectures and conference papers National Galleries of Scotland staff are also called upon to contribute their expertise to a number of initiatives. This includes the *Recognised Collections of National Significance*, a scheme administered by Museums Galleries Scotland with funding from the Scottish Government. The scheme celebrates, promotes and invests in nationally significant collections held outside the nationally run museums and galleries across Scotland. The Heritage Lottery Fund also depends on expert advice from National Galleries of Scotland staff in respect of its heritage grants and the *Collecting Cultures* scheme which will see £3 million invested to support acquisitions, curatorial skills, research and increased activities for the public.

The National Galleries of Scotland is proud to support these initiatives which encourage independent and local authority museums and galleries to develop their collections.

A full listing of the lectures and publications by staff at the National Galleries of Scotland over and above the Galleries' programme of publications, lectures and guided tours can be found in the Annual Review 2007-08.

8.3 People

Placing people - enjoyment, inspiration and education - at the heart of what we do as an organisation.

Education Activity

The National Galleries' education activity is mainly directed at five distinct types of audience: children (pre-school and school children, including school children with special needs, as well as children on holiday), families, community groups (both on- and off-site), adults and arts specialists. Working in partnership with our users as well as other arts and voluntary organisations, we seek to ensure that our education services meet this wide range of visitors' needs.

Examples of education events and programmes organised in 2007-08 include:

Competitions:

The fourth NGS Art Competition for Schools 2007 attracted 2,682 entries and was sponsored by Scottish Widows. The awards ceremony took place in June and the winning works went on display in the Weston Link.

The *Inspired? Get Writing!* creative-writing competition took place once again in 2007. It attracted 848 entries from as far afield as Afghanistan and Mongolia.

NATIONAL GALLERIES OF SCOTLAND
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REPORT OF THE TRUSTEES - Continued

Clore Education Centre:

Eight workshops, specifically targeted at primary schools who do not normally visit the NGS, took place in May and June. These were run in conjunction with the charity VETAID and funded by National Association of Decorative and Fine Arts Societies.

Two practical courses (totalling six sessions) for adults were held in June and July relating to *The Naked Portrait* and *Drawing to an End* exhibitions.

The ambitious *Warhol Factory* took place every day in August 2007 during the Andy Warhol exhibition at the NG Complex. The Factory had six tailor-made activities inspired by Warhol's work and employed two artists. It proved extremely successful, attracting over one hundred visitors each day.

Adults:

As well as the existing lecture programme, an exciting programme of weekend talks was offered to accompany the summer 2007 exhibitions. Artist Gary Schneider opened the *The Naked Portrait* exhibition with a talk about his work with Roger Hargreaves; Richard Long was in conversation with John Haldane; Eric Moulrot, who printed Picasso's lithographs, opened the *Picasso on Paper* exhibition and Tom Sokolowski, Director of the Andy Warhol Museum, gave a memorial overview of the work of Warhol.

A course led by art historian Debbie Lewer, Glasgow University on Art and Politics in 20th Century Germany was extremely popular and sold out. Feedback on this course was immensely positive.

A new series of workshops, Art for Absolute Beginners, was developed and aimed at adults with no experience of creating art.

Outreach:

In June an exhibition of artwork was presented at the Scottish National Portrait Gallery. Visited by almost 5000 people, it displayed the creative output of *Blind Faith*, a partnership project with the Gallery of Modern Art, Glasgow (GOMA). Involving participants from the Adult Learning Project, Tollcross, this project explored sectarianism and related issues: identity, nation and territorialism. The artwork was also exhibited at GoMA.

Street+Gallery, a two-year project with The Ark Trust marked its half-way point in May 2007 with an exhibition at the Amber Arts Gallery, Edinburgh. Funded by the Scottish Government, this project aimed to include homeless people and those at risk of being homeless in a creative relationship with the NGS. The project included exhibition tours, practical workshops and artist residencies.

Schools:

Over 5000 copies of the Programme for Schools 2007-8 were distributed to every school in Scotland, and every school that had visited the NGS in 2006-7.

The Scottish Qualifications Authority (SQA) Exhibition took place October 2007 – January 2008 at the Weston Link. The exhibition presented the best works from the recent Art and Design national examinations. The SQA raised funds to provide a travel bursary of up to £100 per school to help with costs of travel to the NGS to visit the exhibition.

The Early Years project entered its second phase with a series of 10 Andy Warhol nursery workshops funded by HBOS.

NATIONAL GALLERIES OF SCOTLAND
ANNUAL ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

REPORT OF THE TRUSTEES - Continued

Children and Families:

9 young members of the Galleries' regular Saturday Studio group worked with 2 artists and the Community Education Officer to produce a child-friendly podcast for the Andy Warhol exhibition.

42 children and young people took part in intensive four-week courses exploring the Joan Eardley exhibition during November and December 2007.

A new monthly event for families was introduced. *Bags of Art* was led by artists and took place at the Gallery of Modern Art. Sixty children took part in the summer holiday workshops which included four drawing and printmaking workshops led by artist Sara Ogilvie on *Picasso on Paper*, at the Dean Gallery. Thirty-one children took part in four Richard Long workshops at the Gallery of Modern Art and its grounds, led by artist Jim Colquhoun.

NGS Friends Membership scheme offered funding for the Art Cart for a further three years. This comprises drop-in activities for children and families.

Community

Signed tours and visual impairment sessions were provided for both the Richard Long and Picasso exhibitions. NGS is grateful to the Miss Agnes H. Hunter Trust which continues to support the programme of activities for the visually impaired.

Partnership

The National Galleries of Scotland continues to develop useful and mutually beneficial relationships with museums and galleries both within the UK and abroad, enhancing access to artworks from the collection and enabling access to works from other regions and countries.

