

National Galleries of Scotland

Trustees' Annual Report and Financial Statements
for the year ended 31 March 2019

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

CHAIRMAN'S FOREWORD.....	3
TRUSTEES' ANNUAL REPORT	4
STATEMENT OF TRUSTEES' AND ACCOUNTABLE OFFICER'S RESPONSIBILITIES	24
GOVERNANCE STATEMENT	25
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE NATIONAL GALLERIES OF SCOTLAND, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT	30
CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31 MARCH 2019	33
CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2019	34
BALANCE SHEET AS AT 31 MARCH 2019.....	35
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019	36
NOTES TO THE FINANCIAL STATEMENTS.....	37
APPENDIX TO THE FINANCIAL STATEMENTS	60

NATIONAL GALLERIES OF SCOTLAND
TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Chairman's Foreword

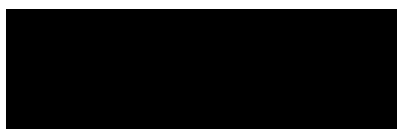
I am pleased to present the Trustees' Annual Report and Financial Statements for 2018-19.

At the National Galleries we have set high ambitions for our role in promoting art and culture in Scotland. We want the collection to be recognised as truly world-class and we want as many people as possible to enjoy and benefit from access to great art. We are the custodians of a supremely important national asset and that sense of ownership should be shared by everyone across society.

Much of the success of the significant developments of the last year is attributable to the hard work of the teams at NGS and I would firstly like to thank all the Trustees on the various boards and committees of the NGS for their huge contribution throughout the year.

The Trustees would also extend their thanks to the Director-General, Sir John Leighton and all his colleagues at the NGS for their work and enthusiasm over the last year, each of them helping to achieve these excellent results.

I would like to emphasise our gratitude to our many Patrons, Friends and all our supporters, both individual and corporate, who give time, money and their energy to assisting in delivering our vision. Finally, I would like to thank the Scottish Government for not just their on-going financial support but also a real understanding of the importance of culture in Scotland and support for what we are trying to achieve.



Benny Higgins
Chairman

Trustees' Annual Report

1 Introduction

The National Galleries of Scotland (NGS) looks after one of the finest collections of art anywhere in the world, consisting of over 100,000 works of fine art. Our principal place of business and registered address is 73 Belford Road, Edinburgh, EH4 3DS, and the collection is displayed to the public at the following locations:

- Scottish National Gallery (SNG) at the Mound (since 1859)
- Scottish National Portrait Gallery (SNPG) in Queen Street (since 1882)
- Scottish National Gallery of Modern Art (SNGMA) in Belford Road (Modern One since 1961 and Modern Two since 1999)

NGS also has a purpose-built centre for those objects not on general display or on loan, which is located at Granton. Members of the public can access the centre via an appointments system.

There are two partner galleries in the north and south of Scotland which house part of the collection, Paxton House in Berwickshire (since 1993) and Duff House in Banff (since 1995). NGS has a very active loans programme across Scotland and the rest of the world.

NGS has a wholly-owned subsidiary, the NGS Trading Company Limited, which operates our commercial services, including retail and venue hire.

2 Objectives and Activities

2.1 Purpose, Functions and Vision

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

- to care for, preserve and add to the objects in their collection
- 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

Building on these statutory functions, our mission is to ensure that the public has the greatest possible access to the visual arts; that we educate and inspire the public; and that we promote Scotland's international reputation for art and culture, both in the quality of our collections as well as the strength and depth of our art community. Our vision is for NGS to be a powerhouse for art: inclusive, original and ambitious, making the collection accessible to all and inspiring curiosity across the world.

2.2 Long-term Aims

To achieve our vision as set out above, we have three long-term and closely linked aims:

1. Increased participation
2. Greater impact
3. Investment in our future

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Trustees' Annual Report (continued)

2.3 2018-19 Objectives

In 2018-19, NGS's activities were focussed on a set of objectives which align with these main aims.

Aim 1: Increased participation	
<i>Objectives</i>	We want to connect with our audiences and with each other in new, collaborative and involving ways.
	We want to reach more people and more diverse groups.
	We want to involve people inside and outside NGS in our work, discussing and debating.
Aim 2: Greater impact	
<i>Objectives</i>	We want to make sure our work is both world class and relevant.
	What we do should make a difference and be admired.
	We want to leave a legacy, having been the best at what we do.
Aim 3: Investment in our future	
<i>Objectives</i>	Investment is essential to make the most of our people, knowledge and skills, our collection and buildings.
	We will take a long-term view about investing in all of these areas, making sure everyone has a role to play.
	We aim to create more secure and varied sources of income so that we become more self-sufficient.

3 Achievements and Performance

3.1 Key Performance Indicators

NGS has developed a number of key performance indicators (KPIs) to help assess the achievement of its long-term aims. The results for 2018-19 are set out below shown against target. The year on year trend is also provided.

Indicator		Target / Projection 2018/19	Results for 2018/19
Number of actual visits to all gallery sites	SNG	1,707,128	1,775,068
	SNGMA 1	332,356	362,868
	SNGMA 2	267,183	218,188
	SNPG	394,162	352,055
	NGS Total	2,700,829	2,708,179
Visits to touring displays	Scotland (ex AR)	2017-18 value: 26,252	10,212
	Rest of UK (ex AR)	2017-18 value: 259,000	0
	International (ex AR)	2017-18 value: 137,535	172,166
Visits to Artist Rooms displays		2017-18 value: 663,175	296,811
Number of paid visits to exhibitions		73,000	91,412
Website user sessions (data capture affected by use of cookies and resultant effect on analytics)		10% increase year-on-year	3.13%

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Trustees' Annual Report (continued)

Indicator		Target / Projection 2018/19	Results for 2018/19
Digitisation of the collection		19,200 2D works digitised	9,886
Visitor Satisfaction		90% of visitors rate their visit as 'excellent' or 'very good'	96%
Engagement via social media		Facebook and Twitter (reach vs interaction)	11%
Website return users (data capture affected by use of cookies and resultant effect on analytics)		10% increase year-on-year	0.6%
Participation in education programme (by volume)	Schools	24,000	31,388
	Children and Families	7,500	15,058
	Communities	2,650	2,121
	Outreach	1,250	1,389
	Adults	18,000	19,098
Leverage of purchase grant		2017-18 value: 518%	765%
Percentage of storage/gallery spaces providing minimum standard environmental conditions for our collection (m ²)		Museum standard conditions in 100% of collection display/ storage space by 2020	53%
Collection audit targets		36,000	21,625
Retail income (affected by closure of SNG)	Turnover: £1,895,594		£1,790,013
	Net loss: -£88,991		-£85,526
Catering income (affected by closure of SNG)	Commission: £310,735		£316,729
	Net Profit: £181,795		£98,505
Number of volunteer hours		2017-18 value: 10,515	9,875
Income from Friends Membership		£640k per annum by 2020	£469,058
Donations per visit		41p per visit per annum by 2020 Baseline: 11p in 2014	7p
GIA per visitor		2017-18 value: £5.08	£5.00
Percentage reduction in carbon emissions		39.6% reduction	56.44%

Trustees' Annual Report (continued)

3.2 Developing the Collection

The primary role of the Board of Trustees is to care for, research and develop the national collection of art. The collection is world-leading in quality, scale and breadth, numbering over 100,000 objects including paintings, works on paper, photographs, sculpture, manuscript and archival material, digital works, installation, performance and film. Displayed across the Portrait Gallery, Scottish National Gallery and Scottish National Galleries of Modern Art and toured nationally and internationally and through the ARTIST ROOMS partnership, the collection ranges in period from the early Renaissance to the present day and includes works by many of the major figures in the history of European and North American art. We house the national collection of Scottish Art, the Bridgewater Loan and the National Photography Collection.

As at 31 March 2019 there are 110,658* objects catalogued (101,709 as at 31 March 2018) in NGS's permanent collection.

These include long loans and ARTIST ROOMS objects and are categorized as follows.

Paintings	3,682
Works on Paper	55,112
Photographs	37,812
Sculpture	10,913
Printed Material	563
Manuscript Material	887
Decorative and Applied Art	1,308
Installation and Film	119
Accessory	158
Other	104

**This figure does not include an estimated 50,000 Tassie paste gems and archive material.*

The majority of the objects are based in Edinburgh with works also on permanent display in our partner galleries at Paxton House, Berwickshire and Duff House, Banff.

In 2018-19 NGS continued to build this extensive collection where opportunity and funding allowed.

Capital funding was allocated from the Scottish Government towards the purchase works of art during the year in addition to receipt of private donations and use of NGS's Trust Funds. This along with generous gifts and bequests has enabled the collection to continue its steady growth.

A detailed list of all our acquisitions, including gifts and bequests, is available on request. This year the modern and contemporary collection has been much enhanced by the purchase of two major works: Lobster Telephone by Salvador Dali and Edward James; and Bird Superior: Portrait of Max Ernst by Leonora Carrington. Both purchases were in part thanks to the Henry and Sula Walton Fund, a trust fund left to the National Galleries of Scotland by Professor Henry and Sula Walton to be used for the purchase of modern and contemporary works, and the Art Fund.

Other notable acquisitions during the year included:

- Seven Tears 2016 by Susan Philipz (b. 1965)
Purchased with the assistance of the Contemporary Art Society and the Henry Moore Fund.
- Posy Croft by Oskar Kokoschka, 1939
Accepted by HM Government in Lieu of Inheritance Tax from the estate of the sitter and allocated to the Scottish National Gallery of Modern art, 2018

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Trustees' Annual Report (continued)

- The Hill Farm (Wamphrey) 1934 by William Geissler (1894-1963)
Presented by the artist's family.
- His Royal Highness The Prince Charles, Duke of Rothesay 2018 by Victoria Crowe (b. 1945)
- John Burnside, Scottish writer and poet 2016 by Alan Lawson
Presented by an anonymous donor.
- Self Portrait with Fireflies and Faces 2016 by Raqib Shaw (b.1974)
Presented by the artist.
- Susie Wolff: Portrait of a Racing Driver 2018 by Angela Palmer
- Portrait of Rorschach Testing Himself and Finding Himself Guilty 1986 by Steven Campbell (1953-2007)
Presented by Brenda Josephs with Art Fund Support 2018
- James Adam, 1732-1794. Architect and designer 1763 by Antonio Zucchi (1726-1795)
Purchased jointly by the National Galleries of Scotland and the Victoria and Albert Museum, with assistance from the Art Fund
- La Légende des siècles 1950 by Rene Magritte (1898-1967)
Drue Heinz bequest 2018

NGS is grateful to individuals, funding bodies and HM Government's Acceptance in Lieu of Inheritance Tax Scheme for the generous assistance and support which has enabled us to continue to expand the collection.

3.3 Audiences

Access to great art by as wide an audience as possible is part of our core mission. In 2018-19 we welcomed over 2.7m visitors across our three gallery sites, a record figure, significantly up on previous years. However we also reach audiences across the UK and the world through our loans programme.

ARTIST ROOMS, our collaboration with Tate, is now in its eleventh year and continues to engage audiences across the UK with world-class modern and contemporary art. Works from the collection were shown in 11 additional venues during the year reaching a further 207,424 visitors. Tate and National Galleries of Scotland also held ARTIST ROOMS exhibitions as part of their public programmes. Providing access free of charge to the Galleries, and to the ARTIST ROOMS programme, has been a vital part of our strategy to ensure that everyone has the opportunity to use and enjoy the national collection.

During 2018/19 NGS loaned 346 works to exhibitions at 70 different venues, 30 UK venues and 40 overseas venues. These works were seen by a total of over 8 million visitors, and saw NGS works being included in the inaugural opening displays at the V&A Museum of Design, Dundee, and Kirkcudbright Galleries, Kirkcudbright. We also lent to a couple of more unusual venues this year – Paolozzi's cast for Master of the Universe and Ramsay's portrait of David Hume are on display for a year (starting May 2018) at the General Court of the European Union in Luxembourg, and Lucy with Flower by Lasar Segall went on loan to the Brazilian Embassy in London for their commemorative version of the exhibition 'Modern Brazilian Paintings' 1944, May through June 2018.

On the digital side, NGS had around 2m visits to its website during the year and now has around 130,000 followers on social media.

A digitisation programme began in early 2015 with a view to photographing the entire 2D collection by 2020. By 31 March 2019, over 73,000 artworks had been digitised. Photography of the sculpture collection is due to begin shortly, which will enable the inclusion of multiple images for each sculpture on the NGS website. Completion of this programme will ensure access to the NGS collection across the world and significantly broaden our reach and visibility.

