

National Galleries of Scotland

Trustees' Annual Report and Financial Statements
for the year ended 31 March 2018

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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Chairman's Foreword

As completion of the first year of my tenure as Chairman of the National Galleries of Scotland (NGS) draws near, I am pleased to present the Trustee's Annual Report and Financial Statements for 2017-18.

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 proud of our national and international reach but aware that there is still much to do to connect with audiences that have previously had little or no contact with the Galleries. We are the custodians of a supremely important national asset but that sense of ownership should be shared by everyone across society.

Over the past year, the Trustees and the colleagues at NGS have been working to refresh our strategy and to focus on a clear set of aims and objectives; these are set out in more detail in this report. You will also be able to follow the tracks of our progress so far. Over the past year we have had a strong public programme, which has contributed to yet another record year of visitors: over 2.5m visitors to our Edinburgh sites in 2017-18. Exhibitions included *Beyond Caravaggio* in summer 2017, *True to Life: British Realist Painting in the 1920s and 1930s* and *Hill and Adamson: A Perfect Chemistry*. We also started a series of contemporary shows called *NOW*, which celebrates the diversity of current artistic practices and provides an opportunity for the public to see new and recently made works of art.

We have continued to add to the collection and details of some of these acquisitions can be found later in this report. Working in partnership remains central to our approach. Following the acquisition of Landseer's *Monarch of the Glen* in March 2017, the painting commenced a tour to venues across Scotland. We took the opportunity to take this amazing work to schools while in transit between the main venues. It was displayed in the NGS art truck in school playgrounds at Breadalbane Academy in Aberfeldy and at Arkleston School in Renfrew. This gave school pupils an opportunity to see the *Monarch* up close and experience the beauty of the painting. Feedback was overwhelmingly positive and plans are under way for further community events during the lifetime of the tour.

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 their real understanding of the importance of culture in Scotland and support for what we are trying to achieve.

Benny Higgins
Chairman



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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 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. Wider access to the collection and our expertise
2. Stronger connections with our audience
3. Smarter use of our assets

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Trustees' Annual Report (continued)

2.3 2017-18 Objectives

In 2017-18, NGS's activities were focussed on a set of objectives which align with these main aims.

Aim 1: Wider access to the collection and our expertise	
<i>Objectives</i>	There is greater access to the collection, driving curiosity and creativity.
	The benefit of the national collection is maximised.
	Our knowledge and expertise are shared generously.
Aim 2: Stronger connections with our audience	
<i>Objectives</i>	The national collection is relevant to everyone in Scotland.
	We increase our impact on society.
	Our audience feels inspired wherever in the world they encounter our work.
Aim 3: Smarter use of our assets	
<i>Objectives</i>	Our team achieves its potential.
	Our estates and facilities work more effectively and sustainably.
	We are more self-reliant financially.

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 2017-18 are set out below shown against target.

Indicator		Target / Projection 2017/18	Results for 2017/18	Status
Number of actual visits to all gallery sites	SNG	1,560,000	1,601,433	●
	SNGMA	540,000	562,420	★
	SNPG	340,000	369,758	★
	NGS Total	2,440,000	2,533,611	★
Visits to touring displays (excluding Artist Rooms)	Scotland	-	26,252	-
	Rest of UK	-	259,000	-
	International	International 2016/17 value: 638,763	137,535	-
Visits to Artist Rooms displays	2016/17 value: 80,848	663,175	-	
Number of paid visits to exhibitions	75,390	96,329	★	
Website user sessions	10% increase year-on-year	7.16%	●	
Digitisation of the collection	65,632 2D works digitised	63,204	●	
Visitor Satisfaction	90% of visitors rate their visit as 'excellent' or 'very good'	94%	★	

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Indicator		Target / Projection 2017/18	Results for 2017/18	Status
Website return users		10% increase year-on-year	8.01%	●
Participation in education programme (by volume)	Schools	26,000	33,210	★
	Children and Families	7,000	6,919	●
	Communities	2,400	2,751	●
	Outreach	1,100	1,582	★
	Adults	18,500	19,479	●
Leverage of purchase grant		2016/17 value: 1808%	518%	-
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	56%	●
Retail income		Turnover: 1,792,842	£1,880,205	★
		Net Profit: £1,057	£27,049	★
Catering income		Commission: £289,360	£324,629	★
		Net Profit: £158,780	£201,008	★
Number of volunteer hours		2016/17 value: 15,305	10,515	-
Income from Friends Membership		£800k per annum by 2020	£449,044	●
Donations per visit		41p per visit per annum by 2020 Baseline: 11p in 2014	7p	●
GIA per visitor		2016/17 value: £5.29	£5.12	-
Percentage reduction in carbon emissions		35.4% reduction	42.52%	★

Key : ★ Exceeded target/ projection by more than 3%, ● Target/ projection achieved, ● Target just missed, ● Target/Projection missed

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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 2018 there are 101,709* objects catalogued (102,233 as at 31 March 2017) in NGS's permanent collection. (Note: in 2017-18 the Dunimarle collection of 2,390 objects based at Duff house was transferred to Historic Environment Scotland).

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

Paintings	3,675
Works on Paper	54,909
Photographs	35,253
Sculpture	4,765
Printed Material	564
Manuscript Material	887
Decorative and Applied Art	1,290
Installation and Film	114
Accessory	150
Other	102

**This figure does not include an estimated 60,000 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 2017-18 NGS continued to build this extensive collection where opportunity and funding allowed.

Capital funding was allocated from the Scottish Government towards the purchase of 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. A particular highlight of 2017-18 was the acquisition of the Murray MacKinnon archive of photography. This is an unrivalled collection of historic photographs, consisting of more than 14,000 works, dating from the earliest days of photography through to the 1940s and which capture a century of life in Scotland. It has been jointly acquired by the National Galleries of Scotland and the National Library of Scotland, with support from the Scottish Government, the Heritage Lottery Fund and the Art Fund.

Other notable acquisitions during the year included:

- Jenny Saville – *Study for Branded*, purchased with the assistance of the Walton Fund
- Charles Rennie MacKintosh - *The Road through the Rocks*
- Pieter Hugo - *Portrait#12, Rwanda*, purchased with the assistance of the Mapplethorpe Foundation
- Christine Borland - *Positive Pattern*, purchased with the assistance of the Ian Paul Fund

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- Margot Sandeman - *Three Bathers*
- Brendan Kelly - *James Naughtie*
- Mark Wallinger, *Sins and Virtues*, Accepted under the Cultural Gifts Scheme by HM Government from Jack Kirkland and allocated to the Scottish National Gallery of Modern Art, 2018
- *William Stuart Forbes, elder son of Sir William Forbes of Pitsligo, 1802 – 1826*, Sir Henry Raeburn, AIL
- *John Stuart Hepburn Forbes, later 8th Baronet of Monymusk, and of Fettercairn and Pitsligo, 1804 – 1866*, Sir Henry Raeburn, AIL
- *Study of a Dwarf*, Agostino (or Annibale) Carracci , Accepted in lieu of Inheritance Tax by H M Government from the Paul Oppé Collection, and allocated to the National Galleries of Scotland, 2017

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

The trustees believe that whilst ensuring the protection of the national collection is paramount, access to great art by as wide an audience as possible is part of our core mission. In 2017-18 we welcomed over 2.5m visitors across our three gallery sites, a record figure.

ARTIST ROOMS, our collaboration with Tate, is now in its tenth year and continues to engage audiences across the UK with world-class modern and contemporary art. Works from the collection were shown in 8 additional venues during the year reaching a further 490,000 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 2017-2018 we loaned 543 works to exhibitions at 82 different venues, across Scotland, the UK and internationally, reaching a total of over 7.5 million visitors worldwide. The NGS loan programme included surrealist works to an exhibition at Reina Sofia in Madrid with a total of 545,874 visitors and the loan of Sandy Moffat's poets portraits to Milngavie Art Gallery with 2,061 visitors.