Examples of Partnership Working in 2007-08 include:

Exhibitions

- Fonn's Duthchas exhibition - on-going tour jointly curated by NGS, NLS and NMS as part of the Year of Highland Culture 2007. Exhibited at Museum nan Eilean in Stornoway, Inverness Museum & Art Gallery, Kelvingrove Art Gallery & Museum and National Museums Scotland.
- Master of Landscape exhibition based on the work of DY Cameron curated in partnership with Perth Museum & Art Gallery and accompanied by a short lecture series. Exhibited in Perth May – July.
- Portraits of North Sea Oil – curated by NGS and exhibited at Inverness Museum and Art Gallery, Duff House and Kingussie. The show also won an Arts & Business Award (art and employees category) for its business partnership with Total in August 2007.
- Rembrandt Etchings – an exhibition developed by NGS and exhibited at Kirkcaldy Museum and Art Gallery.
- *Maternity: Images of Motherhood* exhibition – curated by NGS and exhibited at Inverness Museum and Art Gallery and NGS as part of the Year of Highland Culture celebrations.
- Thomas Telford: Father of Modern Engineering – a joint project with National Library of Scotland, exhibited at the Portrait Gallery.
- Sir Basil Spence exhibition developed in collaboration with Royal Commission on the Ancient and Historical Monuments of Scotland (RCAHMS) and funded by the Heritage Lottery Fund.
- Deiter Appelt, Forth Bridge: Cinema Metric Space – an exhibition, centring on this recent acquisition, jointly curated with the National Archives of Scotland.
- Scotland and Venice 2007, exhibited at Aberdeen Art Gallery.

NATIONAL GALLERIES OF SCOTLAND
ANNUAL ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

REPORT OF THE TRUSTEES - Continued

- Arts & Humanities Research Council (AHRC) Funded Partnerships - Demarco Digital Archive Project. This is a three-way collaboration between the School of Fine Art, Duncan of Jordanstone College of Art and Design (Dundee University), the Scottish National Gallery of Modern Art Archive and the Demarco European Art Foundation. The project is to digitise 10,000 photographic images from the Demarco European Art Foundation, together with supporting documents from the SNGMA Richard Demarco Archive. The 3 year project has been funded by a grant from the Arts and Humanities Research Council. Web-based access to the digital archive will be available from October 2008.

Education and Outreach

- A Union for That – a joint education initiative with RCAHMS, National Archives of Scotland, Historic Scotland, National Library of Scotland, Scottish Parliament and the Law Society to mark the 300th anniversary of the Union of Parliaments in 1707.
- Winning entries from the NGS Art Competition for Schools – organised by NGS and exhibited at Aberdeen Royal Infirmary and Glasgow Science Centre.
- SQA “A” exhibition – joint show with the Scottish Qualifications Authority exhibiting works from this year’s Art and Design national examinations.
- NGS outreach jointly commissioned artist Gavin Lockhart to make a video ‘Travelling Lives’ for the cultural pathfinder OTT festival in Perthshire. This video, based on the singer and storyteller Sheila Stewart, MBE is part of an artistic exchange of work from Scotland to the Qi Baishi International Arts Festival in Xiangtan in China.

In addition to project work, NGS lends and borrows a significant number of works to and from other institutions as part of its on-going loans and exhibitions programme.

Sir Brian Ivory CBE, FRSE
Chairman

John Leighton
Accountable Officer

Date:

Date:

NATIONAL GALLERIES OF SCOTLAND
ANNUAL ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

**STATEMENT OF THE BOARD'S AND DIRECTOR-GENERAL'S
RESPONSIBILITIES**

Under Paragraph 8(3) of the Schedule to the National Galleries of Scotland Act 1906 as amended by Section 17 of the National Heritage (Scotland) Act 1985, the Board of the NGS is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Scottish Ministers. The accounts are prepared on an accruals basis and must show a true and fair view of the state of affairs of the NGS at the end of the financial year and of the income and expenditure, recognised gains and losses and cash flows for that year.

In preparing the accounts the Accountable Officer is required to comply with 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 estimates and judgements 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;
- prepare the financial statements on a going concern basis.

The Principal Accountable Officer for the Scottish Government has designated the Director-General of the National Galleries of Scotland as Accountable Officer for the NGS. His relevant responsibilities as Accountable Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records and for safeguarding the NGS' assets, are set out in the financial memorandum of the National Galleries of Scotland, his letter of appointment and the Memorandum to Accountable Officers issued by the Principal Accountable Officer.

NATIONAL GALLERIES OF SCOTLAND
ANNUAL ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

STATEMENT ON INTERNAL CONTROL

Scope of Responsibility

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

I ensure that arrangements for delegation are robust and promote good management supported by staff with an appropriate balance of skills. I ensure also that proper management systems and procedures are in place to support service delivery.

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 of public funds. It is mainly designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety, and secure effective accountability and good systems of internal control.

Purpose of the System of Internal Control

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

The system of internal control is based on an ongoing 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 the SPFM and has been in place for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts and accords with guidance from the Scottish Ministers.

Risk and Control Framework

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

In accordance with SPFM requirements and best practice NGS operates a risk management policy. The policy is led by the Chairman of the Audit Committee in conjunction with the Director-General. In accordance with this policy NGS monitors its business risks on two levels: Operational and Senior Management/Board level. Trustees and senior management have identified a number of key business risks which are effectively managed by a series of control measures put in place by the management team.

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 this regard, the risk map has recently been revised and aligned more closely with corporate objectives.

NATIONAL GALLERIES OF SCOTLAND
ANNUAL ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

STATEMENT ON INTERNAL CONTROL – Continued

Review of Effectiveness

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

- the Executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors, who submit to the organisation's Audit Committee regular reports which include the Head of Internal Audit's 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.

I shall ensure that there is continuous review of internal systems through the internal audit process and, when required, that recommendations for improvement are taken into account. The Audit Committee is responsible for setting the annual internal audit programme, identifying specific areas for systems audit. The Audit Committee and senior management team review all internal audit reports and are responsible for ensuring the implementation of any necessary adjustments.

Following review of internal systems in 2007-08 I would like to draw attention to the following matters:

- In recent years there have been difficulties experienced in the management of the retail operation. During the course of this year the situation has been continually monitored and a new system introduced to improve internal controls. A new management structure is now in place.
- In response to the instability previously reported in the management of the finance operations, following a review a new management structure was put in place and high calibre individuals recruited to manage this function.
- Other major audits carried out during the year include security and ICT which have highlighted areas for improvements required in internal controls which will be implemented during the course of 2008-09.