NATIONAL GALLERIES OF SCOTLAND
TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Trustees' Annual Report (continued)

The following table demonstrates key audience trends over the last few years:

	2018/19	2017/18	2016/17	2015/16
Total visits to Edinburgh Galleries	2,708,179	2,533,611	2,437,632	2,209,278
Total visits to NGS exhibitions at other locations*	182,378	422,787	638,763	368,821
Total visits to website	2,051,363	1,989,099	1,805,879	1,626,060

*This figure excludes ARTIST ROOMS

3.4 The Public Programme

The 2018-19 public programme of exhibitions and displays proved very popular, helping NGS achieve a record number of visitors during the year.

The highlight of the summer season was Rembrandt: Britain's Discovery of the Master, which took place over the summer of 2018 and was supported by People's Postcode Lottery and the Friends of the National Galleries of Scotland. The exhibition attracted 65,000 visitors and was critically acclaimed. Toulouse-Lautrec, supported by Aegon, also proved to be a hit with the visitors and was visited by over 21,000 people in the autumn/winter slot.

Three paying shows opened in 2018-19:

Scottish National Gallery	
Rembrandt: Britain's Discovery of the Master	RSA Upper Galleries, 7 July – 14 th October 2018
Pin-Ups: Toulouse-Lautrec and the Art of Celebrity	RSA Lower Galleries, 6 October 2018 – 20 January 2019
Scottish National Gallery of Modern Art (Modern One & Two)	
Emil Nolde: Colour is Life	Modern Two, 14 July – 21 October 2018

There were many free exhibitions and displays throughout the year in addition to the paying shows. This included the NOW IV exhibition, which was the latest part of a series of dynamic contemporary art exhibitions displayed across the ground floor at Modern One. This tranche included works by Monster Chetwynd, Henry Coombes, Moyna Flannigan, Betye Saar, Wael Shawky. Other displays across the sites included Planes, Trains and Automobiles: Transportation Photographs from the National Galleries of Scotland, Victoria Crowe: Beyond Likeness and the biennial BP Portrait Award at the Portrait Gallery. Raqib Shaw: Reinventing the Old Masters took place at Modern One and Andy Warhol and Eduardo Paolozzi: I want to be a machine at Modern Two. All of the temporary displays complemented our high quality permanent collection displays, contributing to another record year for visitors to our Edinburgh sites.

As always, NGS delivered a strong learning programme for visitors. The programme sought to address diversity and inclusion throughout its programmes which included a lecture by Sir Geoff Palmer, Professor Emeritus, Heriot-Watt University exploring the links through trade and slavery between Scotland and the Caribbean to launch *The Remaking of Scotland* display. The community choir programme featured Harmony Choir who began in 2016 as a research project to investigate the benefits of singing in a choir for mental health, to raise awareness and reduce mental health stigma. In February, Dan Vo shared his experiences of finding and engaging with LGBTQ stories in the V&As museum and gallery collections. Our programme participated in the celebrations of 100 years of some women receiving the right to vote through a number of lectures including one on key women in Edinburgh's Suffragette

Trustees' Annual Report (continued)

history and the internationally recognised Physicist Professor Jocelyn Bell Burnell spoke to a full lecture theatre about her life in science.

In total, around 69,000 people participated in learning activity across NGS from schools, access groups, families, young people and adults.

3.5 Research and Scholarship

NGS produces many publications each year both to complement our exhibitions programme and promote the permanent collection. In the year 2018-19 NGS published 15 new titles, of which 6 were revised or reprinted.

NGS's 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 and presenting lectures and conference papers, NGS colleagues are also called upon to contribute their expertise to a number of initiatives. This includes the government's Acceptance in Lieu Scheme, Museums Galleries Scotland's Recognition Scheme and the Government's Reviewing Committee on the Export of Works of Art and Objects of Interest. The Director-General is Chairman of the Bizot Group, a group of leading international museum directors, and is on the Board of Museums Galleries Scotland.

3.6 Partnership and Collaboration

Working in partnership, NGS continues to develop useful and mutually beneficial relationships with museums, galleries and other organisations both within the UK and abroad, enhancing access to artworks from the collection and enabling access to works from other regions and countries. Many partnerships are developed through education activities and others are developed with museums and galleries around the UK and abroad through the loans and exhibitions programmes. Some of our lending partners have already been mentioned in section 3.3 above.

The Monarch of the Glen returned to Edinburgh briefly following its display at Paisley Museum. Whilst here we used this as an opportunity to hold a community event at Edinburgh College Granton campus, enabling Students and lecturers to view the painting in the NGS truck. The painting then travelled to the final venue of its Scottish tour in June 2018, where it was a key loan in the opening display of the new Kirkcudbright Art Galleries. Although only on display for three weeks the galleries welcomed 10,212 visitors during this period, raising the total for the whole tour to 36,247. On the way to Kirkcudbright the stag dropped into Gatehouse Primary School, Gatehouse of Fleet. This provided another opportunity for staff and pupils of a local school to get up close to the painting in the NGS truck. This type of community event has provided a successful pilot model for new ways of reaching communities and is being explored further by the NGS partnership working group in the context of national touring programmes.

The second half of the Turner and Poetics of Landscape tour to Japan took place April to September 2018, with the exhibition travelling onto the Seiji Togo Memorial, Sompo Japan, Nipponkoa Museum of Art in Tokyo, and finishing at the Koriyama Museum of Art, Koriyama. The number of visitors to the four venue tour totalled 209,701, and included a visit by the Emperor and Empress of Japan to the exhibition whilst in Tokyo. Following the success of the tour, Japanese tour organisers Mainichi newspapers are already in discussion with NGS about developing a third touring project for 2022.

ARTIST ROOMS was an important strand of our national touring programme in 2018-19. Funding from The Art Fund and the National Lottery through Creative Scotland and Arts Council England enabled NGS and Tate to share this outstanding collection with other venues in the UK. The aim of ARTIST ROOMS is to enable post-war and contemporary international art to be shared with audiences throughout the UK, as a catalyst for exciting and stimulating programming that will engage new audiences, particularly young people. The 2018-19 programme

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Trustees' Annual Report (continued)

included partnerships with The McManus in Dundee, Berwick Visual Arts, Kettle's Yard in Cambridge and Tullie House Museum & Art Gallery in Carlisle. ARTIST ROOMS were also on show during the year at Tate Modern and the Scottish National Gallery of Modern Art.

3.7 *Developing a Sustainable Business Model*

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 self-generated income including other grants, income from shops, publications, catering outlets, corporate hire, corporate sponsorship and admission charges for some exhibitions.

The success of this year's Public Programme in conjunction with planned fundraising initiatives has resulted in an increase in the financial contribution from exhibitions and memberships. This included £275k in Museums and Galleries Tax Relief – a new incentive offered by the UK government in support of temporary exhibitions.

The programme to encourage philanthropic support for NGS continues, developing the network of support from individuals, companies, trusts and foundations.

The NGS operates a scheme of tiered membership with different levels of giving. NGS is grateful for the support provided during the year by the Patrons and the Friends, the largest group in the membership scheme.

Friends' membership stood at 13,735 on 31 March 2019, compared with 13,188 as at 31 March 2018. In 2018-19 their funds were once again used for education programmes including family drop-in activities such as Art Maker, Bags of Art and Portrait Detectives, as well as the Public Lecture programme and Gallery Social programme. In 2014 funding was given to the Scottish National Portrait Gallery for a special commission which has now been completed and in April of 2018 the new painting of James Naughtie by Brendan Kelly was unveiled.

In 2018-19, Patrons generously contributed to the acquisition fund in addition to supporting the Emil Nolde exhibition.

NGS is most grateful to the Friends and Patrons 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. These funds have been used to purchase Artworks to the value of £44,000 during 2018-19.

Trustees' Annual Report (continued)**4 Financial Review****4.1 Introduction**

The financial statements meet the requirements of the Companies Act 2006 and accounting standards issued or adopted by the Accounting Standards Board, so far as they are appropriate. They also comply with SORP 2015, the Statement of Recommended Practice on the preparation of financial statements of charitable organisations.

NGS is required to operate within the financial limits prescribed in the Financial Memorandum laid down by Scottish Government and to follow the Government Financial Reporting Manual (FReM), unless in conflict with the Charity SORP. Thus we are generally not permitted to borrow funds, and our powers to invest are circumscribed.

4.2 Grant in Aid

In relation to the Scottish Government grant in aid offer letter, the actual grant utilised for NGS was:

Grant in Aid	Actual £000	Offer Letter £000
Cash Items		
Running Costs	13,545	13,545
Purchase Grant	200	200
Capital Projects	5,000	5,000
	<u>18,745</u>	<u>18,745</u>
Non-Cash Items (Notional)		
Depreciation	1,150	2,500
Total	<u>19,895</u>	<u>21,245</u>

4.3 Financial Results

The Financial results for 2018-19 are set out in the Consolidated Statement of Financial Activities on page 33.

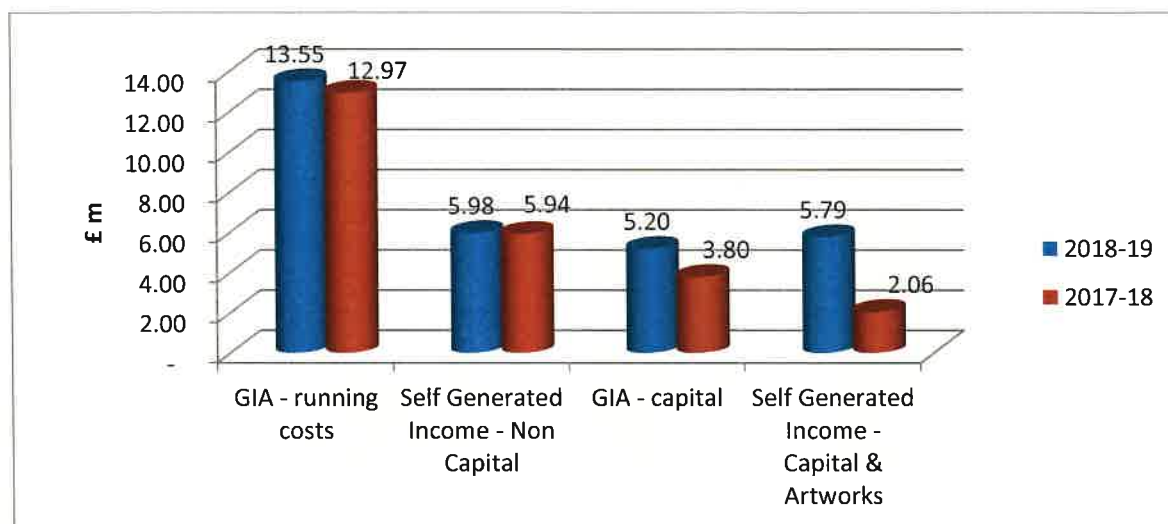
NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Trustees' Annual Report (continued)

Income

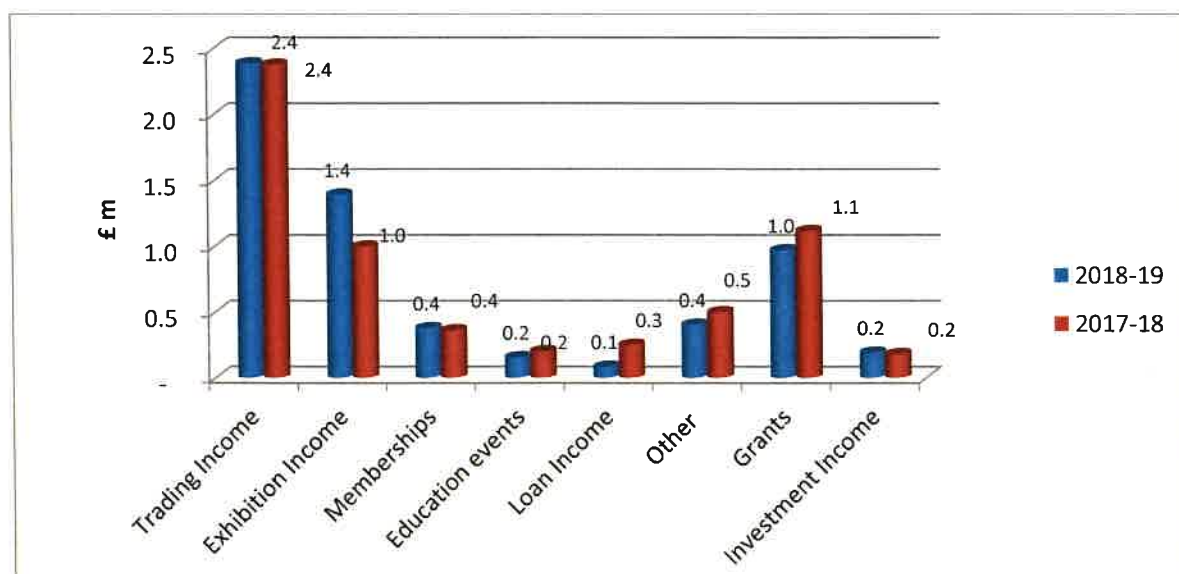
The following graph analyses the major sources of income for NGS in the financial year to 31 March 2019.