The touring exhibition programme included a collaboration with Mainichi Newspapers to take the work of J.M.W. Turner to the people of Japan and a collaboration with Historic Environment Scotland taking the exhibition Romantic Scotland to Nanjing Museum in China.

NGS had over 1.9m visits to its website during the year. A digitisation programme began in early 2015 with a view to photographing the entire 2D collection by 2020. By 31 March 2018, over 63,000 artworks had been digitised. Photography of the sculpture collection will begin in 2018. This will see the inclusion of multiple images for each sculpture on the new NGS website. Completion of this programme will ensure access to the NGS collection across the world and significantly broaden our reach and visibility.

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

	2017/18	2016/17	2015/16	2014/15
Total visits to Edinburgh Galleries	2,533,611	2,437,632	2,209,278	1,994,973
Total visits to NGS exhibitions at other locations*	422,787	638,763	368,821	70,437
Total visits to website	1,989,099	1,805,879	1,626,060	1,367,440

*This figure excludes ARTIST ROOMS

3.4 The Public Programme

The 2017-18 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 *Beyond Caravaggio*. At the heart of the show were four major works by the master himself, including the celebrated *Supper at Emmaus* from the National Gallery, London, and the *Taking of Christ* from Dublin. We also celebrated British Realist painting from the 1920s and 1930s and the photography of Hill and Adamson among the many displays and exhibitions we put on show during the year.

In total, 4 paying shows opened in 2017-18:

Scottish National Gallery	
Beyond Caravaggio	RSA Upper Galleries, 17 June to 24 September 2017
Scottish National Gallery of Modern Art (Modern 1 & 2)	
True to Life: British Realist Painting in the 1920s and 1930s	Modern Two, 17 June to 29 October 2017
A New Era: Scottish Modern Art 1900-1950	Modern Two, 2 December 2017 to 10 June 2018
Scottish National Portrait Gallery	
A Perfect Chemistry: Photographs by Hill and Adamson	27 May 2017 to 1 October 2017

There were many free exhibitions and displays throughout the year in addition to the paying shows. This included the NOW exhibition, which was part of a series of dynamic contemporary art exhibitions displayed across the ground floor at Modern One. This first tranche included works by Susan Philipsz, Yto Barrada, Kate Davis, Hiwa K, Sarah Rose and Michael Armitage. Other displays included Constable and McTaggart: A Meeting of Two Masterpieces and the biennial BP Portrait Award. 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, a strong education programme accompanied our displays and exhibitions. This year it included an experimental strand of the youth outreach programme which explored ways of working with more young people whilst still aiming to achieve a meaningful experience. The project 'Art of the Future' engaged with 16 different organisations who work with young people and over 100 young people were involved. An exhibition of the artistic outcomes opened on 9 February 2018 at the SNG. Our work with early years continues to develop with an increased programme across the galleries for families with children under 5.

Trustees' Annual Report (continued)

In total, there were around 64,000 participants in the NGS Education programme in 2017/18, covering schools, communities, families 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 2017-18 NGS published eight new titles relating to the exhibition programme, and also the Monarch of the Glen.

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. Closer to home we have worked with the Royal Scottish Academy on the Ages of Wonder exhibition, a joint collaboration which resulted in a beautiful exhibition at the Scottish National Gallery which told the story of collecting Scottish art.

The touring of Monarch of the Glen offered an opportunity to work with a number of our Scottish partners: Inverness Museum & Art Gallery, Perth Museum & Art Gallery, Paisley Museum and Kirkcudbright Art Gallery. In addition we took the opportunity to work with local communities, visiting schools and giving the pupils the chance to view this magnificent painting in the back of the van in which it was being transported to the next exhibition venue.

The touring exhibition programme included a collaboration with Mainichi Newspapers to take the work of J.M.W. Turner to the people of Japan. This is the second time that NGS and Mainichi have worked together. This exhibition featured a strong group of 24 of Turner's works from the NGS collection providing the core of the exhibition, complemented by outstanding loans from a number of other distinguished British public and private collections. NGS works will be seen alongside all the key works by Turner in Japanese collections, providing a spectacular overview of his achievement.

Another touring collaboration, this time with Historic Environment Scotland, saw the exhibition Romantic Scotland traveling to Nanjing Museum in China. The exhibition comprised 31 paintings and works on paper by artists such as Lavery, McTaggart, Nasmyth and Bough, from NGS collection and was seen by 100,000 visitors during the three month run of the exhibition.

Trustees' Annual Report (continued)

ARTIST ROOMS was an important strand of our national touring programme in 2017-18. Funding from The Art Fund and the National Lottery through Arts Council England enabled NGS and Tate in partnership with the Ferens Art Gallery 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 2017-18 programme included partnerships with Dunoon Burgh Hall, Gracefield Arts Centre, Dumfries and Perth Museum and Art Gallery. 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 current year results are discussed in detail in the Financial Review.

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

Grant funding was received from various sources including the Heritage Lottery Fund, the National Galleries of Scotland Foundation and the People's Postcode Lottery in support of various initiatives including the Monarch of the Glen Tour, continued support of the digitisation of the collection, the Exhibition Programme and other education, operational and curatorial initiatives.

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 13,188 on 31 March 2018, compared with 12,185 as at 31 March 2017. In 2017-18 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. Friends funding also supported the the Beyond Caravaggio exhibition held at the Scottish National Gallery during the Summer of 2017.

In 2017-18, Patrons generously supported the acquisition of an historic collection of frame moulds. 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 £53,000 during 2017-18.

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 recommendations of Government Accounting, 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	12,970	12,970
Purchase Grant	200	200
Murray Mackinnon (total £300k shared with NLS)	150	150
Capital Projects	3,450	3,750
	<u>16,770</u>	<u>17,070</u>
Non-Cash Items (Notional)		
Depreciation	1,137	2,500
Total	<u>17,907</u>	<u>19,570</u>

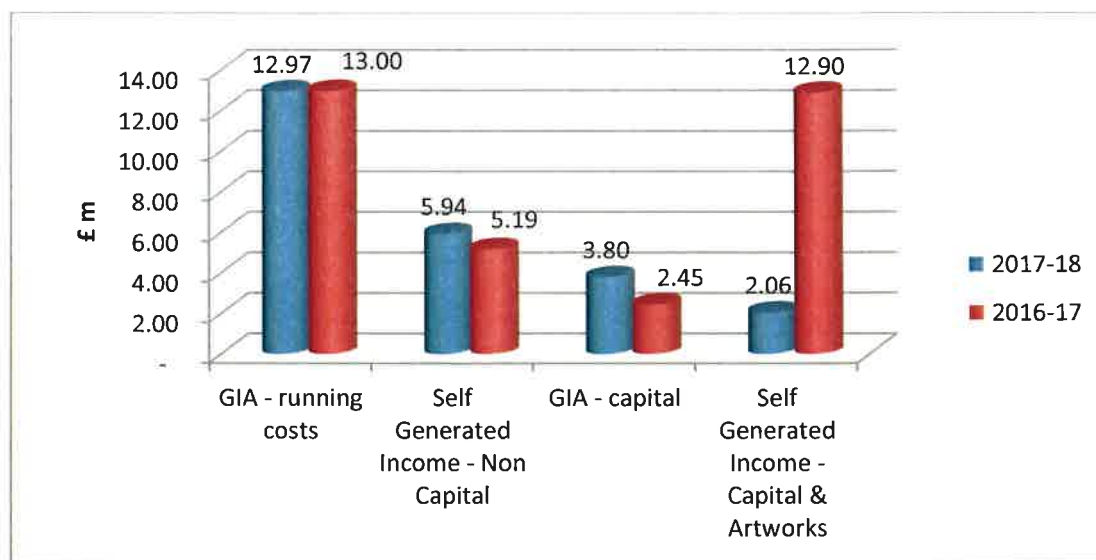
4.3 Financial Results

The Financial results for 2017-18 are set out in the Consolidated Statement of Financial Activities on page 34.