John Leighton
Accountable Officer
Date:

NATIONAL GALLERIES OF SCOTLAND
ANNUAL ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

INCOME AND EXPENDITURE ACCOUNT

	Note	2008 £000	Restated 2007 £000
INCOME			
Gross income from grant-aided activities	9	2,347	2,389
Net income from revenue earning activities	10	511	155
Donations for Playfair Project		150	161
Total Income		<u>3,008</u>	<u>2,705</u>
EXPENDITURE			
Staff costs	12	7,873	7,267
Depreciation and permanent diminution in value	15,16	1,736	1,025
Less release from Capital Assets Fund	22	(868)	(917)
Less release from Donated Asset Reserve	22	(763)	(109)
Other operating charges	13	5,769	6,347
Transfer from Donated Asset Reserve		-	(194)
Total Operating Expenditure		<u>13,747</u>	<u>13,419</u>
Excess of Expenditure over Income		(10,739)	(10,714)
Investment & other income	11	402	867
Notional cost of capital	14	(3,586)	(2,456)
Excess of Expenditure over Income (after notional cost)		<u>(13,923)</u>	<u>(12,303)</u>
Reversal of notional cost of capital	14	3,586	2,456
Excess of Expenditure over Income for the financial year transferred to reserves		<u>(10,337)</u>	<u>(9,847)</u>

The notes on pages 30 – 46 form part of the accounts

NATIONAL GALLERIES OF SCOTLAND
ANNUAL ACCOUNTS FOR YEAR ENDED 31 MARCH 2008
STATEMENT OF RECOGNISED GAINS AND LOSSES

	Note	2008 £000	2007 £000
Unrealised Gain on Revaluation of Fixed Assets	22	9,147	24,289
Recognised Gains and Losses During the Year		<u>9,147</u>	<u>24,289</u>

The notes on pages 30 – 46 form part of the accounts

NATIONAL GALLERIES OF SCOTLAND
ANNUAL ACCOUNTS FOR YEAR ENDED 31 MARCH 2008
STATEMENT OF FINANCIAL ACTIVITIES

2008						
	Note	Unrestricted Funds £000	Restricted Funds £000	Endowment Fund £000	Total 2008 £000	Total 2007 £000
INCOMING RESOURCES						
Voluntary Income	2	22,274	5	-	22,279	12,172
Activities for Generating Funds	2	2,028	-	-	2,028	1,950
Investment Income	2	120	9	32	161	135
Incoming Resources from Generated Funds		24,422	14	32	24,468	14,257
Incoming Resources from Charitable Activities	3	2,824	-	-	2,824	2,461
Other Incoming Resources	4	311	-	-	311	351
TOTAL INCOMING RESOURCES		27,557	14	32	27,603	17,069
RESOURCES EXPENDED						
Costs of generating voluntary income	5	476	-	-	476	323
Fundraising trading: costs of goods sold and other costs	5	1,325	-	-	1,325	1,368
Costs of Generating Funds		1,801	-	-	1,801	1,691
Charitable Activities	5	14,836	-	-	14,836	13,665
Governance Costs	5	55	-	-	55	48
Other Resources Expended	5	12	-	-	12	376
Notional Cost of Capital	14	3,586	-	-	3,586	2,456
TOTAL RESOURCES EXPENDED		20,290	-	-	20,290	18,236
NET INCOMING/(OUTGOING) RESOURCES BEFORE TRANSFERS		7,267	14	32	7,313	(1,167)
Transfers between funds		(495)	501	(6)	-	-
Depreciation of Fixed Assets		763	(763)	-	-	-
NET INCOMING/(OUTGOING) RESOURCES BEFORE OTHER RECOGNISED GAINS AND LOSSES		7,535	(248)	26	7,313	(1,167)
OTHER RECOGNISED GAINS AND LOSSES						
Gains/(losses) on revaluation of fixed assets	22	-	9,147	-	9,147	24,289
Gains/(losses) on investment assets	17	(13)	(8)	(121)	(142)	61
Reversal of Notional Cost of Capital	14	3,586	-	-	3,586	2,456
NET MOVEMENT IN FUNDS		11,108	8,891	(95)	19,904	25,639
TOTAL FUNDS B/F		38,171	100,242	721	139,134	113,495
TOTAL FUNDS C/F		49,279	109,133	626	159,038	139,134

The notes on pages 30 – 46 form part of the accounts

NATIONAL GALLERIES OF SCOTLAND
ANNUAL ACCOUNTS FOR YEAR ENDED 31 MARCH 2008
STATEMENT OF FINANCIAL ACTIVITIES (Continued)

	Note	2008			Total	Total
		Unrestricted Funds £000	Restricted Funds £000	Endowment Fund £000	2008 £000	2007 £000
TOTAL FUND BALANCES MADE UP BY						
General Fund	22	(2,178)	-	-	(2,178)	(2,208)
Capital Assets Fund	22	47,804	-	-	47,804	37,392
General Fund Revaluation Reserve	22	-	38,667	-	38,667	29,520
General Fund – Capital Reserve	22	-	30,580	-	30,580	30,580
Donated Asset Reserve	22	-	39,698	-	39,698	39,959
Trust Funds and Bequests (includes Purchase Fund)	22	3,653	188	626	4,467	3,891
TOTAL FUND BALANCES		49,279	109,133	626	159,038	139,134

All recognised gains and losses have been included with the Statement of Financial Activities. All activities are classed as continuing.