The largest source of income for NGS continues to be Grant in Aid (GIA) received from the Scottish Government. In 2018-19 GIA for running costs increased to £13.55m (2017 £12.97m) in support of the implementation of pay policy as directed by the Scottish Government. £5.2m (2017 £3.8m) of GIA was also allocated by the Scottish Government for capital projects, including the SNG Project and additions to the collection.

Donations of and in support of artworks continues to be a material component of NGS's income. New artworks can be funded from cash donations and also transfer of artworks under HM Government's Acceptance in Lieu of Inheritance Tax Scheme. Significant acquisitions included the Lobster Telephone by Salvador Dali and Edward James; and Bird Superior: Portrait of Max Ernst by Leonora Carrington.

Self-generated income (non-capital) has increased slightly by 1% from 2017-18. The impact on income of disruption at the SNG site started to impact the commercial returns, although total turnover has been maintained. Exhibition income includes £0.275m of M&G Tax relief. The graph below shows the major components.



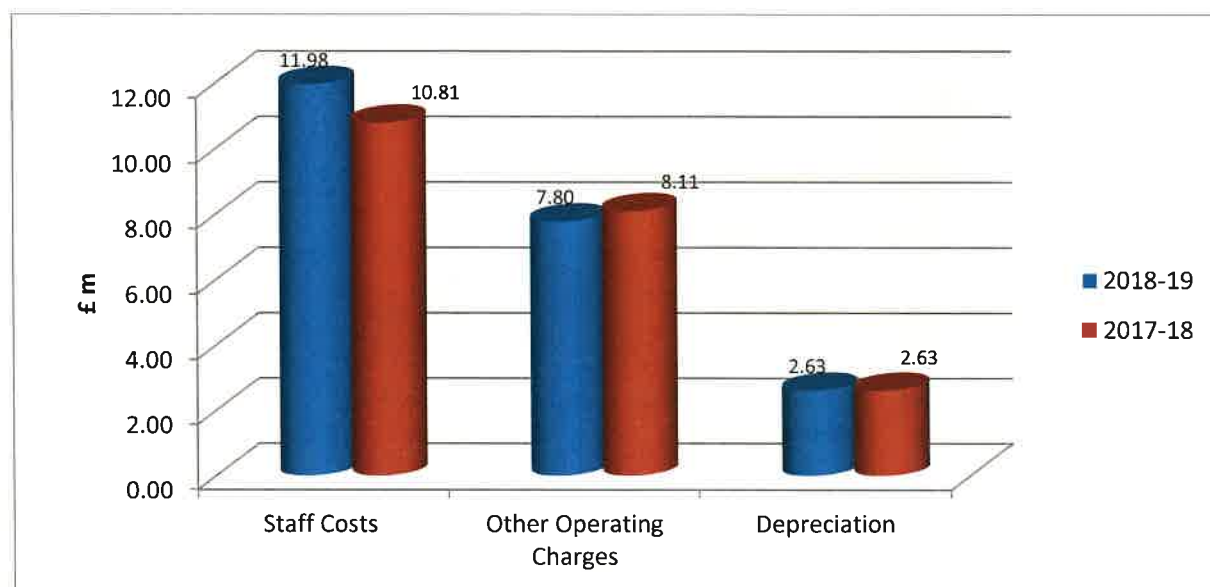
NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

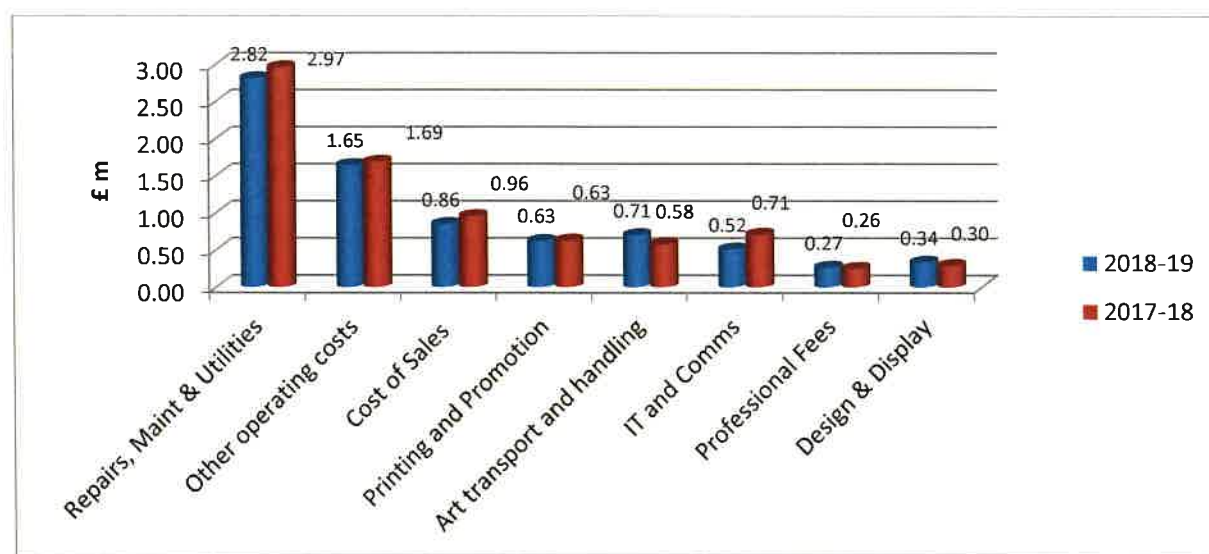
Trustees' Annual Report (continued)

Expenditure

The following graph analyses the major categories of expenditure by NGS in the financial year to 31 March 2019.



Staff costs continue to be the most significant category of expenditure for NGS. Total staff costs increased by £1.1m to £11.98m during 2018-19 (2016-17, £10.86m). The increase primarily arises with the implementation of Scottish Government pay policy in 2018-19, but also with an increase in headcount in support of project activities, compliance requirements and in revenue generating activities. Other operating charges are categorised in the graph below:



Estates & utility costs of £2.8m (2017-18 £2.97m) are lower as the previous year included significant stonework repair costs. IT costs are also lower as the previous year included costs related to work completed to upgrade the WAN and improve IT security and resilience. Other costs have remained steady year on year.

A more detailed analysis of other costs with comparatives is available in note 7 to the Financial Statements on page 45.

Trustees' Annual Report (continued)

4.4 Investments

The Trustees' investment powers are governed by the Charities and Trustee Investment (Scotland) Act 2005. In addition, NGS is subject to regulations and any relevant guidance issued by the Office of the Scottish Charity Regulator. Due to the limited specific Scottish guidance in this area, NGS follows the better developed principles of the Charity Commission of England and Wales, particularly CC14 "Investment of Charitable Funds: Basic Principles". This policy is based primarily on the principles of CC14 and Sections 93 to 95 of the Act in regard to investment powers of trustees. The Audit and Risk Committee is responsible for overseeing the implementation of the NGS Investment Policy, which is based on those principles. An investment management company, Cornelian Asset Managers Ltd, who were appointed in the year to March 2014 remain managers of the investment portfolio of the organisation.

4.5 Reserves & Reserves Policy

The Audit and Risk Committee reviews the Reserves Policy and reserves held at least once a year. This review encompasses the nature of the income and expenditure streams, the need to match potentially variable income streams with largely fixed commitments and the nature of the reserves.

A detailed analysis of NGS's reserves and the movements during the year is set out in note 17 to the Financial Statements, page 54.

The Audit and Risk Committee reviewed the reserves policy during the year and agreed to maintain the level of funds not committed or invested in tangible fixed assets at a minimum holding of £100,000 (2017-18, £100,000).

4.6 Payment of Creditors

It is our policy to pay suppliers within thirty days of invoice date unless alternative payment terms have been agreed. This was achieved on 99% of payments in 2018-19 (2017-18 99%). A 10 day payment initiative was introduced by the Scottish Government in December 2008 and we achieve this with 77% of our creditors (2017-18 91%).

4.7 Risk Management

In accordance with Scottish Government requirements and best practice, NGS operates a risk management policy. The Board of Trustees and Senior Management Team have identified the top ten business risks as follows:

- Organisation is over-committed and does not have the resource to deliver the strategic plan.
- Delay in any element of the major capital programme and the knock-on effect to other projects.
- Implications of Brexit and ongoing uncertainty/volatility with regard to regulation, legislation and funding.
- Damage or loss to the collection.
- Inability to respond quickly enough to the speed and depth of external change and adapt the business model accordingly.
- Failure to meet annual budget targets/increase income to execute business plan.
- Failure to invest adequately in estates.
- Meeting the externally-imposed increases in employment costs (pensions, living wage, NI)
- Security/safety of the collection, estate and people compromised due to inadequate investment in training and resources.
- IT security issues cause loss of services (including cyber).

Those key business risks are being effectively managed by a series of control measures put in place by the Leadership Team. Risk management is monitored by the Audit and Risk Committee.

Trustees' Annual Report (continued)

5 Future Plans

5.1 Aims and Objectives 2019-23

In the last quarter of 2017-18, NGS commenced development of a new shared strategy to help ensure that NGS thrives in the 21st century. Over the course of 2018-19, colleagues worked together to develop the details of this five year strategy. Our vision, Art for Scotland: Inspiration for the World, sits at the heart of the strategy along with three overarching aims.

Increased participation:

- We want to connect with our audiences and with each other in new and collaborative ways.
- We want to reach more people and more diverse groups.
- We want to go further, involving people inside and outside NGS in co-creating work, discussing and debating.

Greater impact:

- We want to make our work both world-class and relevant.
- What we do should make a difference and be admired.
- We want to leave a legacy, having been the best at what we do.

Investment in our future:

- Investment is essential because we need to make the most of our people, knowledge and skills, our collection and buildings.
- We need to create more secure and varied sources of income so that we become more self-sufficient.



Trustees' Annual Report (continued)

Values

Our values define the way we want to go about our work, how we want to work with one another and our partners and audiences. Those values were developed by colleagues across the organisation.

GENEROUS - We share our passion and our knowledge generously; building creative and collaborative relationships with artists, audiences, partners and each other.

RIGOROUS - We strive for excellence and coherence in everything, achieving the very best we can by making the most of every asset.

INQUISITIVE - Our audiences are our inspiration. They stimulate our curiosity. We listen, we question, we play, we imagine.

DARING - We're courageous enough to embrace change, we're brave enough to experiment and bold enough to provoke new ways of seeing.

Drivers

Our Drivers are the areas of work we need to focus on and develop to achieve our aims. There are six drivers in total and they all interconnect.

One Collection - This is about a joined-up approach to making the most of our world-class collection, bringing the various elements of our collection together as one. This will enable us to work more collaboratively, develop our research activities and open up the full range of our collection for audiences across the world.

Our People - This is about creating a plan for making NGS a stimulating and collaborative place to work. We plan to create a better working environment, with greater opportunities for learning and development.

Audience Framework - By understanding who our priority audiences are and what they want and need, we can plan and engage in a more meaningful way with the people we already know, as well as with new groups we want to reach.

Visitor Experience - The Visitor Experience Driver will go further and will look at the whole journey a visitor experiences from the moment they connect with us to the moment they leave, in a rounded way that builds on the audience framework.

Sustainability - This is about our approach to all the aspects of making our organisation fit for success in the long term, financial and environmental. We need to plan for our financial security and self-sufficiency, work more efficiently to reduce our costs and waste and reduce our impact on the environment.

Partnership - This driver will give us a clear definition of how we will develop and expand our relationships with a wide range of partners. We know we can achieve more and better by working with others and this will guide us in our choices of partner to help us to maximise the benefit of our collaborations.

Enablers

All our enablers are essential to everything we do, underpinning the strategy and connecting with one another.

Digital Working - Making the most of opportunities that technology has to offer across everything we do. It allows us to work efficiently and to connect with each other, our partners and our audiences

Trustees' Annual Report (continued)

Collection Care and Management - Looking after and managing our collection, as well as works we have on loan from others, is fundamental to making everything we want to do with the collection possible.

Infrastructure Development - Our infrastructure is the buildings we work in, the technology we use and the facilities that are essential to us and to our visitors every day. The state of our infrastructure is directly related to the quality of collection management and care we can achieve. It is what makes our everyday work possible and allow us to provide the facilities our visitors need and expect.

5.2 Outlook

A strong and vibrant arts sector is a key component to Scotland's tourism and creative sectors and participation in the arts is essential for a healthy society. NGS is already playing a key role in the delivery of the national strategy for Scotland's museums and galleries and will continue to investigate ways in which the collection can be opened up to the widest possible public and enhance Scotland's artistic community.