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Income

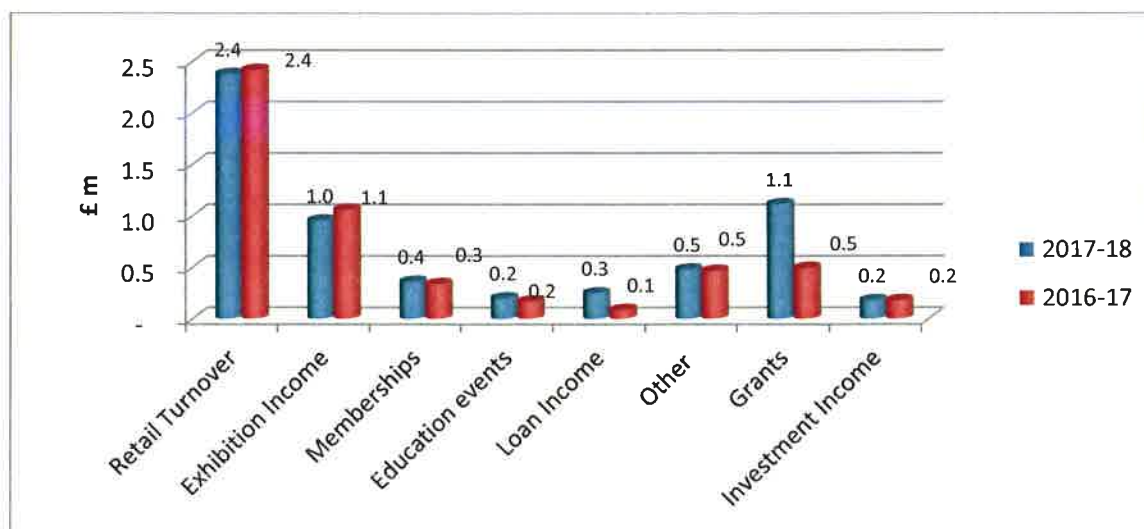
The following graph analyses the major sources of income for NGS in the financial year to 31 March 2018.



The largest source of income for NGS continues to be Grant in Aid (GIA) received from the Scottish Government. In the year to 31 March 2018 GIA in support of running costs remained flat at £12.970m (2017 £12.995m). £3.8m (2017 £2.45m) of GIA was also allocated by the Scottish Government for capital projects and additions to the collection.

Donations of and in support of artworks also continues to be a material component of NGS's income, 2016-17 included the acquisition of the Monarch of the Glen, whilst in 2017-18 significant donations of artworks include works by Raeburn and Jenny Saville amongst others. New artworks can be funded from cash donations and also transfer of artworks under HM Government's Acceptance in Lieu of Inheritance Tax Scheme.

Self-generated income (non-capital) has increased by 14% from 2016-17. The graph below shows the major components. The increase in income is mainly due to additional grant funding, loan fees and membership income. Income from exhibitions and commercial initiatives has remained steady.



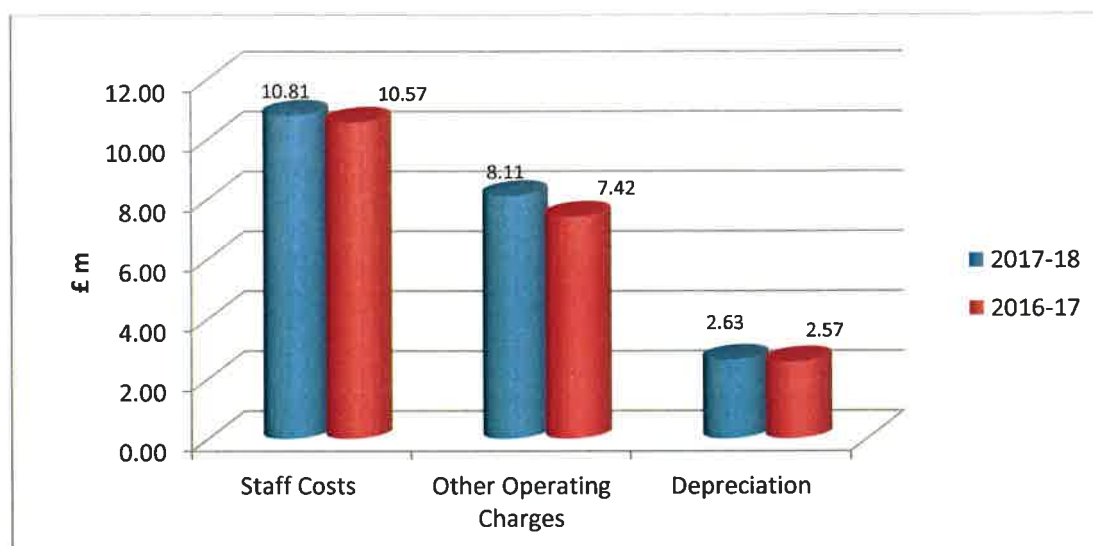
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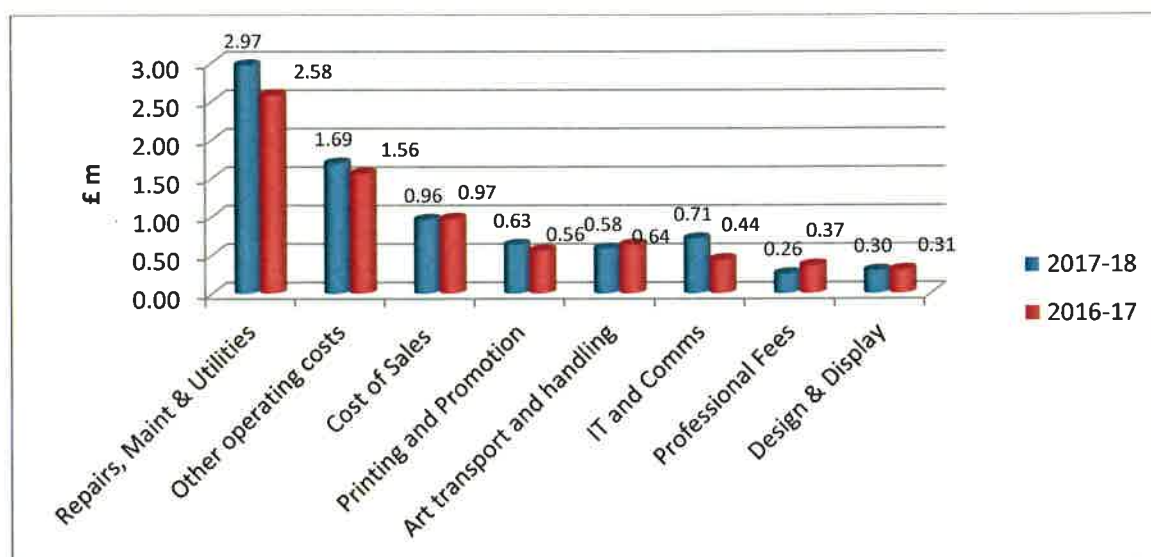
Trustees' Annual Report (continued)

Expenditure

The following graph analyses the major categories of expenditure by NGS in the financial year to 31 March 2018.



Staff costs continue to be the most significant category of expenditure for NGS. Total staff costs increased by £0.3m to £10.9m during 2017-18 (2016-17, £10.6m). The increase arises with the implementation of Scottish Government pay policy, headcount is stable. Other operating charges are categorised in the graph below:



Estates & utility costs of £2.9m (2016-17 £2.5m) include significant stonework repair costs and increased rates costs. IT costs have increased due 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 46.

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. 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 (2016-17, £100,000).

A detailed analysis of NGS's reserves and the movements during the year is set out in note 17 to the Financial Statements, page 55.