The notes on pages 30 – 46 form part of the accounts

NATIONAL GALLERIES OF SCOTLAND
ANNUAL ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

BALANCE SHEET

	Note	2008 £000	Restated 2007 £000
Fixed Assets			
Tangible Assets	15	145,056	135,528
Intangible Assets	16	91	12
Investments at market value	17	582	725
		<u>145,729</u>	<u>136,265</u>
Current Assets			
Stocks	18	437	355
Debtors	19	11,477	1,028
Cash at Bank and in hand	20	3,792	2,813
		<u>15,706</u>	<u>4,196</u>
Current Liabilities			
Creditors: amounts falling due within one year	21	2,397	1,327
		<u>13,309</u>	<u>2,869</u>
Net Current Assets			
		<u>13,309</u>	<u>2,869</u>
Total Assets less Current Liabilities			
		<u>159,038</u>	<u>139,134</u>
Creditors: Amounts falling due after more than one year			
	21	-	-
Total Assets Less Liabilities			
		<u>159,038</u>	<u>139,134</u>
CAPITAL AND RESERVES			
Unrestricted Funds			
General Fund	22	(2,178)	(2,208)
Capital Assets Fund	22	47,804	37,392
Total Unrestricted Funds		<u>45,626</u>	<u>35,184</u>
Restricted Funds			
General Fund Revaluation Reserve	22	38,667	29,520
General Fund – Capital Reserve	22	30,580	30,580
Donated Asset Reserve	22	39,698	39,959
Total Restricted Funds		<u>108,945</u>	<u>100,059</u>
Trust Funds & Bequests			
Trust Funds and Bequests - Unrestricted		3,653	2,987
Trust Funds and Bequests - Restricted		188	183
Trust Funds and Bequests - Endowment		626	721
Total Trust Funds & Bequests		<u>4,467</u>	<u>3,891</u>
		<u>159,038</u>	<u>139,134</u>

John Leighton, Accountable Officer

Date:

The notes on pages 30 – 46 form part of the accounts

NATIONAL GALLERIES OF SCOTLAND
ANNUAL ACCOUNTS FOR YEAR ENDED 31 MARCH 2008
CASHFLOW STATEMENT

	Note	2008 £000	2007 £000
Net cash outflow from operating activities	23	(20,193)	(10,721)
Return on investments and servicing of finance			
Interest and investment income received	11	160	135
Net cash inflow from returns on investments and servicing of finance		<u>160</u>	<u>135</u>
Capital expenditure and financial investment			
Payments to acquire artworks	15	(1,634)	(1,977)
Payments to acquire tangible fixed assets	15	(528)	(41)
Payments to acquire intangible fixed assets	16	(84)	(20)
Net cash outflow from capital expenditure		<u>(2,246)</u>	<u>(2,038)</u>
Net cash outflow before financing		<u>(22,279)</u>	<u>(12,624)</u>
Financing:			
Grant-in-aid – running costs	8	11,465	11,165
ARTIST ROOMS	8	10,000	-
Purchase fund for artworks	8	1,260	1,260
Donations for the purchase of artworks		383	664
Playfair Project donations received		150	161
Net cash inflow from financing		<u>23,258</u>	<u>13,250</u>
Increase in cash balances		<u>979</u>	<u>626</u>

The notes on pages 30 – 46 form part of the accounts

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

1 ACCOUNTING POLICIES

a) Basis of Accounting

The accounts have been prepared under the historical cost convention, as modified for the revaluation of fixed assets and the inclusion of investments at market value, in accordance with directions given by the Scottish Ministers with the consent of the Treasury under paragraph 8(3) of Schedule 1 forming part of Section 17 of the National Heritage (Scotland) Act 1985.

The accounts include the activities and balances of the National Galleries of Scotland grant-aided activities and its Trust Funds and Bequests, including the trading activities of NGS Enterprises, which are under the control of the Board of Trustees.

Without limiting the information given, the accounts meet the requirements of the Companies Act 1985 and Accounting Standards issued or adopted by the Accounting Standards Board so far as they are appropriate, including the Charities Statement of Recommended Practice (SORP 2005).

b) Tangible Fixed Assets

- i) In line with the requirements of the Government Financial Reporting Manual (FReM), additions to the collections of the National Galleries of Scotland from 1 April 2000 have been capitalised at purchase price. The gallery collections are defined as non-operational heritage assets. The collection existing at 31 March 2000 has not been capitalised.
- ii) The National Galleries of Scotland acquired the title to the National Gallery of Scotland and the Royal Scottish Academy, both on the Mound, Edinburgh, from the Scottish Ministers on 21 February 2001. Construction work on the Weston Link was completed in July 2004 and the building transferred to the National Galleries of Scotland in August 2004. The title to the Scottish National Portrait Gallery administered by the Trustees has not been transferred from the Scottish Ministers. However, under Financial Reporting Standard 5, this building has been valued and included on the Balance Sheet. The Scottish National Gallery of Modern Art and its associated lodges were gifted to the National Galleries of Scotland in March 2005 by the Art Galleries of Scotland Foundation. The Dean Gallery is held on a 125-year lease at £1 per annum, which commenced on 28 April 1995. The Bridge Lodge is owned by the National Galleries of Scotland.
- iii) The method of valuation for specialised buildings for which there is effectively no market price is depreciated replacement cost. A revaluation is carried out every five years in line with the review of fixed assets to ensure fitness for purpose.
- iv) Fixed assets other than Buildings have been revalued at 31 March 2008 at depreciated replacement cost, by the use of appropriate cost indices applied to historic cost. Assets in the course of construction and capitalised gallery collection items are valued at historic cost. Assets acquired from grant-in-aid are capitalised in the accounts and are depreciated on a straight line basis over their estimated useful lives as follows:

Land	not depreciated
Buildings and improvement	20 to 49 years
Motor vehicles	4 years
Fixtures and fittings	6 years
Computers and office equipment	4 years
Assets in course of construction	not depreciated
Gallery Collection items	not depreciated

Assets valued below £5,000 are not capitalised, with the exception of Artwork purchases.

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

1 ACCOUNTING POLICIES (Continued)

c) Incoming Resources

Income is accounted for on a receivable basis. Revenue grant-in-aid is credited to the General Fund in the year in which it is received. Incoming resources such as exhibition sponsorship are treated as deferred income when received in advance. As required by the Charities SORP 2005, all incoming resources are accounted for in the Statement of Financial Activities. All grant-in-aid is shown in the Statement of Financial Activity, and that portion which is deemed as capital by the Scottish Government is transferred to the Capital Assets Fund (formerly the Deferred Grant Reserve), and released over the lifetime of the asset to offset asset depreciation.

The purchase grant is used to purchase additions to the gallery collections, which since 1 April 2000 have been capitalised.

Donations of fixed assets and cash, which are applied to capital expenditure, are credited to the donated asset reserve (at market value in the case of non-cash items) and are amortised over the expected useful lives of the assets acquired.