Collaboration with partners at home and abroad remains crucial to NGS's success and collaborative working opportunities are always being sought. However, NGS continues to operate in an extremely challenging environment within the wider context of government plans to reduce public sector expenditure and increasing competition for private sector support.

Over half of NGS's operating costs are on staff remuneration. NGS remains committed to the Scottish Living Wage as a minimum salary therefore is limited in its ability to reduce costs further. In 2019-20 NGS is able to present a balanced budget however, as costs rise in relation to present or potentially reduced levels of GIA the gap between income and expenditure would arise. Our future financial projections indicate that NGS risks running into a deficit position unless there is a significant change to our patterns of income and funding as well as our cost base.

NGS is therefore developing operational plans to optimize income streams through its trading company, philanthropy, research work and international tours.

NGS also continually reviews its business model, finding more efficient ways of delivering its service and reducing expenditure, while still retaining the quality of the programme. The new Leadership Team is now in place, focusing on one collection, one vision, one brand and one team. This will ultimately aid efficiency and improve working practices. Further work will be done on organisation structure and developing the new strategy during 2019-20.

Visitor figures have improved due to a strong public programme and fundraising efforts will continue to supplement the Grant in Aid and support the public programme activities.

The Capital Projects discussed below are central to this plan.

5.3 Capital Projects

NGS has two major capital projects, one of which is in progress and the other under development: the Scottish National Gallery project is well underway and the idea behind the creation of a new National Collections Facility is evolving as colleagues review the initial design options.

Celebrating Scotland's Art: The Scottish National Gallery project will transform the Scottish National Gallery at the heart of Scotland's capital. The redevelopment will radically improve the way we present our world-class collection of Scottish art, improve visitor access and create a more natural and attractive setting for the Gallery within Princes

Trustees' Annual Report (continued)

Street Gardens while offering an enriched visitor experience. The project will deliver an enhanced commercial performance from the site and improve energy efficiency and increase sustainability. Work began on site in the autumn of 2018 and we aim to complete the project in early 2021.

The National Collection Facility project has the bold vision to create a purpose-built centre in North Edinburgh, Granton to hold Scotland's art collection, with the building also serving as a hub for both research and the local community. The project is moving forward following appointment of a design team in March 2017. It will create a national centre for the care and study of the permanent collection, with wider access for visitors and easier access for staff. The context around the project is also evolving. The Council-led Granton Waterfront Regeneration Framework, which looks at all aspects of development in the North Edinburgh area, will influence the project and NGS is working with this strategic partner to shape and inform long term development in this area of Edinburgh.

6 Structure Governance and Management

6.1 Status & History

The Board of Trustees of NGS 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 audited consolidated financial statements are prepared and submitted. It is a registered charity (Number SC003728).

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.

6.2 Corporate Governance

NGS 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 Cabinet Secretary for Culture, Europe and External Affairs. NGS operates within a strict legislative and regulatory framework underpinned by the National Heritage (Scotland) Act 1985 and the Charities and Trustee Investment (Scotland) Act 2005.

The Board, with a maximum of 12 (minimum of 7) Trustees appointed by the Cabinet Secretary, meets 5-6 times per year. Trustees are recruited by the Scottish Government through an open appointments system and are usually appointed for a single 4 year term with the possibility of reappointment for a second term.

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. Two new members joined the Board in 2018-19: Audrey Carlin and Hannah Rudman.

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 and are given the opportunity to attend the "On Board" training events.

NGS 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. A Trustee Register of Interests is maintained which complies with the requirements of the Ethical Standards in Public Life (Scotland) Act 2002.

Trustees are required to update the register within 28 days of a change in the interests they must register. The current register, which is updated annually, can be viewed on NGS website.

Trustees' Annual Report (continued)

The Board delegates authority on financial matters to an Audit and Risk sub-committee. The Audit and Risk Committee, comprising three trustees with the Director-General, Chief Operating Officer and Director of Finance in attendance, has full delegated authority to take decisions on behalf of the Board. As at 31 March 2019 there were four other sub-committees: the Remuneration Committee, the Major Capital Programme Committee, the Board Review Committee and the Ethics Committee.

The NGS Trading Company Limited (registered in Scotland, SC312797) is managed on behalf of NGS by a Board, with membership drawn from the Board of Trustees, Leadership Team and with an external adviser from the retail sector. The Board was chaired by Trustee Lesley Knox until her retirement from office in October 2018. The Chair was taken over by Benny Higgins, Chairman of the Board of Trustees.

The financial statements of NGS are audited by Audit Scotland, who was appointed by the Auditor General for Scotland. Audit Scotland's remuneration for 2018-19 is set as £23,010.

The Director-General is satisfied that there is no relevant audit information of which NGS's auditors are unaware.

6.3 Equal Opportunities and Diversity

NGS complies with the Equality Act 2010 and the specific equality duties outlined for Scottish public bodies. In line with the duties, NGS has established a set of equality outcomes to work towards. Those were first set out in 2013 and are updated biennially along with a report on progress against these outcomes, a report on our efforts to mainstream equalities in the work that we do, statements on the gender pay-gap and employee equality statistics. The reports and relevant statistical data which support this approach are available on the NGS website.

It is NGS's policy to treat all job applicants and employees fairly and equally, regardless of their age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex or sexual orientation. NGS monitors the composition of the workforce and will undertake positive action if it appears that this policy is not fully effective.

6.4 Health and Safety

The Trustees acknowledge their legislative responsibility for, and their commitment to, a management policy that ensures matters relating to the health and safety of visitors, staff, volunteers, those working on a self-employed and agency contract basis, and contractors will receive due priority for action at all times. Responsibility also lies with individual members of staff, their representative unions, those working on a self-employed and agency contract basis, and contractors to give their full attention and co-operation to the implementation of this policy to enable NGS to provide a safe and healthy environment which nurtures wellbeing at all times. NGS employs a Health and Safety Manager to oversee the implementation, monitoring, auditing and improvement of the management policy. NGS's employee assistance programme provides confidential counselling, practical support, advice and information aimed at helping staff to come to terms with personal and family or work-related problems. The service is available to all employees and their immediate dependents, 24 hours a day, 365 days a year; access is via a free telephone line.

6.5 Sustainability policy

NGS gives full consideration to environmental matters when managing operations and is currently developing a new overall strategy for the organisation with Sustainability identified as one of our key six drivers. This will put environmental stewardship at the heart of our operations; from how we run our buildings, engaging with visitors, our procurement processes and how we influence our communities both local and international.

This commitment is reflected in the NGS Carbon Management Plan 2018-2022 which sets the ambitious target of reducing our carbon emissions by 60% by 2022 having already reached previous reduction targets ahead of schedule. Our Environmental Policy covers all areas which NGS can improve and influence through our activities

Trustees' Annual Report (continued)

such as reducing pollution, energy and water consumption, improving active staff travel and recycling. NGS commits funding each year to carbon reduction projects throughout the estates to address these activities.

We have now formed an NGS Green Team with a remit to help the organisation and colleagues adopt better and more environmentally friendly working practises. Over 40% of our fleet is now electric vehicles including the introduction of a fully electric low floor minibus, the first of its kind in Scotland. Improved waste management across the estate has resulted in a large increase in the quantity and quality of waste which is now recycled. A wide array of carbon reduction projects are planning for the current year to help improve our sustainability as an organisation.

6.6 *Sickness Absence Data*

For the 12 month period from 1 April 2018 to 31 March 2019, 3.78% of working days were lost as a result of sickness absence (2017-18, 3.17%).

6.7 *Data Handling*

There has been much work undertaken in response to the requirements of the General Data Protection Regulation and Data Protection Act 2018. This has involved the introduction of new, or changes to existing, policies and procedures, refreshing consent for electronic marketing, a review of supplier contracts and revised templates, updates to employment terms and conditions, roll-out of a new data protection impact assessment procedure, publication of privacy notices for different processing purposes, briefing sessions and guidance documents for staff and the creation of a record of processing activity.

Three personal data breaches were reported to the Information Commissioner, none of which have required any additional action from NGS.

Special categories data is processed by NGS for employment purposes, including trade union membership, occupational health information, some equalities characteristics and potentially criminal convictions data via disclosure certificates. In line with the requirements of the Data Protection Act 2018 we are in the processing of preparing the required special policy documents to justify this processing.

NGS prepared a records management plan as required under the Public Records (Scotland) Act 2013 along with a suite of policies, procedures and training materials covering a wide range of subjects, some directly related to data handling. The Records Management Plan has been approved by the Keeper of the National Records of Scotland and is being implemented across NGS under the management of our Records & Information Manager. An Information Management Handbook has been prepared and is being rolled-out to staff.

6.8 *Accountable Officer*

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

NATIONAL GALLERIES OF SCOTLAND
TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Trustees' Annual Report (continued)

7 Reference and Administration details

7.1 Trustees: 1 April 2018– 31 March 2019

Benny Higgins (Chairman)
Tricia Bey (Chair, Major Capital Programme Committee)
Audrey Carlin (from 1 October 2018)
Alistair Dodds (Chair, Audit and Risk Committee and Deputy Chairman)
Edward Green
Lesley Knox (Chair, Trading Company Board) (until 30 September 2018)
Tari Lang
Catherine Muirden (Chair, Remuneration Committee)
Professor Nicholas Pearce
Hannah Rudman (from 1 October 2018)
Willie Watt
Nicola Wilson (until 30 September 2018)

All Trustees serving at 31 March 2019 continued to be serving Trustees up to and on the date the Financial Statements were signed. The operational management of NGS is delegated by the Board of Trustees to the Director-General and his Leadership Team.

7.2 Leadership Team: 1 April 2018 – 31 March 2019

Sir John Leighton	Director-General
Professor Chris Breward	Director of Collection & Research
Nicola Catterall	Chief Operating Officer (to 13 December 2018)
Jacqueline Ridge	Director of Conservation & Collection Management
Jo Coomber	Director of Public Engagement
Bryan Robertson	Chief Operating Officer (from 17 December 2018)

There are three specialist sub-groups of the Leadership Team. The Collection Committee oversees acquisitions and loans and supports collections management matters. The Public Programme Committee directs and manages the public programme. The Programme Steering Board oversees the strategy and priorities for investment in capital projects and manages resource allocation across projects and general NGS business delivery.

For details of staff numbers employed in 2018-19, see Note 6 in the Notes to the Financial Statements.

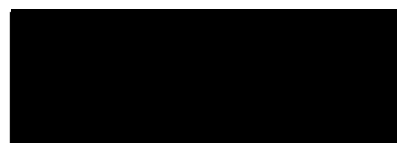
NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Trustees' Annual Report (continued)

7.3 Principal Advisers and Auditors

Bankers:	Royal Bank of Scotland 36 St Andrew Square Edinburgh EH2 2AD	Bank of Scotland The Mound Edinburgh EH1 1YZ	
Legal Advisers:	Turcan Connell Princes Exchange 1 Earl Grey Street Edinburgh EH3 9EE	CMS Scotland Saltire Court 20 Castle Terrace Edinburgh EH1 2EN	Brodies LLP 15 Atholl Crescent Edinburgh EH3 8HA
Internal Auditors:	TIAA (until June 2018) 53-55 Aerodrome Road Gosport PO13 0FQ	MHA Henderson Loggie (from June 2018) The Vision Building 20 Greenmarket Dundee DD1 4QB	
Independent Auditors:	Audit Scotland 4 th Floor 102 West Port Edinburgh EH3 9DN		
Taxation:	Scott Moncrieff Exchange Place 3 Semple Street Edinburgh, EH3 8BL		
Investment Managers:	Cornelian Asset Managers Ltd 30 Charlotte Square Edinburgh, EH2 4ET		



Benny Higgins
On behalf of the Board of Trustees
National Galleries of Scotland

10 September 2019



Sir John Leighton
Accountable Officer

10 September 2019

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Statement of Trustees' and Accountable Officer's Responsibilities

The trustees are responsible for preparing the Trustees' Report and the financial statements in accordance with the National Galleries (Scotland) Act 1906, as amended by the National Heritage (Scotland) Act 1985, and directions made thereunder by the Scottish Ministers. The financial statements are prepared on an accruals basis and must give a true and fair view of the state of affairs of National Galleries of Scotland and of its net movement in funds, total net assets and cash flows for the financial year.

The Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 require the Trustees to prepare financial statements for each financial year. Under those laws, the trustees have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under those laws, the trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the charity and of the incoming resources and application of resources of the charity for that period. In preparing these financial statements, the trustees are required to:

- Select suitable accounting policies and apply them consistently;
- State that applicable UK Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" as interpreted by the Charities' SORP, have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgments and estimates on a reasonable basis;
- Observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business;
- Keep accounting records that are sufficient to show and explain the charity's transactions and disclose with reasonable accuracy at any time the financial position of the charity; and
- Safeguard the assets of the charity and take reasonable steps for the prevention and detection of fraud and other irregularities.

