

National Galleries of Scotland

Trustees' Annual Report and Financial Statements
for the year ended 31 March 2017

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

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Chairman's Foreword

The financial year ending March 2017 was an outstanding year for the National Galleries of Scotland. Once again we had a record number of visitors to our Edinburgh sites, this year reaching over 2.4m. This was in part due to our highly successful exhibitions programme, the highlight of which was Inspiring Impressionism: Daubigny, Monet & Van Gogh at the Scottish National Gallery in summer 2016. Other successful exhibitions included Surreal Encounters, Karla Black & Kishio Suga and Joan Eardley all at the Scottish National Gallery of Modern Art and Facing the World: Self Portraits at the Scottish National Portrait Gallery.

We have continued to develop our international connections and it is worth noting that three of our exhibitions were in collaboration with Galleries across Europe. Art is a very global community and we are currently assessing the impact Brexit may have on our relationships with galleries, funders, visitors and staff of whom some 15% are non UK EU Nationals. We will be working hard to ensure that these relationships are maintained in the best possible way.

We have continued to develop our touring programme, including ARTIST ROOMS, reaching communities across the UK and beyond. We have 41 artists now represented in the ARTIST ROOMS collection and together with the Tate and our partner galleries the collection has been seen by more than 40 million visitors since its launch in 2009.

During the year we acquired a number of works of art, the most significant of which was undoubtedly *The Monarch of the Glen* by Sir Edwin Landseer. Following a major public fundraising campaign at the start of 2017, we were fortunate to raise enough to keep this magnificent and iconic picture in Scotland. We also acquired *On Form and Fiction* by Steven Campbell, a popular room of pictures which was displayed as part of the GENERATION project in 2014.

The excellent work to digitise the entire collection continues and should be complete in 2019, thanks in part to the HLF Skills for the Future trainees. The second tranche of trainees, who are working towards Scottish Qualification Authority qualification in Collections Digitisation and the Certificate of Work Readiness award under the guidance of NGS, started in 2016. By March 2017 we had digitised 45,000 works from the collection, with the assistance of the first tranche of trainees who graduated in March 2016, and launched our new collection on-line website.

Our two major capital projects continue to progress. Work towards the transformation of the Scottish National Gallery continues despite a delay due to the challenges of the site which is over the main railway tunnel into Waverley Station. It had been hoped to finish the project in 2019 but it has been necessary to redesign aspects of the building plans to reduce both risk and cost. Work also continues on the National Collection Facility plans at Granton following the appointment of the design team.

During the year the NGS has been implementing a new strategy focusing on one national collection rather than a number of gallery-specific collections. This is a much needed response to the way the collection is now being used not just to provide displays and exhibitions at our three Edinburgh sites but also how the collection is used across the country, internationally and on line. We also want to use the collection in different ways to reach more people through our history, our culture and the world we live in. In order to facilitate this we have changed the management structure and have recently appointed two senior posts, a Director of Collection and Research, Chris Beward, previously Principal of the Edinburgh School of Art and a Director of Public Engagement, Jo Coomber, previously Marketing Director at Dobbies. This will help us to use the collection in more interesting ways, reach a wider audience and prepare us to be relevant for future generations.

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Chairman's Foreword (continued)

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

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

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

Lastly I will be stepping down in July 2017 as Chairman of the Board of Trustees after 8 very enjoyable years. I will be replaced by Benny Higgins who has been a trustee for the last three years and I wish him and the NGS every success for the future.

A handwritten signature in blue ink that reads "Ben Thomson". The signature is written in a cursive style with a long, sweeping underline.

Ben Thomson
Chairman

Trustees' Annual Report

1 Introduction

The National Galleries of Scotland (NGS) looks after one of the finest collections of art anywhere in the world, consisting of over 160,000 works of fine art. Our principal place of business and registered address is 73 Belford Road, Edinburgh, EH4 3DS, and the collections are 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 collections
- to ensure that the objects are exhibited to the public
- to ensure that the objects are available to persons seeking to inspect them in connection with study or research; and generally to promote the public's enjoyment and understanding of the Fine Arts both by means of the Board's collections and by such other means as they consider appropriate
- for those purposes to provide education, instruction and advice and to carry out research

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 2016-17 Priorities and Objectives

In 2016-17, NGS's activities were focussed on a set of shorter-term priorities and objectives which align with these main aims. These formed the basis of the Corporate Plan for 2016-20 which is available on request.

The priorities and objectives within that Corporate Plan are as follows:

Priority 1: Improve the Quality of our Offer	
<i>Objectives</i>	Seek new acquisitions to keep the collections relevant and alive
	Improve the care of our collections
	Deliver our research plan
	Place the permanent collection at the centre of an innovative and imaginative public programme
	Improve our facilities
Priority 2: Engagement: Develop our Audiences	
<i>Objectives</i>	Increase visits to NGS to 2.5 million by 2020
	Increase digital visitors to reach 3 million by 2020
	Improve the experience of our visitors
	Broaden access to the collections through learning and outreach programmes
	Offer wider opportunities for youth engagement
	Build our partnerships
Priority 3: Develop a sustainable and efficient business model	
<i>Objectives</i>	Support the Business Plan for the NGS Trading Company
	Increase income from membership, philanthropy and donations from visitors
	Implement a new Organisational Development Strategy

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Trustees' Annual Report (continued)

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 2016-17 are set out below shown against target. The year on year trend is also provided.