Legacy income is regarded as receivable when the conditions for its receipt have been met.

d) Resources Expended

All expenditure has been accounted for on an accruals basis and has been classified under headings that aggregate all costs relating to our main activities.

Charitable expenditure comprises those costs incurred in the delivery of our activities and services. It included both costs which can be allocated directly to such activities and those costs of an indirect nature necessary to support them.

Governance costs include those costs associated with meeting our constitutional and statutory requirements and include audit fees and costs linked to strategic management.

Support costs are those which are necessary to deliver an activity but do not themselves produce the output of the charitable activity. They include the central office functions such as human resources, finance, information technology and administration. Expenditure incurred on support costs has been apportioned to our activities on a per capita basis.

e) Investments

The National Galleries of Scotland Trust Funds and Bequests have listed investments from which income is derived and used to meet the specific objects of the funds. These investments are shown at market value in accordance with the Charities Statement of Recommended Practice (SORP 2005). The investment policy is determined as part of the Trustees' Treasury Management Policy. An annual review of investment strategy forms part of this policy.

f) Pensions

Pension arrangements are described in Remuneration Report, included in the Report of the Trustees. Pension contributions payable by NGS are expensed as incurred.

g) Stocks

Stocks are stated at the lower of cost and net realisable value.

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

1 ACCOUNTING POLICIES (Continued)

h) Taxation

The Board of Trustees has been granted charitable status by HM Revenue and Customs. Non-recoverable Value Added Tax arising from expenditure on non-trading activities is charged in the Income and Expenditure Account.

i) Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by NGS, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Income and Expenditure Account over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the Income and Expenditure Account on a straight-line basis over the term of the lease.

j) Notional Cost of Capital

In accordance with accounting requirements, the Income & Expenditure Account includes a notional cost of capital. This is calculated at 3.5% of the average capital employed by NGS in the year and is explained in Note 14.

k) Restatement of prior year figures – presentational changes

- i) The figures reported within Note 10 – Net Surplus from Revenue Earning Activities have been restated following the reclassification of Friends of National Galleries of Scotland income and associated costs to Grant Aided Activities.

These changes are purely presentational and have no impact on overall results. The income and expenditure account and Notes 9, 10 and 13 are affected.

- ii) The opening balance figures in Note 15 – Tangible Fixed Assets for Office Equipment & Computing have been restated to remove software, which is now shown separately in Note 16 – Intangible Fixed Assets.

These changes are purely presentational and have no impact on overall results. The balance sheet and Note 15 are affected.

2 ANALYSIS OF INCOME FROM GENERATED FUNDS	2008 £000	2007 £000
Voluntary Income		
Grant-in-aid	11,465	11,165
ARTIST ROOMS	10,000	-
Gifts and Donations	616	892
Sponsorship	182	87
Other	16	28
Total Voluntary Income	<u>22,279</u>	<u>12,172</u>

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

2	ANALYSIS OF INCOME FROM GENERATED FUNDS (Continued)	2008	2007
		£000	£000
	Activities for Generating Funds		
	Sale of goods	1,836	1,475
	Sponsorships	165	356
	Room Hire	16	86
	Other	11	33
	Total Activities for Generating Funds	2,028	1,950
	Investment Income		
	Dividends	33	29
	Interest	128	106
	Total Investment Income	161	135

3 ANALYSIS OF INCOME FROM CHARITABLE ACTIVITIES

	Exhibitions & Education	Conserve & Add to Collections	Estates Manage- ment	Audience Develop- ment	2008	2007
					£000	£000
Funding from Statutory authorities						
Grant-in-Aid for Purchase Fund	-	1,260	-	-	1,260	1,260
Total Statutory Funding	-	1,260	-	-	1,260	1,260
Other Funding received for Charitable Activities						
Sale of publications	307	-	-	-	307	195
Exhibition admission fees	859	-	-	-	859	908
Income from Loans Out	17	18	-	-	35	60
Educational Events	53	1	-	27	81	15
Other	125	-	-	157	282	23
Total Other Funding	1,361	19	-	184	1,564	1,201
Total Incoming Resources from Charitable Activities	1,361	1,279	-	184	2,824	2,461

4 ANALYSIS OF OTHER INCOMING RESOURCES

	2008	2007
	£000	£000
VAT reimbursement	87	131
Other income from grant aided activities	224	138
Beaverhall reimbursement of costs	-	82
Total Other Income	311	351

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

5 ANALYSIS OF TOTAL RESOURCES EXPENDED	Direct Costs £000	Support Costs £000 Note 7	Total 2008 £000	Total 2007 £000
Direct Charitable Expenditure				
Exhibitions and education	4,794	688	5,482	5,620
Conserve and Add to Collections	5,032	561	5,593	4,072
Estates Management	2,369	218	2,587	2,632
Audience Development	830	344	1,174	1,341
Activities to carry out our main objectives	13,025	1,811	14,836	13,665

The charitable activities allow the delivery of our key objectives as set out in the Trustees Report.

	Direct Costs £000	Support Costs £000	Total 2008 £000	Total 2007 £000
Costs of Generating Funds				
Costs of raising voluntary income	419	57	476	323
Costs of Trading for Fundraising Purposes	1,325	-	1,325	1,368
Total Costs of Generating Funds	1,744	57	1,801	1,691
Governance Costs (Note 6)	55	-	55	48
Other Costs	12	-	12	376
Total Resources Expended	14,836	1,868	16,704	15,780

6 GOVERNANCE COSTS	2008 £000	2007 £000
Governance and professional support for Trustees	32	26
External audit	23	22
Total Governance Costs	55	48

Governance and professional support for Trustees represents the internal costs of strategic planning and providing legal and other professional support to trustees.