The Principal Accountable Officer for the Scottish Government has appointed the Director-General as the Accountable Officer for National Galleries of Scotland. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding National Galleries of Scotland's assets, are set out in the Scottish Public Finance Manual and the Framework Document.

The Director General is satisfied that there is no relevant audit information of which the entity's auditors are unaware.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Governance Statement

Introduction

The National Galleries of Scotland is committed to best practice in all aspects of corporate governance. The corporate governance framework is set out in section 6.2, page 19 of the Trustee's report. This statement describes the principal governance provisions which currently apply.

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 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 designed to ensure compliance with statutory and parliamentary requirements, promote value for money, 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 on-going process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The process within the organisation accords with the SPFM and has been in place for the year ended 31 March 2019 and up to the date of approval of the financial statements and accords with guidance from the Scottish Ministers.

Discharge of Board Responsibilities

To discharge its responsibilities, the Board of Trustees met five times in 2018-19. The Trustees received reports from the Director-General, quarterly management accounts and key performance measures, strategic risk register, minutes of sub-committee meetings and gallery reports on collection matters (including acquisitions and loans and delivery of the public programme). The Board regularly discusses matters of strategic importance and input to the development of the strategic plan.

Significant matters considered by the Board during the year:

- Scottish National Gallery project (progress reports and discussions on redesign/costs)
- National Collection Facility project (development proposals and progress reports)
- Ethics (a new sub-committee was formed in relation to ethical fundraising challenges, sponsors and donors)
- National Culture Strategy
- Partnership strategy and collaboration across Scotland
- Open access to the collection (digital image sharing)
- Strategy discussions focussing on audience development, partnership, sustainability and collection.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Governance Statement (continued)

The Board of Trustees delegates responsibility to a number of sub-committees, which are charged with carrying out more detailed scrutiny in areas of strategic importance:

Audit & Risk Committee
Remuneration Committee
Ethics Committee

Major Capital Programme Committee
Board Review Committee

The Board of Trustees is also represented on the Trading Company Board and the Research Committee.

The Board has been supporting the Leadership Team in the development of a revised organisation strategy. The strategy centres around six drivers: Audience Framework, One Collection, Our People, Sustainability, Visitor Experience and Partnerships. Those drivers support the core vision, Art for Scotland: Inspiration for the World. Development of the revised strategy will be completed in 2019-20, full details of which can be found in the Trustee Report.

Audit & Risk Committee

The Audit & Risk Committee has full delegated authority from the Board to review and challenge all matters relating to financial management of NGS and oversee risk management and internal control. The Director-General, as Accountable Officer, the Chief Operating Officer and Director of Finance all attend the meetings to advise the Trustees and respond to questions. External and internal auditors may also attend the meetings. The Committee met four times during the financial year, chaired by Alistair Dodds, Trustee. Major items of business were as follows:

- Quarterly review of performance against strategic objectives, management accounts for NGS and the Trading company, risk register, and investment performance
- An in-depth review of the risks for Estates, IT Security
- Review of Trading Company business plan and loan facility arrangements
- Annual review of performance of investment manager
- Review of internal audit reports (see below)
- Review of annual accounts and external audit report
- Quarterly review of financial and risk aspects of major capital projects
- Five year financial projections
- Project governance
- Review of compliance with the new Data Protection regulations

During the course of 2018-19, following a tender process, Henderson Loggie (HL) was appointed internal auditor. A number of internal audits were agreed and carried out by HL as follows:

- Storage and security of collections
- Procurement, Creditors and purchasing
- Estates Strategy and capital projects
- Partnership
- Public Engagement/Education

In addition the previous internal auditor, TIAA, completed its audit programme including the following reports:

- Loans and acquisitions
- Development
- Risk management

Reports were produced for each of those audits, management responses collated and outputs scrutinised by the Audit & Risk Committee. An annual Follow-up audit report was also reviewed and an audit plan for 2018-19 considered, as agreed during the tender process.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Governance Statement (continued)

Major Capital Programme Committee

The Major Capital Programme Committee oversees the programme of major capital projects and ensuring alignment with corporate strategy. Its main purpose is to ensure that the Scottish National Gallery Development project and the National Collection Facility project are fully aligned with one another and with NGS resources and that the overall programme delivers what the organisation needs.

The Committee met four times during the financial year, chaired by Tricia Bey, Trustee. Major items of business were as follows:

- Consideration of the re-design and revised costs of the Scottish National Gallery project, including a joint meeting with the Audit & Risk Committee to discuss financial and risk implications.
- Consideration of key supplier risks
- Review of project governance
- Overview of risk and capital projects schedule (with emphasis on resource management)
- NCF design and funding challenges
- SNG Fire Safety
- NCF delays and impact on resource management

Remuneration Committee

The Remuneration Committee is responsible for considering an overall remuneration policy which is aligned with NGS's long term strategy, its objectives, risk appetite, values and long-term interests. It is also responsible for advising and supporting NGS staff on all matters relating to employment and conditions.

The Committee met twice during the year, chaired by Catherine Muirden, Trustee. Major items of business were as follows:

- Pay negotiations with Trade Unions
- Director-General's contractual arrangements
- Development of strategic drivers
- Equal pay
- Employment of senior staff (Chief Operating Officer and Director of HR)

Board Review Committee

The Board Review Committee is responsible for reviewing the effectiveness of the Board of Trustees and ensuring an appropriate set of skills across the Board, identifying gaps and feeding into new appointment criteria. The Committee did not meet formally in 2018-19, however members played an important role in the appointment of two new trustees. The committee is chaired by the Chairman of the Board, Benny Higgins.

Ethics Committee

The new Ethics Committee is responsible for monitoring ethical issues in relation to fundraising, donations and gifts, investments and partnerships and reviewing allegations of misconduct/breaches in relation to the ethics policy. It was formed in 2018 and meets on an ad hoc basis as need arises. The committee is chaired by the Chairman of the Board, Benny Higgins.

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 has a risk management policy in place. Risk management practice is led by the Director-General under the guidance of the Chairman of the Audit and Risk Committee. In accordance with this policy NGS monitors its business risks on two levels: Project and Strategic level.

Governance Statement (continued)

Key strategic risks have been identified and are effectively managed by a series of control measures put in place by the Leadership Team. Our approach to mapping risk overall has been reviewed by TIAA through internal audit and a consistent process is now in place at strategic level and for all major projects. Further work is required to improve the integration of risk processes with strategic planning and operational management across the organisation and develop a more robust approach towards risk appetite.

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. Effective measures for managing risk are in place for key operational areas such as health & safety and business continuity.

The General Data Protection Regulation (GDPR) has significant implications for NGS as a data controller. In 2018-19 NGS appointed a Data Protection Officer who ensured that NGS was compliant with the new regulation. A risk-based approach was taken to prioritise compliance activity, starting with a comprehensive audit of personal data processing across the organisation. Since the new regulation came into force, NGS has reported three data breaches to the Information Commissioner's Office. In each case the risk was considered low. There was one personal data related incident. NGS was advised to review procedures to avoid recurrence.

Review of Effectiveness

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

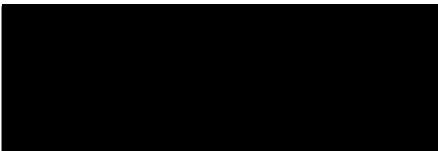
- the Directors within the organisation who have responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors, who submit to the organisation's A&R Committee regular reports including the Internal Auditor's independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement. For the areas reviewed in 2018-19, the Internal Auditor issued an opinion of 'reasonable assurance' that effective risk management, control and governance processes are in place;
- the work of the external auditors and comments included in their management letters

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. Following a review of internal systems and risks in 2018-19 I would like to draw attention to the following matters:

- Management and care of the collection are paramount to NGS. Our existing Granton Art Store is not large enough to store our existing collection resulting in artworks being stored in inappropriate conditions which may put the items at risk. Only 53% of our gallery/storage spaces meet minimum standards for environmental conditions for the collection. Finding a solution to this is a top priority for the Board of Trustees. The proposed creation of a new National Collection Facility at Granton will concentrate our facilities for preservation, research, storage and distribution onto one site whilst providing state of the art spaces for to research of the collections. As art and staff are displaced by the Scottish National Gallery renovation project, NGS has also taken the opportunity to adapt spaces elsewhere on the estate to make some improvements in collection care conditions. Approval was also granted in the year to enter into a new lease agreement for a purpose-built storage facility as an interim solution over the next 5 years.
- NGS's large, ageing estate of listed buildings with increasing visitor footfall necessitates increased capital investment at a time of funding constraints. NGS is striving to deliver an ambitious programme of capital projects, as described in section 5.3 of the Trustees report, and a quinquennial maintenance schedule to address this. Both of these initiatives carry inherent risk. In order to effectively review the challenges of managing the NGS estate, an external consultant has been engaged to review the buildings and capacity. This will be considered in detail in 2019-20 and will inform the development of the National Collection Facility.

Governance Statement (continued)

- The construction phase of the Scottish National Gallery project started in 2018-19. There have been a number of construction challenges linked to working with a Heritage Site and this has had led to increasing costs and impact on both staff and financial resources. The project remains on track to complete in 2021. The additional challenges and inevitable delays have had a knock-on effect on delivery of the National Collection Facility project due to resourcing constraints.
- NGS continues to review its business model to help manage the risks and changes in patterns of funding and their impact on levels of activity and visitor services. Financial forecasts to 2024 have been prepared which will inform the development of a 5 year business plan from 2019. These plans will go some way towards addressing the risks, however as NGS becomes increasingly dependent on variable discretionary income sources, the risk of not covering our substantial fixed cost base increases.
- Staff costs are by far the biggest running cost incurred by NGS, representing close to 90% of our revenue grant-in-aid. Even with relatively static core headcount and more externally funded posts, we have experienced unavoidable increases due to Scottish Government pay and pensions policy. In addition the impact of universal statutory living wage is increasing NGS staff costs further.
- NGS is managing the growing gap between increased visitor numbers and public expectations and what NGS can actually deliver with ongoing pressure on resources. The increased workloads in combination with ongoing pay constraints have an impact on staff morale, which in turn impacts on staff recruitment and retention.
- NGS is undergoing significant organisational and cultural transformation in order to improve its long term resilience and impact and with this comes an inherent level of disruption and risk. This is being monitored and managed by the Leadership Team and supported by investment in skills development across the organisation. A Workforce Planning strategy, as part of the "Our People" driver, is under development to support this change. In addition, a new Project Office has been established and a Director of HR appointed to support a more effective and efficient approach to project and resource management and wider organisation development.
- Fraud attempts from external parties have become increasingly common and more sophisticated. Whilst NGS has not fallen victim to any scams during the year, we have tested the adequacy of our security systems and response to potential cyber-attack through an internal audit. NGS is committed to achieving cyber-essential accreditation. A programme is in place to review NGS's cyber security following the recommendations of the internal audit report.
- Heightened awareness of the vulnerability of public collections following recent incidents at major institutions such as the Glasgow School of Art and Notre Dame means that NGS has to be especially vigilant with its approach to risk management and disaster planning. The very public profile of NGS gives an additional challenge in meeting public expectations, with the current complex governance model meaning that responding quickly to an incident or negative publicity can be difficult. The risk approach will be reviewed in 2019-20.
- In 2018-19 the Leadership Team embarked on the development of a revised strategy with a focus on six drivers: Audience Framework, Sustainability, Partnership, Collection, People and Visitor Experience. As this strategy evolves it will be aligned with our key performance indicators and risk management strategy. This will aid efficiency and give the organisation clearer direction and focus.



Sir John Leighton
Accountable Officer
10 September 2019

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Independent auditors' report to the members of the National Galleries of Scotland, the Auditor General for Scotland and the Scottish Parliament

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the trustees' annual report and financial statements of National Galleries of Scotland and its group for the year ended 31 March 2019 under the National Galleries of Scotland Act 1906 as amended by the National Heritage (Scotland) Act 1985 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Consolidated Statement of Financial Activities, the Consolidated Balance Sheet, the Balance Sheet, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the National Galleries of Scotland Act 1906 as amended by the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers of the state of the affairs of the body and its group as at 31 March 2019 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the National Galleries of Scotland Act 1906 as amended by the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 18 July 2016. The period of total uninterrupted appointment is three years. I am independent of the body and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

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

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

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Independent auditors' report to the members of the National Galleries of Scotland, the Auditor General for Scotland and the Scottish Parliament

Responsibilities of the Accountable Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

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

Other information in the annual report and accounts

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

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

Report on regularity of expenditure and income

Opinion on regularity

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

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Independent auditors' report to the members of the National Galleries of Scotland, the Auditor General for Scotland and the Scottish Parliament

Responsibilities for regularity

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

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

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

- the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Galleries of Scotland Act 1906 as amended by the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Galleries of Scotland Act 1906 as amended by the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers.