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 2017-18 (2016-17 97%). A 10 day payment initiative was introduced by the Scottish Government in December 2008 and we achieve this with 91% of our creditors (2016-17 82%).

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.
- 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.
- Negative staff morale arising from required organisation changes
- Security/safety of the collection, estate and people compromised due to inadequate investment in training and resources.
- Delay in any element of the major capital programme and the knock-on effect to other projects.
- IT security issues cause loss of services (including cyber).
- Meeting the externally-imposed increases in employment costs (inc. pensions, living wage, NI)

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

Trustees' Annual Report (continued)

5 Future Plans

5.1 Aims and Objectives 2018-23

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 will work 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.

Trustees' Annual Report (continued)

Digital Working:

Digital Working means 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

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.

NGS has been undergoing a review of its business model, finding more efficient ways of delivering its service and reducing expenditure, while still retaining the quality of the programme. This will continue through the work being undertaken on the development of the five year strategy and sustainability driver. The Senior Management Team has been streamlined, moving away from being buildings-led and having many collections towards 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 2018-19.

As part of the strategy work, NGS is also looking for ways to develop additional income through its existing income streams i.e. the trading company, through philanthropy, memberships etc. New income opportunities are also being considered, e.g. additional research funding.

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.

Trustees' Annual Report (continued)

5.3 *Capital Projects*

NGS has two major capital projects planned over the coming years: the development of the Scottish National Gallery and the creation of a new National Collections Facility.

The Scottish National Gallery project has been undergoing an extensive review following completion of a major tender process in early 2017. The project has been re-cast with a view to starting on-site in autumn 2018 and completing in 2020. The project will create much improved gallery space for the Scottish Collection, an improved visitor experience and enhanced facilities for retail and catering.

The National Collection Facility is moving forward following appointment of a design team in March 2017. The project will create a national centre for the care and study of the permanent collection, with wider access for visitors and easier access for staff.

NGS is currently working through digitisation of the entire collection. Target completion of this project is by the end of 2020. The second and final tranche of HLF Skills for the Future trainees is nearing completion. The project was a dedicated training programme for 18-24 year-olds focussing on developing skills which are in demand throughout the heritage sector. The first group of six trainees successfully completed their traineeships in 2016 and the second group will complete in 2018.

This project has been hugely successful, giving young people first-hand experience of handling, documenting, digitising and researching the NGS collection of photography and works on paper. Funding for the project was received from the Heritage Lottery Fund and NGS Foundation. The digitised works created so far have already been made available through the NGS website.

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.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

Trustees' Annual Report (continued)

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. There was one change to Board membership in 2017-18 with the retirement of the Chairman, Ben Thomson, in July 2017. He was replaced by Benny Higgins, who was already a Trustee.

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.

The Board delegates authority on financial matters to an Audit and Risk sub-committee. The Audit and Risk Committee, comprising three trustees, one co-opted member (who stepped down in June 2017 and was not replaced) with the Director-General and the Chief Operating Officer in attendance, has full delegated authority to take decisions on behalf of the Board. As at 31 March 2018 there were four other sub-committees: the Remuneration Committee, the Major Capital Programme Committee, the Board Review Committee and the Ethics Committee. The Ethics Committee was formally constituted in March 2018 and will be chaired by the Chairman of the Board of Trustees.

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, Senior Management Team and with an external adviser from the retail sector. The Board is chaired by Trustee Lesley Knox.

The financial statements of NGS are audited by Audit Scotland, who was appointed by the Auditor General for Scotland. Audit Scotland's remuneration for 2017-18 is set as £22,560.

Trustees' Annual Report (continued)

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. NGS continues to be committed to making equality the 'norm', ensuring it is part of our daily routine, rather than an 'add-on' or simply a box that must be ticked. 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 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 is committed to integrating environmental considerations into its activities and working towards the goals of sustainable development and pollution prevention through a programme of continuous environmental improvement. This commitment is reflected in NGS now developing a new 5 year Carbon Management plan, having reached our 2020 target almost three years early, reaching a 42% carbon reduction in April 2017. A new and more ambitious target is now being set for 2022. Compared with 2008, electricity consumption has reduced by 35% and gas consumption by 20%.

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 six drivers. This will put environmental stewardship at the heart of our operations. 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 electric mini bus, the first of its kind in Scotland. Improved waste management across the estate has resulted in a large increase in the quantity and types of waste which is now recycled. In 2017 the amount of waste going to landfill was reduced by 97% compared with 2008.

6.6 Sickness Absence Data

For the 12 month period from 1 April 2017 to 31 March 2018, 3.17% of working days were lost as a result of sickness absence (2016-17, 2.7%).

Trustees' Annual Report (continued)

6.7 Data Handling

There were no personal data-related incidents in 2017-18. Sensitive personal data that is processed and shared on a regular basis is in relation to staff payroll, which is transferred externally to our payroll handler. Personal data information in relation to payroll and supplier details is periodically shared with government as part of the National Fraud Initiative (NFI).

There is a database of personal data in relation to our donors and supporters, but the processes are well controlled and staff are trained to understand the sensitivity of the data. Data is never shared or transferred to another organisation, unless done so under contracted service, and that data belongs solely to NGS.

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.

NGS is also responding to the requirements under the new General Data Protection Regulation. Relevant policies and procedures are being reviewed, consent-based processing refreshed and contracts amended and updated as part of the implementation process under the guidance of the Compliance Manager. The Compliance Manager has been designated Data Protection Officer. Other activities include creating a record of processing activity and developing new procedures around data protection by design, impact assessments and breach notification as well as supporting and training staff in the requirements of the regulation.

6.8 Accountable Officer

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

Trustees' Annual Report (continued)

7 Reference and Administration details

7.1 Trustees: 1 April 2017– 31 March 2018

Ben Thomson (Chairman) (to 30 June 2017)
 Benny Higgins (Chairman from 1 July 2017)
 Tricia Bey (Chair, Major Capital Programme Committee)
 Alistair Dodds (Chair, Audit and Risk Committee)
 Edward Green
 Lesley Knox (Chair, Trading Company Board)
 Tari Lang
 Catherine Muirden (Chair, Remuneration Committee)
 Professor Nicholas Pearce
 Willie Watt
 Nicola Wilson

All Trustees serving at 31 March 2018, with the exception of Ben Thomson, continued to be serving Trustees up to and on the date the Financial Statements were signed. Ben Thomson retired as Chairman on 30 June 2017. The new Chairman, from 1 July 2017, is Benny Higgins who was a serving trustee at the time of appointment. The operational management of NGS is delegated by the Board of Trustees to the Director-General and his Senior Management Team.

7.2 Senior Management Team: 1 April 2017 – 31 March 2018

Sir John Leighton	Director-General
Professor Chris Breward	Director of Collection & Research (from 1 November 2017)
Nicola Catterall	Chief Operating Officer
Jacqueline Ridge	Director of Conservation & Collection Management
Jo Coomber	Director of Public Engagement (from 18 April 2017)
Simon Groom	Director of Scottish National Gallery of Modern Art (member of SMT until 31 October 2017)
Christopher Baker	Director of the Scottish National Portrait Gallery (member of SMT until 31 October 2017)

There are three specialist sub-groups of the Senior Management Team. The Senior Management Collections Team oversees acquisitions and loans and supports collections management matters. The Senior Management Public Programme Team directs and manages the public programme. The Senior Management Team: Digital & Information Systems Programme directs and manages the strategy and priorities for investment in digital and information systems.

For details of staff numbers employed in 2017-18, 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 2018

Trustees' Annual Report (continued)

7.3 Principal Advisers

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 53-55 Aerodrome Road Gosport PO13 0FQ		
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 2018



Sir John Leighton
Accountable Officer

10 September 2018

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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.

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 20 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 2018 and up to the date of approval of the financial statements and accords with guidance from the Scottish Ministers.