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

7 ALLOCATION OF SUPPORT COSTS

Charitable Activities								
	Exhibitions & Education	Conserve & Add to Collections	Estates Manage- ment	Audience Develop- ment	Total Allocated to Charitable Activities	Allocated to Generating Funds	Total 2008	Total 2007
	£000	£000	£000	£000	£000	£000	£000	£000
Finance	176	143	55	87	461	12	473	182
Personnel	177	144	56	89	466	12	478	467
Secretariat	151	124	49	76	400	20	420	322
IT	184	150	58	92	484	13	497	486
	688	561	218	344	1,811	57	1,868	1,457

Support costs have been allocated on a per capita basis

8 GRANT-IN-AID	2008	2007
	£000	£000
Grant-in-aid received		
Running costs	11,465	11,165
ARTIST ROOMS	10,000	-
Purchase Grant	1,260	1,260
Total Grant-in-aid received	22,725	12,425
Allocated to:		
General Fund	11,465	11,165
Capital Assets Fund (ARTIST ROOMS)	10,000	-
Purchase Fund	1,260	1,260
	22,725	12,425

9 GROSS INCOME FROM GRANT AIDED ACTIVITIES	2008	Restated 2007
	£000	£000
Sales of National Gallery publications	309	253
Exhibition Admission fees	834	850
Sponsorship	346	443
Beaverhall Reimbursement of Costs	-	82
VAT Reimbursement	87	131
Other income	771	630
	2,347	2,389

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

10 NET SURPLUS FROM REVENUE EARNING ACTIVITIES

	2008		
	Retailing £000	Licensing & Franchising £000	Total 2008 £000
Turnover & income	1,508	328	1,836
Cost of Sales	(715)	-	(715)
Gross Profit	793	328	1,121
Salaries	(411)	3	(408)
Other operating costs	(150)	(52)	(202)
Trading surplus	232	279	511

	2007		
	Retailing £000	Licensing & Franchising £000	Restated Total 2007 £000
Turnover & income	915	373	1,288
Cost of Sales	(386)	-	(386)
Gross Profit	529	373	902
Salaries	(486)	(59)	(545)
Other operating costs	(150)	(52)	(202)
Trading surplus	(107)	262	155

Due to a change in the method of accounting for the Friends of NGS income and associated costs, the income is now shown in Note 9 and the costs in Note 13. 2006/07 figures have been restated to reflect this change.

11 INVESTMENT & OTHER INCOME

	Endowment Funds £000	Restricted Funds £000	Unrestricted Funds £000	Total 2008 £000	Total 2007 £000
M & G Charifund units	27	5	-	32	29
Bank interest	-	-	128	128	106
Total Interest and dividend income	27	5	128	160	135
Other income	-	-	242	242	732
Total	27	5	370	402	867

Investment policy forms part of the NGS Treasury Management Strategy approved by the NGS Audit Committee.

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

12 TRUSTEES REMUNERATION AND STAFF COSTS		2008	2007
		£000	£000
Staff Costs during the year			
Wages and Salaries		6,704	6,496
Social Security Costs		468	435
Other Pension costs		1,108	1,024
		<u>8,280</u>	<u>7,955</u>
Accounted for in grant aided activities		7,873	7,267
Accounted for within revenue earning activities		407	688
		<u>8,280</u>	<u>7,955</u>
Trustees			
Trustees Remuneration		-	-
The Trustees received reimbursement of expenses as below			
		£000	£000
Total amount of travel expenses reimbursed		<u>7</u>	<u>4</u>
		No.	No.
Number of Trustees receiving reimbursement		<u>8</u>	<u>4</u>
The average number of full time equivalent employees employed by NGS was as follows:			
		2008	2007
		No.	No.
Warding		143	141
Gallery curatorial and administration		33	32
Service departments		44	46
Central administration		38	38
Cleaners		5	5
Revenue earning activities		25	24
		<u>288</u>	<u>286</u>

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

13 ANALYSIS OF OTHER OPERATING CHARGES	2008	Restated 2007
	£000	£000
Staff Travel	138	122
Rent and Rates	179	213
Fuel and utilities	521	547
Repairs, Renewals and Maintenance of buildings	1,378	1,322
Conservation & restoration	130	103
Transport	426	467
Library and photography	116	103
Printing and promotion	862	1,077
Design & display	266	365
External Audit Fee	23	22
Other professional fees	336	232
Office costs and consumables	133	120
IT & communications	270	247
Training and recruitment	127	144
RSA Project Costs	-	356
Lecture Fees	73	67
Cleaning	118	118
General expenses	673	722
	<u>5,769</u>	<u>6,347</u>

14 COST OF CAPITAL

The Cost of Capital is based on the average relevant balance sheet values over the year.

	2008	2007
	£000	£000
Average balance during the year	<u>102,458</u>	<u>70,164</u>
Notional Interest at 3.5%	<u>3,586</u>	<u>2,456</u>

Guidance on appropriate rates is contained in the publication "Government Financial Reporting Manual". The rate of 3.5% (2007 3.5%) is suggested as being appropriate to NDPB's which are not engaged in activities which compete directly with the private sector.

NATIONAL GALLERIES OF SCOTLAND
NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

15 TANGIBLE FIXED ASSETS	Gallery Collections	Land & Buildings	Assets Under Construction	Office Equipment & Computing	Fixtures & Fittings	Motor Vehicles	Total
	£000	£000	£000	£000	£000	£000	£000
COST OR VALUATION							
At 1 April 2007 (restated)	25,196	112,824	-	654	1,530	26	140,230
Additions during year	1,634	148	299	63	18	-	2,162
Disposals	-	-	-	(111)	(11)	-	(122)
Revaluation	-	7,832	-	8	43	-	7,883
Cost at 31 March 2008	<u>26,830</u>	<u>120,804</u>	<u>299</u>	<u>614</u>	<u>1,580</u>	<u>26</u>	<u>150,153</u>
DEPRECIATION							
At 1 April 2007 (restated)	-	2,763	-	463	1,452	24	4,702
Provision for the year	-	1,632	-	95	27	-	1,754
Disposals	-	-	-	(62)	(9)	-	(71)
Revaluation	-	(1,326)	-	(15)	51	2	(1,288)
Accumulated depreciation at 31 March 2008	<u>-</u>	<u>3,069</u>	<u>-</u>	<u>481</u>	<u>1,521</u>	<u>26</u>	<u>5,097</u>
NET BOOK VALUE							
At 31 March 2008	<u>26,830</u>	<u>117,735</u>	<u>299</u>	<u>133</u>	<u>59</u>	<u>-</u>	<u>145,056</u>
At 31 March 2007 (restated)	<u>25,196</u>	<u>110,061</u>	<u>-</u>	<u>191</u>	<u>78</u>	<u>2</u>	<u>135,528</u>

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

15 TANGIBLE FIXED ASSETS (Continued)

The National Gallery of Scotland, the Scottish National Portrait Gallery and the Dean Gallery and Lodges Land and Buildings were revalued at 31 March 2007 by the District Valuer using the depreciated replacement cost method in accordance with RICS manual. The RSA building was revalued at 31 March 2008 by the District Valuer using the depreciated replacement cost method in accordance with RICS manual. The Gallery of Modern Art and associated buildings were gifted to NGS in March 2005, and valued at 1 December 2004.