Matters on which I am required to report by exception

I am required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the trustees' annual report and financial statements, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.



Asif A Haseeb OBE
4th Floor
102 West Port
Edinburgh
EH3 9DN

1 September 2019

Asif A Haseeb OBE is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Consolidated Statement of Financial Activities for the Year Ended 31 March 2019

	Note	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total 2019 £000	Total 2018 £000
Income						
Grant in Aid	3	18,745	-	-	18,745	16,770
Donations and Legacies	2	595	5,699	-	6,294	2,415
Income from Charitable Activities	2	2,290	527	-	2,817	2,906
Other Trading Activities	2	2,462	-	-	2,462	2,497
Income from Investments	2	29	132	33	194	182
Total Income and Endowments		24,121	6,358	33	30,512	24,770
Expenditure						
Expenditure on Raising Funds	4	(2,559)	-	-	(2,559)	(2,369)
Expenditure on Charitable Activities	4	(16,447)	(773)	-	(17,220)	(16,553)
Depreciation	4	(2,628)	-	-	(2,628)	(2,634)
Total Expenditure		(21,634)	(773)	-	(22,407)	(21,556)
Net Gains/(Losses) on Investment Assets		-	10	2	12	(9)
Net Income/(Expenditure)		2,487	5,595	35	8,117	3,205
Transfers Between Funds	17	44	22	(66)	-	-
Depreciation Release	17	1,616	(1,616)	-	-	-
Other Recognised Gains and Losses						
Gains/(Losses) on Revaluation of Fixed Assets	17	-	651	-	651	3,950
Net Movement in Funds		4,147	4,652	(31)	8,768	7,155
Reconciliation of Funds						
Total Funds b/f at 1 April	17	84,198	248,586	1,024	333,808	326,653
Total Funds c/f at 31 March	17	88,345	253,238	993	342,576	333,808
Total Fund Balances Made Up By						
General Fund	17	119	-	-	119	282
Capital Assets Fund	17	87,943	-	-	87,943	83,604
General Fund Revaluation Reserve	17	-	36,641	-	36,641	36,129
General Fund Capital Reserve	17	-	30,580	-	30,580	30,580
Donated Asset Reserve	17	-	181,039	-	181,039	177,112
Trust Funds & Bequests (incl. Purchase Fund)	17	284	4,977	993	6,254	6,101
Total Fund Balances		88,345	253,238	993	342,576	333,808

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

The notes on pages 37-59 form part of the financial statements

NATIONAL GALLERIES OF SCOTLAND
TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Consolidated Balance Sheet as at 31 March 2019

		Total 2019	Total 2018
	Note	£000	£000
Fixed Assets			
Intangible Assets	10	261	448
Tangible Assets	8	131,001	126,426
Heritage Assets	9	204,643	200,371
Investments	11	4,790	4,777
		<u>340,695</u>	<u>332,022</u>
Current Assets			
Stocks	12	670	662
Debtors: amounts falling due within one year	13	2,192	1,097
Cash at bank and in hand	14	3,097	4,760
		<u>5,959</u>	<u>6,519</u>
Creditors: amounts falling due within one year	15	<u>(3,979)</u>	<u>(4,641)</u>
Net Current Assets		1,980	1,878
Total Assets less Current Liabilities		<u>342,675</u>	<u>333,900</u>
Provisions for liabilities and charges	16	(99)	(92)
Total Net Assets		<u><u>342,576</u></u>	<u><u>333,808</u></u>
Represented by:			
Unrestricted Reserves			
Designated	17	88,245	84,098
Undesignated	17	100	100
Restricted Reserves	17	253,238	248,586
Total Funds		<u>341,583</u>	<u>332,784</u>
Capital Funds – Permanent Endowments	17	993	1,024
Total Charity Funds		<u><u>342,576</u></u>	<u><u>333,808</u></u>

The financial statements on pages 33 – 60 were approved by the Accountable Officer and Board of Trustees on 10 September 2019 and authorised for issue on the same date.



Benny Higgins
On behalf of the Board of Trustees
10 September 2019



Sir John Leighton
Accountable Officer
10 September 2019

The notes on pages 37-59 form part of the financial statements


NATIONAL GALLERIES OF SCOTLAND
TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Balance Sheet as at 31 March 2019

	Note	Total 2019 £000	Total 2018 £000
Fixed Assets			
Intangible Assets	10	261	448
Tangible Assets	8	130,909	126,377
Heritage Assets	9	204,643	200,371
Investments	11	4,790	4,777
		<u>340,603</u>	<u>331,973</u>
Current Assets			
Debtors: amounts falling due within one year	13	2,401	1,342
Cash at bank and in hand	14	3,021	4,311
		5,422	5,653
Creditors: amounts falling due within one year	15	(3,900)	(4,517)
Net Current Assets		1,522	1,136
Debtors: amounts falling due after one year	13	473	546
Total Assets less Current Liabilities		342,598	333,655
Provisions for liabilities and charges	16	(87)	(89)
Total Net Assets		<u><u>342,511</u></u>	<u><u>333,566</u></u>
Represented by:			
Unrestricted Reserves			
Designated	17	88,180	83,856
Undesignated	17	100	100
Restricted Reserves	17	253,238	248,586
Total Funds		341,517	332,542
Capital Funds – Permanent Endowments	17	993	1,024
Total Charity Funds		<u><u>342,511</u></u>	<u><u>333,566</u></u>

The financial statements on pages 33 – 60 were approved by the Accountable Officer and Board of Trustees on 10 September 2019 and authorised for issue on the same date.


Benny Higgins
On behalf of the Board of Trustees
10 September 2019


Sir John Leighton
Accountable Officer
10 September 2019

The notes on pages 37-59 form part of the financial statements

NATIONAL GALLERIES OF SCOTLAND
TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Consolidated Statement of Cash Flows for the Year Ended 31 March 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities:			
Net cash generated from operating activities	18	<u>4,851</u>	<u>4,223</u>
Cash flows from investing activities:			
Dividends and interest received		194	181
Purchase of artworks		(342)	(667)
Purchase of property, plant and equipment		(6,366)	(3,042)
Proceeds from the sale of property, plant and equipment		<u>-</u>	<u>-</u>
Net cash used in investing activities		<u>(6,514)</u>	<u>(3,528)</u>
Change in cash and cash equivalents in the reporting year		<u><u>(1,663)</u></u>	<u><u>695</u></u>
Analysis of changes in net funds:			
Cash and cash equivalents at the beginning of the reporting year	14	4,760	4,065
Cash and cash equivalents at the end of the reporting year	14	<u>3,097</u>	<u>4,760</u>
Change in cash and cash equivalents in the reporting year		<u><u>(1,663)</u></u>	<u><u>695</u></u>

The notes on pages 37-59 form part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting Policies

a) Basis of Accounting

The Financial statements have been prepared in accordance with the Accounts Direction given by Scottish Ministers which is produced as an appendix to these financial statements.

NGS have adopted the Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102) (effective 1 January 2015).

The financial statements include the activities and balances of NGS grant-aided activities and its Trust Funds and Bequests, which are under the control of the Board of Trustees.

Without limiting the information given, the financial statements meet the requirements of the Companies Act 2006 and applicable Accounting Standards in the United Kingdom, issued or adopted by the Accounting Standards Board so far as they are appropriate, including the Charities Statement of Recommended Practice (SORP 2015), and the Charities Accounts (Scotland) Regulations 2006 and Charities and Trustee Investment (Scotland) Act 2005. They also comply with the Government Financial Reporting Manual (FReM).

Accounting policies have been consistently applied in these financial statements.

b) Going Concern Basis

The financial statements have been prepared on the going concern basis. The anticipated income from government grant and self-generated income will be sufficient to meet NGS's on-going expenses.

c) Basis of Consolidation

The financial statements consolidate those of NGS and its subsidiary company, NGS Trading Company Ltd. The financial statements are consolidated on a line by line basis for assets and liabilities.

d) Tangible Fixed Assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation, except in the case of land and buildings where assets are revalued every five years and are shown at revalued cost less accumulated depreciation.

NGS acquired the title to the Scottish National Gallery 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 NGS in August 2004.

The title to the Scottish National Portrait Gallery administered by the Trustees remains with the Scottish Ministers.

The Scottish National Gallery of Modern Art (Modern One) and its associated lodges were gifted to NGS in March 2005 by the Art Galleries of Scotland Foundation. The Scottish National Gallery of Modern Art (Modern Two) is held on a 125-year lease at £1 per annum, which commenced on 28 April 1995. The Bridge Lodge is owned by NGS.

1 Accounting Policies (continued)

The method of valuation for specialised buildings for which there is effectively no market price is depreciated replacement cost. A formal revaluation is carried out every five years in line with the review of fixed assets to ensure fitness for purpose.

In years between formal valuations, buildings are revalued at depreciated replacement cost, by the use of appropriate cost indices applied to historic cost. Non-specialised use buildings (e.g. the lodge buildings at the Scottish National Gallery of Modern Art) have been valued at existing use value.

Assets acquired from Grant in Aid are capitalised in the financial statements and are depreciated on a straight line basis over their estimated useful lives at rates calculated to write off the cost or valuation of each asset as follows:

- Land - not depreciated
- Buildings and Improvements - up to 86 years
- Assets Under Construction - not depreciated
- Office Equipment and Computing - 4 years
- Fixtures and Fittings - 6 years
- Vehicles - 4 years

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

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

e) Heritage Assets

In line with the requirements of the Government Financial Reporting Manual (FReM), additions to the collections of NGS from 1 April 2000 have been capitalised at purchase price or value of the acquisition where such a value is reasonably obtainable. Such items are not depreciated or revalued as a matter of routine as the assets are deemed to have indeterminable lives. Expenditure to conserve the works is included under charitable activities in the SOFA.

The gallery collections are defined as non-operational heritage assets. The collection existing at 31 March 2000 has not been capitalised and the Trustees do not consider that the cost of valuing this part of the collection is commensurate with the benefits to the users of the financial statements.

Capitalised gallery collection items are valued at cost or value of the acquisition. Where the acquisition is part donation, part purchase the asset is capitalised at current value on receipt. These items are not depreciated or revalued as a matter of routine as the assets are deemed to have indeterminable lives.

Works donated by third parties by way of funds for the asset are capitalised at current value on receipt.

f) Intangible Assets

Intangible fixed assets are stated at historic purchase cost less accumulated depreciation.

Intangible assets acquired are capitalised in the financial statements and are amortised on a straight line basis over their estimated useful lives, as follows:

- Computer Software - 4 years
- Website – 4 years

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1 Accounting Policies (continued)

g) 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 2015, all incoming resources are accounted for in the Statement of Financial Activities. All grant-in-aid is shown in the Statement of Financial Activities, and that portion which is deemed as capital is transferred to the Capital Assets Fund, 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.

Receipts from grant awarding trusts are credited to income in the year in which they are receivable. Any portion which is applied to capital expenditure is credited to the donated assets reserve and amortised over the expected useful lives of the assets acquired and released to the Income and Expenditure Account over the corresponding period.

h) 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 includes both costs which can be allocated directly to such activities and those costs of an indirect nature necessary to support them.

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.

i) Subsidiary Company

National Galleries of Scotland owns the share capital of one subsidiary company, NGS Trading Company Limited, 73 Belford Road, Edinburgh EH4 3DS.

j) Investments

NGS 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 2015). The investment policy is determined by the Audit and Risk Committee and is reviewed on a periodic basis.

k) Pensions

Pension contributions payable by NGS are expensed as incurred. Note 6 provides further details on the pension arrangements.

1 Accounting Policies (continued)

l) Stocks

Stocks are valued at the lower of cost or net realisable value. Cost valuation is based on a FIFO basis. Where goods are identified as slow moving or damaged and their realisable value is lower than cost, write downs are made against those specific lines.

m) 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 to expenditure.