Discharge of Board Responsibilities

In order to discharge its responsibilities, the Board of Trustees met five times in 2017-18. At each meeting 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). In addition the Board regularly discussed matters of strategic importance and input to the development of the strategic plan.

Other 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)
- Development of the NGS brand and related values
- Financial management strategy
- Development of the strategic drivers

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
- Major Capital Programme Committee
- Remuneration Committee
- Board Review Committee

The Board has been supporting the Senior Management 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 continue in 2018-19, 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
- Quarterly review of management accounts
- Quarterly review of risk, including an in-depth review of security and collection care
- Quarterly review of Trading Company accounts and review of the business plan
- Quarterly review of investment performance (including annual review of performance of investment manager)
- Revision of risk policy and guidelines
- Review of internal audit reports (see below)
- Review of annual accounts and external audit reports
- Quarterly review of financial and risk aspects of major capital projects
- Review of governance structure
- Five year financial projections

A number of internal audits carried out by TIAA, NGS's appointed internal auditor were reviewed during 2017-18:

- IT security
- Revenue Recognition
- Capital Projects
- Cash
- IT Assurance

Reports were produced for each of those audits, management responses collated and outputs scrutinised by the Audit & Risk Committee. The annual and follow-up audit reports were also reviewed.

In addition the committee also held a joint meeting with the MCP Committee to discuss financial and risk implications of the SNG project.

Major Capital Programme Committee

The Major Capital Programme Committee is responsible for overseeing the programme of major capital projects and ensuring alignment with corporate strategy. Its main purpose is to ensure that the Scottish

Governance Statement (continued)

National Gallery Development project and the 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. Major items of business were as follows:

- In-depth review of the design and costs of the Scottish National Gallery project, including a joint meeting with the Audit & Risk Committee to discuss financial and risk implications.
- Review of SNG project governance
- Overview of the appointment of the architect for the NCF project and resulting design proposals
- Review of governance for major capital programme
- Co-opting of external committee member with construction expertise
- Consideration of recommendations of NCF Gateway Review
- Review of digital and IT systems programme

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 five times during the year. Major items of business were as follows:

- Development of organisation structure
- Pay negotiations with Trade Unions
- Director-General's contractual arrangements
- Development of strategic drivers
- Equal pay

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. Due to a change in Chair, the Committee did not meet in 2017-18.

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. A number of key strategic risks have been identified and are effectively managed by a series of control measures put in place by the Senior Management Team. Our approach to mapping risk overall has been reviewed and a consistent process is now in place at strategic level and for all major projects.

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. An internal audit was commissioned in 2017-18 to review NGS's risk approach and advise on improvements required to integrate risk management processes with strategic planning and operational management across the organisation. The report is due to be published in 2018-19.

The General Data Protection Regulation (GDPR) has significant implications for NGS as a data controller. A risk-based approach has been taken to prioritise compliance activity, starting with a comprehensive audit of personal data processing across the organisation. This has helped to identify risks to personal data protection,

Governance Statement (continued)

and has led, in the first instance, to work on consent-based processing and updating contracts with third party processors. We hold very little data which falls within the GDPR's special categories, namely some health data, trade union membership and limited data on racial or ethnic origin or sexual orientation of our employees. As well as staff data, we also hold personal data about donors, lenders, website users, retail customers and visitors and others who come into contact with us. We use third parties to process some data on our behalf, such as for payroll and pensions, mailings and recruitment. While this has all been managed well under the previous data protection regime, the obligation to meet the compliance requirements of the GDPR is driving us to review our practices and procedures, and to improve our approach to processing personal data. Briefings, guidance and training are under development for all employees in support of our GDPR compliance requirements. There were no personal data-related incidents in 2017-18.

Review of Effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control.

My review is informed by:

- written assurance statements from 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 Audit and Risk Committee regular reports which include 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 2017-18, for the areas reviewed the Internal Auditor issued an opinion of 'reasonable assurance' that effective risk management, control and governance processes are in place;
- the comments made by the external auditors in their management letters and other reports.

I shall ensure that there is continuous review of internal systems through the internal audit process and, when required, that recommendations for improvement are taken into account. Following a review of internal systems and risks in 2017-18 I would like to draw attention to the following matters:

- Management and care of the collection are paramount to NGS. Our current storage facility at Granton Art Store is insufficient to store our existing collection resulting in artworks being stored in inappropriate conditions which may put the items at risk. Only 56% of our gallery/storage spaces meet minimum standards for environmental conditions for the collection. Finding a solution to this is regarded by our Board of Trustees as a top priority. 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 those wishing to research and explore the collections. In the meantime, as art and staff are displaced by the Scottish National Gallery renovation project, we have taken the opportunity to adapt spaces elsewhere on the estate to make some improvements in collection care conditions.
- 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.
- 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 2023 have been prepared which will inform the development of a 5 year business plan from 2018. These plans will go some way towards addressing the risks, however as NGS becomes increasingly dependent on a variable discretionary income sources the risk of not covering meet our substantial fixed cost base increases.

Governance Statement (continued)

- Staff costs are by far the biggest running cost incurred by NGS, representing over 80% 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 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 Senior Management Team and supported by investment in skills development across the organisation. A People Planning strategy, as part of the "Our People" driver, is under development to support this change.
- 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 tested the adequacy of our security systems and response to potential cyber-attack through an internal audit (2017), the Scottish Government Cyber Resilience Strategy action plan (CRS, 2017) and the Cyber Essentials Pre-Assessment (CEPA, 2018) and have completed work to address many of the issues raised. NGS is committed to achieving cyber-essential accreditation and has an active Information Security Project which incorporates actions from these initiatives. NGS has prioritised relevant projects to ensure the earliest possible compliance with Cyber Essentials with a target date of April 2019.
- NGS has identified a designated Data Protection Officer as required under the new General Data Protection Regulation and work has been completed to ensure NGS meets the compliance requirements. This is an ongoing exercise.



Sir John Leighton
Accountable Officer

10 September 2018

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

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

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the trustees' annual report and financial statements of National Galleries of Scotland and its group for the year ended 31 March 2018 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 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 affairs of the body and its group as at 31 March 2018 and of its incoming resources and application of resources, including the 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 of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the body 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. 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.

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 body and its group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

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

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

Other information in the annual report and accounts

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

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

Report on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

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

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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

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.



Asif A Haseeb OBE
4th Floor, South Suite,
The Athenaeum Building,
8 Nelson Mandela Place,
Glasgow
G2 1BT

[11 September 2018]

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

Consolidated Statement of Financial Activities for the Year Ended 31 March 2018

	Note	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total 2018 £000	Total 2017 Restated £000
Income						
Grant in Aid	3	16,770	-	-	16,770	15,445
Donations and Legacies	2	213	2,202	-	2,415	13,220
Income from Charitable Activities	2	2,314	592	-	2,906	2,093
Other Trading Activities	2	2,497	-	-	2,497	2,590
Income from Investments	2	8	139	35	182	181
Total Income and Endowments		21,802	2,933	35	24,770	33,529
Expenditure						
Expenditure on Raising Funds	4	(2,369)	-	-	(2,369)	(2,445)
Expenditure on Charitable Activities	4	(15,820)	(733)	-	(16,553)	(15,543)
Depreciation	4	(2,634)	-	-	(2,634)	(2,570)
Total Expenditure		(20,823)	(733)	-	(21,556)	(20,558)
Net Gains/(Losses) on Investment Assets		-	(7)	(2)	(9)	427
Net Income/(Expenditure)		979	2,193	33	3,205	13,398
Transfers Between Funds	17	(130)	150	(20)	-	-
Depreciation Release	17	1,600	(1,600)	-	-	-
Other Recognised Gains and Losses						
Gains/(Losses) on Revaluation of Fixed Assets	17	-	3,950	-	3,950	25,422
Net Movement in Funds		2,449	4,693	13	7,155	38,820
Reconciliation of Funds						
Total Funds b/f at 1 April	17	81,749	243,893	1,011	326,653	287,833
Total Funds c/f at 31 March	17	84,198	248,586	1,024	333,808	326,653
Total Fund Balances Made Up By						
General Fund	17	282	-	-	282	521
Capital Assets Fund	17	83,604	-	-	83,604	80,946
General Fund Revaluation Reserve	17	-	36,129	-	36,129	32,299
General Fund Capital Reserve	17	-	30,580	-	30,580	30,580
Donated Asset Reserve	17	-	177,112	-	177,112	176,394
Trust Funds & Bequests (incl. Purchase Fund)	17	312	4,765	1,024	6,101	5,912
Total Fund Balances		84,198	248,586	1,024	333,808	326,653