Valuations provided by District Valuer are as follows:

31 March 2008

- Royal Scottish Academy £24,772,000

31 March 2007

- National Gallery of Scotland £21,281,000
- Scottish National Portrait Gallery £20,609,000
- Dean Gallery and Lodges £15,805,000

5 August 2004

- Weston Link £17,907,000

1 December 2004

- Gallery of Modern Art and Lodges £18,095,000

Depreciation for the year of £9,245 (2006/07: £7,300) relates to Revenue Earning Activities and has been included within the costs shown at Note 10.

Government Financial Reporting Manual guidelines require that the additions to the gallery collections after 1 April 2000 should be treated as non-operational heritage assets, and recorded in the balance sheet at purchase price. These assets will not be revalued, but are shown at historic cost.

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

16 INTANGIBLE FIXED ASSETS	Computer Software £000	
COST OR VALUATION		
At 1 April 2007	16	
Additions during year	84	
Disposals	-	
Revaluation	(1)	
Cost at 31 March 2008	<u>99</u>	
DEPRECIATION		
At 1 April 2007	4	
Provision for the year	4	
Disposals	-	
Revaluation	-	
Accumulated depreciation at 31 March 2008	<u>8</u>	
NET BOOK VALUE		
At 31 March 2008	<u>91</u>	
At 31 March 2007	<u>12</u>	
17 INVESTMENTS	2008 £000	2007 £000
Market value at 1 April 2007	725	664
Change in market value	(142)	61
Other Adjustments	(1)	-
Market value at 31 March 2008	<u>582</u>	<u>725</u>
Investments at cost	<u>55</u>	<u>55</u>
18 STOCK	2008 £000	2007 £000
Goods held for resale	<u>437</u>	<u>355</u>

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

19 DEBTORS	2008	2007
	£000	£000
Prepayments	127	103
Trade debtors	313	416
Other debtors	10,794	137
VAT debtor	243	372
	<u>11,477</u>	<u>1,028</u>

Included in other debtors is £10,500,000 (£10,000,000 from the Scottish Government and £500,000 from the Art Fund) towards the joint acquisition of *ARTIST ROOMS*. Refer to Note 28 – Post Balance Sheet Events for further information.

Balances due from other bodies within the boundary set for the Whole of Government Accounts included in Debtors above:

Central Government	<u>379</u>	<u>509</u>
Local Government	<u>4</u>	<u>-</u>

20 CASH AT BANK AND IN HAND	2008	2007
	£000	£000
General Fund		
Royal Bank of Scotland	-	1
Bank of Scotland	3,179	2,225
	<u>3,179</u>	<u>2,226</u>
Trust Funds and Bequests		
- Revenue earning activities		
Royal Bank of Scotland	-	26
Bank of Scotland	610	558
Cash in hand	3	3
Trust Funds and Bequests total	<u>613</u>	<u>587</u>
Total cash held	Note 23	
	<u>3,792</u>	<u>2,813</u>

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

21 CREDITORS	2008	2007
	£000	£000
 Amounts falling due within one year:		
Accruals	457	941
Trade creditors	1,162	322
Other creditors	17	(4)
	<u>1,636</u>	<u>1,259</u>
Provision	38	38
Deferred Income	693	30
Other Taxation & Social Security	30	-
	<u>2,397</u>	<u>1,327</u>

A provision of £38,000 has been made in respect of final claims on the Dean Gallery and Playfair projects. We are now pursuing a legal settlement and it is anticipated that final settlement will be made within the financial year 2008/09.

Amounts falling due after more than one year	2008	2007
	£000	£000
Other creditors	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

Balances due to other bodies within the boundary set for the Whole of Government Accounts included in Creditors above:

	2008	2007
	£000	£000
Local Government	<u>-</u>	<u>4</u>
Central Government	<u>359</u>	<u>-</u>

NATIONAL GALLERIES OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

22 RESERVES	General Fund	Capital Assets Fund	General Fund Revaluation Reserve	General Fund Capital Reserve	Donated Asset Reserve	Purchase Funds	Trust Funds & Bequests	Total
	(a)	(b)		(c)	(d)			
	£000	£000	£000	£000	£000	£000	£000	£000
Opening balance 1 April 2007	(2,208)	37,392	29,520	30,580	39,959	26	3,865	139,134
Revaluation Gains	142		9,147				(142)	9,147
Release to Income & Expenditure for Depreciation		(868)			(763)			(1,631)
Utilised in year						(1,280)	(502)	(1,782)
Government Funding and Donation	11,465	10,000				1,260		22,725
Capitalisation of Collection Purchases		1,280						1,280
Other donations & transfers	(1,280)					2	1,278	-
Donated Assets added during year					502			502
Transfers between reserves	40						(40)	-
Deficit for the year	(10,337)							(10,337)
Closing balance 31 March 2008	(2,178)	47,804	38,667	30,580	39,698	8	4,459	159,038

- (a) The General Fund represents the annual overall surplus/(deficit) balance of non-restricted funds which are transferred here annually.
- (b) Grants received for capital expenditure projects from the Scottish Government and from Heritage Lottery Fund in respect of the Dean Gallery and Playfair Project and the *ARTIST ROOMS*.
- (c) The General Fund Capital Reserve represents the valuation of those assets included in the Balance Sheet at 31 March 1998 under FRS 5 together with the RSA building shown at the 2001 transfer valuation of £6,467,000. The General Fund Capital Reserve is treated as a Restricted Fund under the Charities SORP 2005.
- (d) Donations include funds received from third parties for the Playfair Project, and the purchase of artworks. The Playfair Project encompasses the refurbishment of the Royal Scottish Academy Building and the expansion of the facilities provided by the National Gallery at the Mound. The Donated Asset Reserve is treated as a Restricted Fund under the Charities SORP 2005.
- (e) The value of Artworks purchased in 2007/08 was £1,634,194 (2006/07: £1,976,849).