The taxable profits of NGS Trading Company Limited are paid to NGS under Gift Aid rules.

n) Leases

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.

o) Deferred Income

Incoming resources relating to the future provision of services are deferred until the services are provided and entitlement to the income is earned.

p) Key Judgements and Estimates

In the years between formal valuations, NGS's buildings are revalued using the BCIS All-in Tender Price Index. Donated Heritage Assets are valued on receipt by staff who have relevant skills knowledge and experience, or by a similarly qualified external valuation expert.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2 Analysis of Total Income

	Unrestricted Funds	Restricted Funds	Endowment Funds	Total Group 2019	Total Group 2018
	£000	£000	£000	£000	£000
Grant in Aid	18,745	-	-	18,745	16,770
Donations and Legacies					
Grants – Capital Projects	-	1,404	-	1,404	-
Donations – Capital Projects	397	1	-	398	3
Donations – Artworks	-	3,983	-	3,983	2,058
Donations - Exhibitions	-	246	-	246	141
Other	198	65	-	263	213
Total Income from Donations and Legacies	595	5,699	-	6,294	2,415
Income from Charitable Activities					
Grants – Other	445	527	-	972	1,117
Exhibition admission fees	804	-	-	804	700
Museum & Galleries Exhibition Tax Relief	275	-	-	275	-
Income from loans out	86	-	-	86	252
Educational events	158	-	-	158	204
Memberships	380	-	-	380	363
Other	142	-	-	142	270
Total Income from Charitable Activities	2,290	527	-	2,817	2,906
Other Trading Activities					
NGS Trading Company Income	2,392	-	-	2,392	2,381
Sponsorship – Exhibitions	70	-	-	70	116
Total Income from Other Trading Activities	2,462	-	-	2,462	2,497
Income from Investments					
Dividends	5	132	33	170	179
Interest	24	-	-	24	3
Total Investment Income	29	132	33	194	182
Total Income	24,121	6,358	33	30,512	24,770

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

3 Grant in Aid

	Group & NGS 2019 £000	Group & NGS 2018 £000
Grant in Aid Received		
Running Costs	13,545	12,970
Capital Projects	5,000	3,450
Murray Mackinnon	-	150
Purchase Grant	200	200
Total Grant in Aid Received	18,745	16,770

4 Analysis of Total Expenditure

	2019 £000	2018 £000
Staff Costs	11,982	10,809
Other Operating Costs	7,797	8,113
Depreciation & Amortisation	2,628	2,634
Total Expenditure	22,407	21,556

	Direct Costs £000	Support Costs £000	Group 2019 £000	Group 2018 £000
Raising Funds				
Cost of fundraising	442	-	442	462
Cost of NGS Trading Company Ltd	2,095	-	2,095	1,887
Investment management costs	22	-	22	20
Total Expenditure on Raising Funds	2,559	-	2,559	2,369
Charitable Expenditure				
Exhibitions and education	5,867	1,894	7,761	7,541
Conserve and add to collections	4,068	1,822	5,890	5,435
Estates management	3,111	402	3,513	3,815
Audience development	1,591	1,093	2,684	2,396
Total Charitable Expenditure	14,637	5,211	19,848	19,187
Total Expenditure	17,196	5,211	22,407	21,556

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

5 Allocation of Support Costs

	Charitable Activities				Total 2019	Total 2018
	Exhibition and Education £000	Conserve & Add to Collection £000	Estates Managem- ent £000	Audience Developm- ent £000		
Central and Finance	317	305	67	183	872	740
HR	187	180	40	108	515	385
Planning & Performance	133	128	28	77	366	348
IT	309	298	66	178	851	939
Depreciation (NGS)	948	911	201	547	2,607	2,619
Total	1,894	1,822	402	1,093	5,211	5,031

6 Trustees Remuneration and Staff Costs

	Group & NGS 2019 £000	Group & NGS 2018 £000
Staff costs during the year		
Wages and Salaries	9,352	8,378
Social Security Costs	819	756
Other Pension Costs	1,811	1,675
Accounted for in grant aided activities	11,982	10,809

Capitalised staff costs during the financial year amounted to £222,021 (2017/18 - £221,290).

The number of NGS employees, including the Director General, whose emoluments as defined for taxation purposes amounted to over £60,000 in the year was as follows:

	Group & NGS 2019	Group & NGS 2018
£60,000 - £69,999	2	-
£70,000 - £79,999	5	4
£80,000 - £89,999	-	2
£90,000 - £99,999	2	-
£100,000 - £109,999	-	-
£110,000 - £120,000	1	1

The total cost of remuneration to key management personnel in 2018/19 was £477,722 (2017/18 £487,898)

Pension Costs

'The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as "Alpha" – are unfunded multi-employer defined benefit schemes but National Galleries of Scotland is unable to identify its share of the underlying assets and liabilities.

The scheme actuary valued the PCSPS as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office at: <https://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/>. For 2018-19, employers' contributions of £1,774,690 were payable to the PCSPS (2017-18 £1,597,108) at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6 Trustees Remuneration and Staff Costs (continued)

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £50,267 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and ranged from 8% to 14.75%.

Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £1,811, 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £4,568. Contributions prepaid at that date were £0.

The average number of full time equivalent employees employed by NGS and the Group were as follows:

	Group 2019	Group 2019	Group 2018	Group 2018
	Permanent	Temporary	Permanent	Temporary
Security and Visitor Services	124	10	122	8
Gallery Curatorial and Administration	39	9	35	4
Service Departments	54	7	57	5
Central Administration	39	11	36	16
Revenue Earning Activities	34	4	29	5
	<u>290</u>	<u>41</u>	<u>279</u>	<u>38</u>

Median Staff Pay Ratio

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

The mid-point of the banded remuneration of the highest-paid director in NGS in 2018/19 was £115,000 (2017/18 £115,000 FTE). This was 6.23 times (2017/18 6.22) the median remuneration of the workforce which is £18,449 (2017/18 £18,481).

Trustees Remuneration

No remuneration was paid to members of the Board of Trustees during 2018/19 (2017/18 nil).

	NGS 2019	NGS 2018
	£000	£000
Total amount of travel expenses reimbursed	<u>1</u>	<u>1</u>
Number of trustees receiving reimbursement	<u>3</u>	<u>2</u>

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Compensation for Loss of Office & Settlement Agreements

In the year to 31 March 2019 no staff left under voluntary exit terms (2017-18 - 0 staff). Settlement payments were made to 2 staff members at a cost of £34k, funded from operating budgets. (2017-18 - £5k).

Trade Union Facility Time

There were 9 employees of NGS who were relevant TU officials during 2018-19, all of whom spent 1-50% of their working hours on facility time. The cost of this time to NGS is estimated as 0.1% of the total salary bill. The number of hours spent by relevant union officials on paid trade union activities as a percentage of total paid facility time hours was 100%.

7 Analysis of Other Operating Charges

	Group 2019 £000	NGS 2019 £000	Group 2018 £000	NGS 2018 £000
Repairs, renewals and maintenance of buildings	1,585	1,572	1,927	1,917
Cost of sales	856	-	961	-
General expenses	857	600	779	669
Art transport, handling and storage	708	708	584	584
Rates and utilities	763	763	721	721
Printing and promotion	628	595	634	607
IT and communications	516	516	714	714
Legal, consultancy and other professional fees	273	252	256	236
Design and display	342	342	298	289
Education	272	272	260	260
Cleaning	259	259	251	251
Office costs and consumables	110	110	72	72
Travel, subsistence & hospitality	196	189	208	195
Conservation and restoration	118	118	192	192
Operating lease rentals	108	108	98	98
Training and recruitment	141	140	86	81
Internal and External Audit Fees	40	34	39	32
Vehicle costs	25	24	33	31
	7,797	6,602	8,113	6,949

Audit fees include £23,010 (2017/18 £22,560) for statutory audit payable to Audit Scotland.

Operating charges include costs relating to the exhibition programme and are not directly comparable year on year.

NATIONAL GALLERIES OF SCOTLAND
TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

8 Tangible Assets

Group	Land and Buildings £000	Assets Under Construction £000	Office Equipment and Computing £000	Fixtures and Fittings £000	Vehicles £000	Total £000
Cost or Valuation						
At 1 April 2018	123,767	3,093	2,123	5,373	296	134,652
Additions during year	86	6,055	114	53	-	6,308
Disposals	-	-	(12)	-	(10)	(22)
Transfers	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Indexation	669	-	-	-	-	669
At 31 March 2019	124,522	9,148	2,225	5,426	286	141,607
Accumulated Depreciation						
At 1 April 2018	1,845	-	1,888	4,337	156	8,226
Charge for year	1,864	-	126	345	50	2,385
Disposals	-	-	(12)	-	(10)	(22)
Transfers	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Indexation	17	-	-	-	-	17
At 31 March 2019	3,726	-	2,002	4,682	196	10,606
Net Book Value						
At 31 March 2019	120,796	9,148	223	744	90	131,001
At 31 March 2018	121,922	3,093	235	1,036	140	126,426

Assets under construction include development expenditure for the SNG and NCF projects.

NATIONAL GALLERIES OF SCOTLAND
TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

8 Tangible Assets (continued)

NGS	Land and Buildings £000	Assets Under Construction £000	Office Equipment and Computing £000	Fixtures and Fittings £000	Vehicles £000	Total £000
Cost or Valuation						
At 1 April 2018	123,767	3,093	2,106	5,306	282	134,554
Additions during year	86	6,055	50	53	-	6,244
Disposals	-	-	-	-	(9)	(9)
Transfers	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Indexation	669	-	-	-	-	669
At 31 March 2019	124,522	9,148	2,156	5,359	273	141,458
Accumulated Depreciation						
At 1 April 2018	1,845	-	1,886	4,298	148	8,177
Charge for year	1,864	-	109	345	46	2,364
Disposals	-	-	-	-	(9)	(9)
Transfers	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Indexation	17	-	-	-	-	17
At 31 March 2019	3,726	-	1,995	4,643	185	10,549
Net Book Value						
At 31 March 2019	120,796	9,148	161	716	88	130,909
At 31 March 2018	121,922	3,093	220	1,008	134	126,377

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

8 Tangible Assets (continued)

Land and buildings were valued by District Valuer Services at 31 March 2017. The valuations were undertaken in accordance with Royal Institute of Chartered Surveyors (RICS) Valuation Professional Standards 2014 UK Edition - on a Depreciated Replacement Cost basis for buildings of a specialised nature and on the basis of existing use for other buildings.

Valuations provided by the District Valuer at 31st March 2017 were as follows:

Scottish National Gallery	£23,770,000
Scottish National Portrait Gallery	£18,421,000
Scottish National Gallery of Modern Art (Modern One) and Lodges	£28,990,640
Scottish National Gallery of Modern Art (Modern Two) and Lodges	£14,990,000
Weston Link	£20,505,000
Royal Scottish Academy	£10,884,000
Granton Art Store	£1,150,000
Total	£118,710,640

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

9 Heritage Assets – Group and NGS

Cost or Valuation	£000
At 1 April 2017	200,371
Additions during the year	4,272
At 31 March 2018	204,643

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.

Capitalised gallery collection items are valued at cost or value of the acquisition. Where the acquisition is part donation, part purchase the asset is capitalised at current value on receipt. Works donated by third parties by way of funds for the asset are capitalised at current value on receipt.

Five Year Financial Summary of Acquisitions

	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000
Donated assets and acquisitions funded by donations	3,974	2,095	11,706	1,403	1,833
Other acquisitions	298	375	233	175	9
Total cost/value of acquisitions	4,272	2,470	11,939	1,578	1,842

Significant acquisitions over the last five years include:

Prince Charles Edward Stuart, 1720 - 1788. Eldest Son of Prince James Francis Edward Stuart by Allan Ramsay which was accepted in lieu of Inheritance Tax by HM Government from the Trustees of the Wemyss Heirlooms Trust and allocated to the Scottish National Portrait Gallery in 2017

The Monarch of the Glen by Edwin Landseer Purchased by the National Galleries of Scotland as a part gift from Diageo Scotland Ltd, with contributions from the Heritage Lottery Fund, Dunard Fund, the Art Fund, the William Jacob Bequest, the Turtleton Trust and through public appeal in 2017

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

10 Intangible Assets – Group and NGS

	Computer Software £000	Website £000	Total £000
Cost or Valuation			
At 1 April 2018	200	877	1,077
Additions	-	57	57
Disposals	-	-	-
Transfers	-	-	-
At 31 March 2019	<u>200</u>	<u>934</u>	<u>1,134</u>
Accumulated Amortisation			
At 1 April 2018	190	440	630
Charge for the year	10	233	243
Disposals	-	-	-
At 31 March 2019	<u>200</u>	<u>673</u>	<u>873</u>
Net Book Value			
At 31 March 2019	<u>-</u>	<u>261</u>	<u>261</u>
At 31 March 2018	<u>11</u>	<u>437</u>	<u>448</u>

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

11 Investments

	Group & NGS 2019 £000	Group & NGS 2018 £000
Market value at 1 April	4,777	4,786
Sale of investments	(772)	(853)
Realised (loss)/gain	68	146
Purchased investments	831	730
Movement in investments held as cash	(59)	123
Change in market value – unrealised (loss)/gain	(55)	(155)
Market value at 31 March	4,790	4,777
Investments at cost	4,451	4,377

Investments are managed by Cornelian Asset Managers Limited and are a mixture of investment types. The mix of investment types as at 31 March 2019 is detailed below:

Asset Class	Percentage of Total Portfolio
Fixed Interest	20.1
UK Equities	38.1
International Equities	29.7
Other Assets	9.7
Cash	2.4

12 Stocks

	Group 2019 £000	NGS 2019 £000	Group 2018 £000	NGS 2018 £000
Goods held for resale	670	-	662	-
Net book value of goods held for resale	670	-	662	-

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

13 Debtors

	Group 2019 £000	NGS 2019 £000	Group 2018 £000	NGS 2018 £000
Amounts falling due within one year				
Trade Debtors	243	219	202	192
Amounts owed by Group undertakings	-	268	-	73
Other Debtors	1,226	1,191	222	481
VAT Debtor	570	570	450	450
Prepayments	153	153	223	146
	2,192	2,401	1,097	1,342
Amounts falling due after more than one year				
Amounts owed by Group undertakings	-	473	-	546

Debtors due after more than one year represent amounts due by NGS Trading Company Limited in respect of the loan facility of £800k made by NGS Charity initially in 2012 and extended in 2018. This loan is repayable on demand by NGS, with the last repayment to be made in March 2031. Interest is charged on the loan at base rate plus 1%.