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

The notes on pages 38-60 form part of the financial statements

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

Consolidated Balance Sheet as at 31 March 2018

	Note	Total 2018 £000	Total 2017 £000
Fixed Assets			
Intangible Assets	10	448	678
Tangible Assets	8	126,426	121,839
Heritage Assets	9	200,371	197,901
Investments	11	4,777	4,786
		<u>332,022</u>	<u>325,204</u>
Current Assets			
Stocks	12	662	619
Debtors: amounts falling due within one year	13	1,097	4,146
Cash at bank and in hand	14	4,760	4,065
		<u>6,519</u>	<u>8,830</u>
Creditors: amounts falling due within one year	15	<u>(4,641)</u>	<u>(6,752)</u>
Net Current Assets		<u>1,878</u>	<u>2,078</u>
Total Assets less Current Liabilities		<u>333,900</u>	<u>327,282</u>
Provisions for liabilities and charges	16	(92)	(629)
Total Net Assets		<u><u>333,808</u></u>	<u><u>326,653</u></u>
Represented by:			
Unrestricted Reserves			
Designated	17	84,098	81,649
Undesignated	17	100	100
Restricted Reserves	17	248,586	243,893
Total Funds		<u>332,784</u>	<u>325,642</u>
Capital Funds – Permanent Endowments	17	1,024	1,011
Total Charity Funds		<u><u>333,808</u></u>	<u><u>326,653</u></u>

The financial statements on pages 34 – 60 were approved by the Accountable Officer and Board of Trustees on 10 September 2018 and authorised for issue on the same date.



Benny Higgins
On behalf of the Board of Trustees
10 September 2018



Sir John Leighton
Accountable Officer
10 September 2018

The notes on pages 38-60 form part of the financial statements

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

Balance Sheet as at 31 March 2018

	Note	Total 2018 £000	Total 2017 Restated £000
Fixed Assets			
Intangible Assets	10	448	678
Tangible Assets	8	126,377	121,797
Heritage Assets	9	200,371	197,901
Investments	11	4,777	4,786
		<u>331,973</u>	<u>325,162</u>
Current Assets			
Debtors: amounts falling due within one year	13	1,342	4,297
Cash at bank and in hand	14	4,311	4,002
		<u>5,653</u>	<u>8,299</u>
Creditors: amounts falling due within one year	15	<u>(4,517)</u>	<u>(6,664)</u>
Net Current Assets		1,136	1,635
Debtors: amounts falling due after one year	13	546	219
Total Assets less Current Liabilities		<u>333,655</u>	<u>327,016</u>
Provisions for liabilities and charges	16	(89)	(629)
Total Net Assets		<u><u>333,566</u></u>	<u><u>326,387</u></u>
Represented by:			
Unrestricted Reserves			
Designated	17	83,856	81,383
Undesignated	17	100	100
Restricted Reserves	17	248,586	243,893
Total Funds		<u>332,542</u>	<u>325,376</u>
Capital Funds – Permanent Endowments	17	1,024	1,011
Total Charity Funds		<u><u>333,566</u></u>	<u><u>326,387</u></u>

The financial statements on pages 34 – 60 were approved by the Accountable Officer and Board of Trustees on 10 September 2018 and authorised for issue on the same date.



Benny Higgins
On behalf of the Board of Trustees
10 September 2018



Sir John Leighton
Accountable Officer
10 September 2018

The notes on pages 38-60 form part of the financial statements

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

Consolidated Statement of Cash Flows for the Year Ended 31 March 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities:			
Net cash generated from operating activities	18	<u>4,223</u>	<u>8,326</u>
Cash flows from investing activities:			
Dividends and interest received		181	181
Purchase of artworks		(667)	(4,913)
Purchase of property, plant and equipment		(3,042)	(3,448)
Proceeds from the sale of property, plant and equipment		-	-
Net cash used in investing activities		<u>(3,528)</u>	<u>(8,180)</u>
Change in cash and cash equivalents in the reporting year		<u><u>695</u></u>	<u><u>146</u></u>
Analysis of changes in net funds:			
Cash and cash equivalents at the beginning of the reporting year	14	4,065	3,919
Cash and cash equivalents at the end of the reporting year	14	<u>4,760</u>	<u>4,065</u>
Change in cash and cash equivalents in the reporting year		<u><u>695</u></u>	<u><u>146</u></u>

The notes on pages 38-60 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 (FRM).

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

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 2018

2 Analysis of Total Income

	Unrestricted Funds	Restricted Funds	Endowment Funds	Total Group 2018	Total Group 2017
	£000	£000	£000	£000	£000
Grant in Aid	16,770	-	-	16,770	15,445
Donations and Legacies					
Grants – Capital Projects	-	-	-	-	885
Donations – Capital Projects	-	3	-	3	230
Donations – Artworks	-	2,058	-	2,058	11,784
Donations - Exhibitions	-	141	-	141	39
Other	213	-	-	213	282
Total Income from Donations and Legacies	213	2,202	-	2,415	13,220
Income from Charitable Activities					
Grants – Other	525	592	-	1,117	497
Exhibition admission fees	700	-	-	700	847
Income from loans out	252	-	-	252	89
Educational events	204	-	-	204	172
Memberships	363	-	-	363	341
Other	270	-	-	270	147
Total Income from Charitable Activities	2,314	592	-	2,906	2,093
Other Trading Activities					
NGS Trading Company Income	2,381	-	-	2,381	2,419
Sponsorship – Exhibitions	116	-	-	116	171
Total Income from Other Trading Activities	2,497	-	-	2,497	2,590
Income from Investments					
Dividends	5	139	35	179	172
Interest	3	-	-	3	9
Total Investment Income	8	139	35	182	181
Total Income	21,802	2,933	35	24,770	33,529

The 2017 figures have been reclassified to show a prior year comparator for 'Donations – Exhibitions' and to show philanthropic income from NGS Patrons under Donations and Legacies rather than as Income from Charitable Activities 'Memberships'.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

3 Grant in Aid

	Group & NGS 2018	Group & NGS 2017
	£000	£000
Grant in Aid Received		
Running Costs	12,970	12,995
Capital Projects	3,450	2,250
Murray Mackinnon	150	-
Purchase Grant	200	200
Total Grant in Aid Received	16,770	15,445

4 Analysis of Total Expenditure

	2018	2017
	£000	£000
Staff Costs	10,809	10,569
Other Operating Costs	8,113	7,419
Depreciation & Amortisation	2,634	2,570
Total Expenditure	21,556	20,558

	Direct Costs	Support Costs	Group 2018	Group 2017 Restated
	£000	£000	£000	£000
Raising Funds				
Cost of fundraising	462	-	462	391
Cost of NGS Trading Company Ltd	1,887	-	1,887	2,036
Investment management costs	20	-	20	18
Total Expenditure on Raising Funds	2,369	-	2,369	2,445
Charitable Expenditure				
Exhibitions and education	5,693	1,848	7,541	7,248
Conserve and add to collections	3,714	1,721	5,435	5,294
Estates management	3,385	430	3,815	3,357
Audience development	1,364	1,032	2,396	2,214
Total Charitable Expenditure	14,156	5,031	19,187	18,113
Total Expenditure	16,525	5,031	21,556	20,558