NATIONAL GALLERIES OF SCOTLAND

NOTES TO ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

23 CASHFLOW STATEMENT	2008 £000	2007 £000
Reconciliation of Excess of Expenditure over Income to Net cash outflow from operating activities		
Excess of expenditure over income per Income and Expenditure Account	(10,739)	(10,714)
Add back for items not involving movement of funds		
Depreciation charges	1,736	1,025
Playfair donations to Donated Asset Reserve	(150)	(161)
Depreciation charge included in net deficit on revenue earning activities	9	7
Amounts released from Capital Assets Fund in respect of depreciation	(868)	(917)
Amounts released from Donated Asset Reserve in respect of depreciation	(763)	(109)
Transfer from Donated Asset Reserve	-	(194)
Loss on Disposal of Fixed Assets	43	-
Movement in working capital		
(Increase) / Decrease in Stocks	(82)	39
(Increase) in Debtors	(10,449)	(391)
Increase in Creditors	1,070	694
Net cash (outflow) from operating activities	<u>(20,193)</u>	<u>(10,721)</u>

There are no current asset investments and no borrowings or finance lease obligations. Accordingly net funds (as defined in revised Financial Reporting Standard 1) are equal to cash balances. The movement in cash balances during the year is as follows:

Analysis of changes in net funds in year	2008 £000	2007 £000
Balance at 1 April 2007	2,813	2,187
Net cash inflow	979	626
Balance at 31 March 2008	<u>3,792</u>	<u>2,813</u>

NATIONAL GALLERIES OF SCOTLAND

NOTES TO ACCOUNTS FOR YEAR ENDED 31 MARCH 2008

24 FINANCIAL COMMITMENTS

Annual commitments under operating leases are as follows:

	2008			2007		
	£000 Land & Buildings	£000 Other	£000 Total	£000 Land & Buildings	£000 Other	£000 Total
Leases expiring within one year	-	8	8	-	16	16
Leases expiring after one year but within five years	30	-	30	30	-	30
Leases expiring after five years	-	-	-	-	-	-
	30	8	38	30	16	46

25 RELATED PARTY TRANSACTIONS

The National Galleries of Scotland is a non-departmental public body of the Scottish Government which is a related party. During the year, NGS had various material transactions with the Scottish Government. None of the Trustees, members of key management staff or other related parties has entered into any material transactions with NGS during the year.

26 PENSIONS

All pensions information is now included in the Remuneration Report, in the Report of the Trustees.

27 CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 March 2008.

28 POST BALANCE SHEET EVENTS

At 31 March 2008 the National Galleries of Scotland's debtor balance included £10.5 million representing funds held on its behalf in an escrow account pending the transfer of a collection of works of contemporary art known as *ARTIST ROOMS*. In June 2008 the National Galleries of Scotland and the Tate Gallery completed the transfer of *ARTIST ROOMS* and funds held in the escrow account were duly transferred to the donor. The works of art are owned by the National Galleries of Scotland and the Tate Gallery jointly in equal undivided shares on behalf of the nation. The donor has received £26.5 million from the National Galleries of Scotland and the Tate Gallery, which is the original cost to the donor of the works of art. The National Galleries of Scotland and the Tate Gallery also settled the donor's liabilities in relation to taxation arising from the sale which amounted to £14 million. The collection has been valued at £125 million. Additionally the National Galleries of Scotland and the Tate Gallery have severally undertaken to contribute a further £2.5 million each to a restricted fund to be known as the *ARTIST ROOMS* fund over the course of the next three years with the first £0.5 million tranche from both parties falling due in December 2008. The remaining £2 million will be contributed by both parties by June 2011. The purpose of this restricted fund will be to acquire works for the *ARTIST ROOMS* collection. The creation of *ARTIST ROOMS* was made possible by grants from the National Heritage Memorial Fund, The Art Fund and the Scottish and British Governments.

There are no other material post balance sheet events.

Independent auditor's report to the Board of Trustees of the National Galleries of Scotland, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of the National Galleries of Scotland for the year ended 31 March 2008 under the National Heritage (Scotland) Act 1985 and section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. These comprise the Statement of Financial Activities, the Income and Expenditure Account and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

Respective responsibilities of the Board of Trustees, Accountable Officer and auditor

The Board of Trustees and the Director- General (Accountable Officer) are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers. The Director-General (Accountable Officer) is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Board's and Director-General's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers and the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulation 2006. I report to you whether, in my opinion, the information which comprises the Report of the Board of Trustees, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

In addition, I report to you if, in my opinion, any information contained in the statement of accounts is inconsistent with the trustees' Annual Report, the body has not kept proper accounting records, if the charity's statement of accounts is not in agreement with these accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the body's compliance with the Scottish Government's guidance, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Foreword and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Board and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

Financial statements

In my opinion

- the financial statements give a true and fair view, in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers, of the state of affairs of the National Galleries of Scotland as at 31 March 2008 and of its incoming resources and application of resources, including its income and expenditure for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers and the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations; and
- information which comprises the Report of the Board of Trustees included in the Annual Report is consistent with the financial statements.

Regularity

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

Signature

Ruth Brown CPFA
Audit Scotland
Osborne House
1/5 Osborne Terrace
Edinburgh
EH12 5HG

Date October 2008



NATIONAL GALLERIES OF SCOTLAND

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of paragraph 8(3) of the Schedule to the National Galleries of Scotland Act 1906 as amended by Section 17 of the National Heritage (Scotland) Act 1985, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2006, 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.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 12 March 2001 is hereby revoked.

A handwritten signature in black ink, appearing to be 'R. Stewart', written over a horizontal line.

Signed by the authority of the Scottish Ministers

Dated 31 March 2006