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

	Group 2019 £000	NGS 2019 £000	Group 2018 £000	NGS 2018 £000
Amounts falling due within one year				
Local Government	-	-	-	-
Central Government	1,301	1,577	170	169
NHS Bodies	-	-	-	-
Public Bodies	-	-	-	-
External to Government	891	824	927	1,173
Total	2,192	2,401	1,097	1,342

14 Cash at Bank and In Hand

	Group 2019 £000	NGS 2019 £000	Group 2018 £000	NGS 2018 £000
Cash at bank	3,097	3,021	4,760	4,311
Cash at bank and in hand	3,097	3,021	4,760	4,311

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

15 Creditors: Amounts Falling Due Within One Year

	Group 2019 £000	NGS 2019 £000	Group 2018 £000	NGS 2018 £000
Trade Creditors	402	393	913	869
Other Creditors	510	440	306	313
	912	833	1,219	1,182
Other Taxation and Social Security	215	215	190	190
Accruals	2,153	2,153	2,218	2,131
Deferred Income	699	699	1,014	1,014
	3,979	3,900	4,641	4,517

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

	Group 2019 £000	NGS 2019 £000	Group 2018 £000	NGS 2018 £000
Amounts falling due within one year				
Local Government	-	-	-	-
Central Government	507	507	721	721
NHS Bodies	-	-	-	-
Public Bodies	-	-	-	-
External to Government	3,472	3,393	3,920	3,796
Total	3,979	3,900	4,641	4,517

Analysis of Deferred Income:

	Group & NGS 2019 £000	Group & NGS 2018 £000
As at 1 April	1,014	712
Charged in year	502	635
Released in year	(817)	(333)
Total as at 31 March	699	1,014

16 Provisions for Liabilities and Charges

	Group 2019 £000	NGS 2019 £000	Group 2018 £000	NGS 2018 £000
As at 1 April	93	89	629	629
Charged in year	32	24	83	80
Released in year	(26)	(26)	(620)	(620)
Total as at 31 March	99	87	92	89

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

17 Consolidated Reserves

	Unrestricted					Restricted						Endowment	Total
	General Fund	Trust Funds Central	Purchase Funds	Capital Assets Fund	Total	General Fund	General Fund Revaluation Reserve	General Fund Capital Reserve	Donated Asset Reserve	Trust Funds	Total	Trust Funds Endowment	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Opening balance 1 April 2018	282	270	42	83,604	84,198	-	36,129	30,580	177,112	4,765	248,586	1,024	333,808
Government Grant in Aid	18,545	-	200	-	18,745	-	-	-	-	-	-	-	18,745
Other Income	5,347	-	-	-	5,347	773	-	-	5,338	115	6,226	-	11,574
Investment Income	24	5	-	-	29	-	-	-	-	132	132	33	194
Total Income	23,916	5	200	-	24,121	773	-	-	5,338	247	6,358	33	30,512
Expenditure in Year	(21,634)	-	-	-	(21,634)	(773)	-	-	-	-	(773)	-	(22,407)
Investments revaluation	-	-	-	-	-	-	-	-	-	10	10	2	12
Net (Exp)/Inc - SOFA	2,282	5	200	-	2,487	-	-	-	5,338	257	5,594	35	8,118
Buildings Revaluation	-	-	-	-	-	-	651	-	-	-	651	-	651
Depreciation release	2,408	-	-	(792)	1,616	-	(138)	-	(1,478)	-	(1,616)	-	-
Transfers between reserves	(4,853)	-	(232)	5,129	44	-	-	-	66	(44)	22	(66)	-
Net Movement in Funds (SOFA)	(163)	5	(32)	4,337	4,147	-	513	-	3,926	213	4,652	(31)	8,769
Closing balance 31 March 2019	119	275	10	87,941	88,345	-	36,642	30,580	181,038	4,978	253,238	993	342,576

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

17 Consolidated Reserves (continued)

The Financial Statements comprise a number of individual funds that divide into distinct categories, which are defined below.

Unrestricted Reserves comprise general funds and those designated for specified purposes.

Designated funds

Funds designated for a particular use by the Trustees. These include the Capital Assets Fund where grants received for capital expenditure projects from the Scottish Government in respect of the Scottish Gallery of Modern Art (Modern Two) Gallery, Playfair Project, ARTIST ROOMS, Diana and Actaeon by Titian purchase and Scottish National Portrait Gallery refurbishment.

During the year the Audit and Risk Committee reviewed the reserves policy and agreed to maintain the level of funds not committed or invested in tangible fixed assets at a minimum holding £100k (2017/18 £100k).

Restricted funds

Funds restricted for particular purposes either by the wishes of the donor or by the nature of the fund-raising appeal.

The Donated Assets Reserve includes funds received from third parties, including the Heritage Lottery Fund and the National Galleries of Scotland Foundation, for the Playfair Project, the purchase of artworks, including ARTIST ROOMS and Diana and Actaeon by Titian, the Scottish National Portrait Gallery refurbishment and the Scottish National Gallery Project. The Donated Asset Reserve is treated as a Restricted Fund under the Charities SORP 2015.

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 2015.

The revaluation reserve reflects the effect of revaluations of land and buildings over time. The reserve is restricted.

The restricted trust funds and the purpose for which their income may be applied are:

Gibson Bequest	Funds are restricted to purchases of artworks for the Scottish National Gallery of Modern Art
Gulbenkian Award	Funds are to be utilised for improvements to the Scottish National Gallery of Modern Art
Treaty of Union	Annuity to be used for purchase of works of art or for promoting exhibitions in Scotland
Knapping Fund	For the purchase for exhibition in England, Scotland and Wales of paintings in any medium, by artists of any nationality living at or within twenty five years of the time of purchase
Cameron Fund	For the purchase of works of art for any purpose in connection with NGS
George Sutherland Bequest	To be used for capital projects at the Scottish National Gallery Complex
Olive Pollock Morris Bequest	Funds are restricted to purchases of artworks for the Scottish National Gallery of Modern Art

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

17 Consolidated Reserves (continued)

Mary Legget Bowman Bequest Funds are restricted to purchases for the Scottish National Portrait Gallery

ARTIST ROOMS Fund For the purchase of works of art for the ARTIST ROOMS collection

Endowment funds

Endowment funds are funds that the donor has stated are to be held as capital.

The endowment funds and the purpose for which their income may be applied are:

AH Whittin Purchase Fund Income from the fund is restricted to purchase of portraits, with preference given to portraits of Queen Mary and other members of the Royal House of Stuart, for the Scottish National Portrait Gallery

Cowan Smith Fund Income available at the discretion of the Board for purchases of paintings, pictures and works of art for the Scottish National Gallery

Laird Fund Funds may only be used for maintenance of pictures

McDougall Fund Income shall be applied or accumulated and applied towards art, pictures or objects for the Scottish National Gallery

Michie Fund Income to be used for purchase of pictures of any British or other artist for NGS

Gray Bequest To be securely invested by the Board in order that the annual interest be applied to portraits of eminent deceased men and women born in Scotland, to be hung at the Scottish National Portrait Gallery

Scottish National Portrait Gallery Purchase Fund Income from the fund is restricted to purchases of portraits for the Scottish National Portrait Gallery

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

18 Notes to the Consolidated Statement of Cash Flows

	2019 £000	2018 £000
Net movement in funds (as per the Statement of Financial Activities)	8,768	7,157
Adjustments for:		
Depreciation charges	2,628	2,634
(Gains)/losses on revaluation of fixed assets	(652)	(3,950)
Losses/(gains) on investments	(12)	9
(Profit)/loss on sale of fixed assets	-	-
Dividends and interest shown in investing activities	(194)	(181)
Donations of artworks for the collection	(3,929)	(1,655)
Non-cash GIA for Murray Mackinnon acquisition	-	(150)
Increase/(decrease) in provisions	6	(535)
(Increase)/decrease in stocks	(8)	(43)
Decrease/(increase) in Debtors	(1,094)	3,048
(Decrease)/Increase in Creditors	(662)	(2,111)
Net cash provided by (used in) operating activities	4,851	4,223

19 Financial Commitments – Group and NGS

As at 31st March NGS has the following commitments under non-cancellable operating leases:

	2019 £000	2018 £000
	Land & Buildings	Land & Buildings
Leases expiring within one year	33	76
Leases expiring after one year but within five years	64	13
Leases expiring after five years	-	-
	97	89

At the end of 2018/19, NGS is contractually committed to one capital project, the refurbishment of the Scottish National Gallery. The amount contracted for but not provided in the financial statements as at 31st March 2019 was £13m.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

20 Subsidiary Company

NGS Trading Company Ltd, a company registered in Scotland, is a wholly-owned subsidiary of NGS, set up to promote and develop our commercial activities. The results for the year to 31 March are summarised in the following table:

	2019 £000	2018 £000
Turnover	2,388	2,380
Cost of sales	(856)	(961)
Gross profit	1,532	1,419
Administrative costs	(1,466)	(1,171)
Other operating income	4	-
Operating profit	70	248
Interest income	4	1
Interest payable	(6)	(3)
Profit before taxation	68	246
Taxation	(8)	(4)
Profit after taxation	60	242

The trustees believe the carrying value of this investment is supported by its underlying net assets. NGS owns 100% of the £100 called-up share capital of NGS Trading Company Limited.

21 Related Party Transactions

NGS 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 in the form of receipt of Grant in Aid which totalled £18.745m (2017/18 £16.7m). In addition NGS had a number of transactions with other government departments, local government, non-departmental public bodies and similar organisations.

None of the Trustees, members of key management staff or other related parties has entered into any material transactions with NGS during the year.

Benny Higgins was appointed Executive Chairman for Buccleuch Group in March 2019. NGS has works of Art on loan from and to various Buccleuch Trusts.

NGS is the parent company of NGS Trading Company Limited. During the year NGS had various material transactions with NGS Trading Company Limited. Benny Higgins, Chairman, Sir John Leighton, Director-General, Jo Coomber, Director of Public Engagement and Tricia Bey and Edward Green, Trustees are also directors of NGS Trading Company Limited.

NGS has one connected charity which is independent and does not impact on NGS's operating policies. The NGS Foundation, Princes Exchange, 1 Earl Grey Street, Edinburgh, EH3 9EE, works closely with NGS and has the aim of helping NGS fulfil its mission for the public benefit. The NGS Foundation was founded in 2012 to further the charitable purposes of the Board of Trustees of the National Galleries of Scotland through active fundraising and investment.

NGS recognised grant income of £0.6m (2017/18 £0.7m) from NGSF for various projects. During the period to March 2019 administrative services were gifted to NGS Foundation by NGS under the terms of a service agreement. In March 2019 NGS Charity granted NGS Foundation £0.2m. Nicola Catterall, Chief Operating Officer NGS (until Dec 2018) is a director of the NGS Foundation, but the majority of the NGS Foundation directors are unconnected to NGS Charity.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

All related party transactions were in the normal course of business and were carried out at full arm's length.

20 Taxation

The Board of Trustees of NGS has been granted charitable status by HM Revenue and Customs and is therefore entitled to certain tax exemptions on income and profits from investments and surpluses on any trading activities carried on in furtherance of the charity's primary objectives, if these profits and surpluses are applied solely for charitable purposes.

21 Losses and Special Payments

Losses and special payments during the year amounted to £nil (2017/18 £nil). There were no individual losses or special payments of more than £250k.

NATIONAL GALLERIES OF SCOTLAND
TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Appendix to the Financial Statements



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 (FRM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. 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 dark ink, appearing to be 'R. H. S. A.', written over a horizontal line.

Signed by the authority of the Scottish Ministers

Dated 31 March 2006