Some costs have been reclassified between headings within Charitable Expenditure. Prior year figures have therefore been reclassified to enhance comparability with the current year's presentation.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

5 Allocation of Support Costs

	Charitable Activities				Total 2018	Total 2017
	Exhibition and Education £000	Conserve & Add to Collection £000	Estates Managem- ent £000	Audience Developm- ent £000		
Central and Finance	272	253	63	152	740	801
HR	141	132	33	79	385	349
Planning & Performance	128	119	30	71	348	291
IT	345	321	80	193	939	650
Depreciation (NGS)	962	896	224	537	2,619	2,556
Total	1,848	1,721	430	1,032	5,031	4,647

6 Trustees Remuneration and Staff Costs

	Group & NGS 2018 £000	Group & NGS 2017 £000
Staff costs during the year		
Wages and Salaries	8,378	8,211
Social Security Costs	756	690
Other Pension Costs	1,675	1,668
Accounted for in grant aided activities	10,809	10,569

Capitalised staff costs during the financial year amounted to £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 2018	Group & NGS 2017
£60,000 - £69,999	-	2
£70,000 - £79,999	4	4
£80,000 - £89,999	2	-
£90,000 - £99,999	-	-
£100,000 – 109,999	-	1
£110,000 – 120,000	1	-

The total cost of remuneration to key management personnel in 2017/18 was £487,898 (2016/17 £469,783)

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 2017-18, employers' contributions of £1,597,108 were payable to the PCSPS (2016-17 £1,602,421) 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 2018

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 2017-18 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 £56,267 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 £1,974, 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 £5,897. 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 2018 Permanent	Group 2018 Temporary	Group 2017 Permanent	Group 2017 Temporary
Security and Visitor Services	122	8	119	13
Gallery Curatorial and Administration	35	4	34	4
Service Departments	57	5	53	8
Central Administration	36	16	35	16
Revenue Earning Activities	29	5	27	10
	<u>279</u>	<u>38</u>	<u>268</u>	<u>51</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 2017/18 was £115,000 (FTE). This was 6.22 times (2016/17 6.25) the median remuneration of the workforce which is £18,481 (2016/17 £17,932).

Trustees Remuneration

No remuneration was paid to members of the Board of Trustees during 2017/18 (2016/17 nil).

	NGS 2018 £000	NGS 2017 £000
Total amount of travel expenses reimbursed	<u>1</u>	<u>2</u>
Number of trustees receiving reimbursement	<u>2</u>	<u>4</u>

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

Compensation for Loss of Office & Settlement Agreements

In the year to 31 March 2018 no staff left under voluntary exit terms (2016-17 2 staff, cost £89k). Settlement payments were made to 2 staff members at a cost of £5k, funded from operating budgets. (2016-17 - 0).

Trade Union Facility Time

There were 5 employees of NGS who were relevant TU officials during 2017-18, all of which spent 1-50% of their working hours on facility time. The cost of this time to NGS is estimated as 0.05% 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 2018 £000	NGS 2018 £000	Group 2017 £000	NGS 2017 £000
Repairs, renewals and maintenance of buildings	1,927	1,917	1,635	1,628
Cost of sales	961	-	971	-
General expenses	779	669	727	637
Art transport, handling and storage	584	584	635	635
Rates and utilities	721	721	622	622
Printing and promotion	634	607	560	540
IT and communications	714	714	441	441
Legal, consultancy and other professional fees	256	236	366	343
Design and display	298	289	307	297
Education	260	260	285	285
Cleaning	251	251	223	223
Office costs and consumables	72	72	100	100
Travel, subsistence & hospitality	208	195	160	152
Conservation and restoration	192	192	136	136
Operating lease rentals	98	98	111	111
Training and recruitment	86	81	81	80
Internal and External Audit Fees	39	32	34	29
Vehicle costs	33	31	25	24
	8,113	6,949	7,419	6,283

Audit fees include £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 2018

8 Tangible Assets

Group	Land and Buildings	Assets Under Construction	Office Equipment and Computing	Fixtures and Fittings	Vehicles	Total
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2017	118,711	1,940	1,883	4,998	128	127,660
Additions during year	1,106	1,153	240	375	168	3,042
Disposals	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Indexation	3,950	-	-	-	-	3,950
At 31 March 2018	123,767	3,093	2,123	5,373	296	134,652
Accumulated Depreciation						
At 1 April 2017	-	-	1,771	3,948	103	5,822
Charge for year	1,845	-	117	389	53	2,404
Disposals	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Indexation	-	-	-	-	-	-
At 31 March 2018	1,845	-	1,888	4,337	156	8,226
Net Book Value						
At 31 March 2018	121,922	3,093	235	1,036	140	126,426
At 31 March 2017	118,711	1,940	112	1,051	25	121,839

Assets under construction include development expenditure for the SNG Project.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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 2017	118,711	1,940	1,866	4,953	114	127,584
Additions during year	1,106	1,153	240	353	168	3,020
Disposals	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Indexation	3,950	-	-	-	-	3,950
At 31 March 2018	123,767	3,093	2,106	5,306	282	134,554
Accumulated Depreciation						
At 1 April 2017	-	-	1,769	3,920	98	5,787
Charge for year	1,845	-	117	378	50	2,390
Disposals	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Indexation	-	-	-	-	-	-
At 31 March 2018	1,845	-	1,886	4,298	148	8,177
Net Book Value						
At 31 March 2018	121,922	3,093	220	1,008	134	126,377
At 31 March 2017	118,711	1,940	97	1,033	16	121,797

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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 2018

9 Heritage Assets – Group and NGS

Cost or Valuation	£000
At 1 April 2017	197,901
Additions during the year	<u>2,470</u>
At 31 March 2018	<u>200,371</u>

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

	2018	2017	2016	2015	2014
	£000	£000	£000	£000	£000
Donated assets and acquisitions funded by donations	2,095	11,706	1,403	1,833	5,380
Other acquisitions	375	233	175	9	224
Total cost/value of acquisitions	<u>2,470</u>	<u>11,939</u>	<u>1,578</u>	<u>1,842</u>	<u>5,604</u>

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 2018

10 Intangible Assets – Group and NGS

	Computer Software £000	Website £000	Total £000
Cost or Valuation			
At 1 April 2017	201	877	1,078
Additions	-	-	-
Disposals	-	-	-
Transfers	-	-	-
At 31 March 2018	<u>201</u>	<u>877</u>	<u>1,078</u>
Accumulated Amortisation			
At 1 April 2017	180	220	400
Charge for the year	10	220	230
Disposals	-	-	-
At 31 March 2018	<u>190</u>	<u>440</u>	<u>630</u>
Net Book Value			
At 31 March 2018	<u>11</u>	<u>437</u>	<u>448</u>
At 31 March 2017	<u>21</u>	<u>657</u>	<u>678</u>

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

11 Investments

	Group & NGS 2018 £000	Group & NGS 2017 £000
Market value at 1 April	4,786	4,358
Sale of investments	(853)	(1,558)
Realised (loss)/gain	146	43
Purchased investments	730	1,600
Movement in investments held as cash	123	(42)
Change in market value – unrealised (loss)/gain	<u>(155)</u>	<u>385</u>
Market value at 31 March	<u><u>4,777</u></u>	<u><u>4,786</u></u>
Investments at cost	<u><u>4,377</u></u>	<u><u>4,230</u></u>

Investments are managed by Cornelian Asset Managers Limited and are a mixture of investment types. The mix of investment types as at 31 March 2018 is detailed below:

Asset Class	Percentage of Total Portfolio
Fixed Interest	19.3
UK Equities	35.8
International Equities	30.7
Other Assets	10.6
Cash	3.6

12 Stocks

	Group 2018 £000	NGS 2017 £000	Group 2017 £000	NGS 2017 £000
Goods held for resale	<u>662</u>	<u>-</u>	<u>619</u>	<u>-</u>
Net book value of goods held for resale	<u><u>662</u></u>	<u><u>-</u></u>	<u><u>619</u></u>	<u><u>-</u></u>

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

13 Debtors

	Group 2018	NGS 2018	Group 2017	NGS 2017
	£000	£000	£000	£000
Amounts falling due within one year				
Trade Debtors	202	192	124	136
Amounts owed by Group undertakings	-	73	-	73
Other Debtors	222	481	3,390	3,529
VAT Debtor	450	450	325	325
Prepayments	223	146	307	234
	<u>1,097</u>	<u>1,342</u>	<u>4,146</u>	<u>4,297</u>
Amounts falling due after more than one year				
Amounts owed by Group undertakings	<u>-</u>	<u>546</u>	<u>-</u>	<u>219</u>

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 2018	NGS 2018	Group 2017	NGS 2017
	£000	£000	£000	£000
Amounts falling due within one year				
Local Government	-	-	-	-
Central Government	170	169	3,107	2,841
NHS Bodies	-	-	-	-
Public Bodies	-	-	-	-
External to Government	927	1,173	1,039	1,456
Total	<u>1,097</u>	<u>1,342</u>	<u>4,146</u>	<u>4,297</u>

14 Cash at Bank and In Hand

	Group 2018	NGS 2018	Group 2017	NGS 2017
	£000	£000	£000	£000
Cash at bank	4,760	4,311	4,065	4,002
Cash at bank and in hand	<u>4,760</u>	<u>4,311</u>	<u>4,065</u>	<u>4,002</u>

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

15 Creditors: Amounts Falling Due Within One Year

	Group 2018 £000	NGS 2018 £000	Group 2017 £000	NGS 2017 £000
Trade Creditors	913	869	211	192
Other Creditors	306	313	187	187
	<u>1,219</u>	<u>1,182</u>	<u>398</u>	<u>379</u>
Other Taxation and Social Security	190	190	178	178
Accruals	2,218	2,131	5,464	5,395
Deferred Income	1,014	1,014	712	712
	<u>4,641</u>	<u>4,517</u>	<u>6,752</u>	<u>6,664</u>

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

	Group 2018 £000	NGS 2018 £000	Group 2017 £000	NGS 2017 £000
Amounts falling due within one year				
Local Government	-	-	-	-
Central Government	721	721	469	469
NHS Bodies	-	-	-	-
Public Bodies	-	-	-	-
External to Government	3,920	3,796	6,283	6,195
Total	<u>4,641</u>	<u>4,517</u>	<u>6,752</u>	<u>6,664</u>

Analysis of Deferred Income:

	Group & NGS 2018 £000	Group & NGS 2017 £000
As at 1 April	712	483
Charged in year	635	534
Released in year	(333)	(305)
Total as at 31 March	<u>1,014</u>	<u>712</u>

16 Provisions for Liabilities and Charges

	Group 2018 £000	NGS 2018 £000	Group 2017 £000	NGS 2017 £000
As at 1 April	629	629	438	438
Charged in year	83	80	626	626
Released in year	(620)	(620)	(435)	(435)
Total as at 31 March	<u>92</u>	<u>89</u>	<u>629</u>	<u>629</u>

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

17 Consolidated Reserves

	Unrestricted			Restricted					Endowment	Total	
	General Fund £000	Trust Funds Central £000	Purchase Funds £000	Capital Assets Fund £000	General Fund £000	General Fund Revaluation Reserve £000	General Fund Capital Reserve £000	Donated Asset Reserve £000			Trust Funds £000
Opening balance 1 April 2017	521	265	17	80,946	81,749	32,299	30,580	176,394	4,620	1,011	326,653
Government Grant in Aid	16,420	-	350	-	16,770	-	-	-	-	-	16,770
Other Income	5,024	-	-	-	5,024	733	-	2,050	11	-	7,818
Investment Income	3	5	-	-	8	-	-	-	139	35	182
Total Income	21,447	5	350	-	21,802	733	-	2,050	150	35	24,770
Expenditure in Year	(20,823)	-	-	-	(20,823)	(733)	-	-	-	-	(21,556)
Investments revaluation	-	-	-	-	-	-	-	-	(7)	(2)	(9)
Net (Exp)/Inc - SOFA	624	5	350	-	979	-	-	2,050	143	33	3,205
Buildings Revaluation	-	-	-	-	-	3,950	-	-	-	-	3,950
Depreciation release	2,359	-	-	(759)	1,600	(120)	-	(1,480)	-	-	-
Transfers between reserves	(3,222)	-	(325)	3,417	(130)	-	-	148	2	(20)	-
Net Movement in Funds (SOFA)	(239)	5	25	2,658	2,449	3,830	-	718	145	13	7,155
Closing balance 31 March 2018	282	270	42	83,604	84,198	36,129	30,580	177,112	4,765	1,024	333,808

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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 (2016/17 £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 2018

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 2018

18 Notes to the Consolidated Statement of Cash Flows

	2018	2017
	£000	Restated £000
Net movement in funds (as per the Statement of Financial Activities)	7,157	38,820
Adjustments for:		
Depreciation charges	2,634	2,570
(Gains)/losses on revaluation of fixed assets	(3,950)	(25,421)
Losses/(gains) on investments	9	(428)
(Profit)/loss on sale of fixed assets	-	-
Dividends and interest shown in investing activities	(181)	(181)
Donations of artworks for the collection	(1,655)	(7,026)
Non-cash GIA for Murray Mackinnon acquisition	(150)	-
Increase/(decrease) in provisions	(535)	190
(Increase)/decrease in stocks	(43)	7
Decrease/(increase) in Debtors	3,048	(3,157)
(Decrease)/Increase in Creditors	(2,111)	2,952
Net cash provided by (used in) operating activities	<u>4,223</u>	<u>8,326</u>

19 Financial Commitments – Group and NGS

	2018	2017
	£000	£000
	Land & Buildings	Land & Buildings
Leases expiring within one year	76	20
Leases expiring after one year but within five years	13	69
Leases expiring after five years	-	-
	<u>89</u>	<u>89</u>

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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:

	2018	2017
	£000	Restated £000
Turnover	2,380	2,416
Cost of sales	(961)	(971)
Gross profit	1,419	1,445
Administrative costs	(1,171)	(1,178)
Other operating income	-	2
Operating profit	248	269
Interest income	1	1
Interest payable	(3)	(4)
Profit before taxation	246	266
Taxation	(4)	-
Profit after taxation	242	266

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 £16.8m (2016/17 £15.4m). 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.

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

In addition to being a Trustee of NGS, Benny Higgins was Chief Executive Officer of Tesco Bank plc until February 2018. Tesco Bank plc sponsored the Art Competition for Schools.

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. Nicola Catterall, Chief Operating Officer NGS is a director of the NGS Foundation, but the majority of the NGS Foundation directors are unconnected to NGS Charity.

During the year the NGS Foundation made donations of £0.7m (2016/17 £1.1m) to NGS for various projects. During the period to March 2018 administrative services were gifted to NGS Foundation by NGS under the terms of a service agreement. In March 2018 NGS Charity granted NGS Foundation £0.3m.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

21 Related Party Transactions (continued)

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

22 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.

23 Losses and Special Payments

Losses and special payments during the year amounted to £nil (2016/17 £nil). There were no individual losses or special payments of more than £250k.

24 NGS Trading Company Restatement

Due to a change in recommended accounting treatment, contributions paid to the parent undertaking by NGS Trading Company have been re-classified from administrative expenses to distributions in the year ended 31 March 2018. The corresponding balances for the year ended 31 March 2017 have also been re-classified.

The NGS Charity balance sheet for the year ended 31 March 2017 has been restated to reflect a decrease in debtors and net assets of £266,341

The change has no impact on the consolidated financial statements.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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 read 'R. Stewart', is written over a horizontal line.

Signed by the authority of the Scottish Ministers

Dated 31 March 2006