Indicator		Target / Projection 2016/17	Results for 2016/17	Status	Y-o-Y Trend
Number of actual visits to all gallery sites	SNG	1,238,100	1,569,776	★	↑
	SNGMA	440,000	504,765	★	↑
	SNPG	330,000	333,091	●	↑
	NGS Total	2,008,100	2,407,632	●	↑
Number of paid visits to exhibitions		100,000	106,338	★	↓
Income / Expenditure: Performance against approved exhibition budgets		Income: £1,036,414 Expenditure: - £1,025,383	Income: £1,136,897 Expenditure: - £1,040,140	●	-
Number of website visits		2,000,000	1,805,879	●	↑
Average dwell time on website		03:00 minutes	02:24 minutes	●	-
Number of e Bulletin subscribers		22,253	25,444	★	↑
Number of participants from schools		22,000	30,906	★	-
Number of participants from families		7,700	7,839	●	↓
Number of participants from communities		4,060	7,386	★	↑
Number of adult education participants		18,500	21,528	★	↓
Percentage of storage/gallery spaces providing minimum standard environmental conditions for our collection (m ²)		70%	60%	●	-
Percentage of identified training needs delivered		100%	87.8%	●	-
Number of young people (16-24) who have started working, training or volunteering with NGS		-	92	-	↑
Number of Volunteer Hours		-	15,305	-	↑
Net return from trading activity		£354k	£266k	●	↓
GIA per visitor		-	£5.35	-	↑
Percentage reduction in carbon emissions		34.8%	38.33%	★	↑

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

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3.2 Developing the Collection

The primary role of the Board of Trustees is to care for and develop the national collection of fine art. The SNG's collection ranges in date from the early Renaissance to the end of the nineteenth century. It covers paintings, prints, drawings and sculpture, and includes most of the major figures of Western art such as Raphael, Titian, Velázquez, Vermeer, Watteau, Constable and nearly all of the Impressionists and Post-Impressionists. It also houses the national collection of Scottish art c.1600-c.1900 and the internationally renowned Bridgewater Loan.

The SNPG is responsible for collecting portraits of Scotland's inspirational men and women for the interest of the present and future generations and also managing the National Photography Collection.

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

As at 31 March 2017 there are 102,233* objects catalogued (100,301 as at 31 March 2016) in NGS's permanent collection.

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

Paintings	3,702
Works on Paper	52,229
Photographs	35,191
Sculpture	4,890
Printed Material	2,792
Manuscript Material	935
Decorative and Applied Art	2,127
Installation and Film	110
Accessory	137
Other	120

**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 2016-17 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 2016-17 was the acquisition of Landseer's *Monarch of the Glen*, made possible with funding from the Heritage Lottery Fund, the Art Fund, the Dunard Fund and private donations.

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Other notable acquisitions during the year included:

- Toyen (Marie Čermínová) (1902-1980), Message of the Forest (Poselstvi Lesa)
(Purchased with help from the Henry and Sula Walton Fund and Art Fund with a contribution from The Wolfson Foundation)
- Steven Campbell (1953 – 2007), On Form & Fiction
(Purchased in conjunction with Glasgow Life and with assistance from The Art Fund, Creative Scotland and the Olive Pollock Morris Trust Fund.)
- Claude Monet, Etretat, the Needle Rock and Porte d'Aval, the Cap d'Antifer (Cliffs at Etretat)
(Accepted in lieu of Inheritance Tax by H M Government)
- David Allan (1744-1796), The Carnival at Rome: The Piazza del Popolo
- Ken Currie, Tragic Form (Skate) 2014
- Jock MacFadyen (b.1950), Calton Hill
- Eric Robertson (1887 – 1941), Miss Maidie and Miss Elsie Scott
- Jenna Gearing, Captain Eric Brown
- William Turnbull (1922-2012), Sungazer 1956
(Accepted in lieu of Inheritance Tax by H M Government)
- Allan Ramsay, Prince Charles Edward Stuart, 1720 - 1788. Eldest Son of Prince James Francis Edward Stuart (Accepted in lieu of Inheritance Tax by H M Government)

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 2016-17 we welcomed over 2.4m visitors across our three gallery sites, a record figure.

ARTIST ROOMS, our collaboration with Tate, is now in its ninth year and continues to engage audiences across the UK with world-class modern and contemporary art. Rooms from the collection were shown in 3 additional venues during the year reaching a further 80,000 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 2016-17, NGS lent 437 works to venues across Scotland, the UK and further afield, greatly expanding our reach. The touring exhibitions programme included a partnership with Staatliche Kunsthalle Karlsruhe and Musee des Beaux Arts Lyon to deliver an exhibition on self-portraits from the sixteenth century to the present day. Entitled Facing the World: Self-Portraits from Rembrandt to Ai Weiwei the exhibition comprised around 100 works drawn from each of the three partners' collections and was awarded an EU grant. We also toured

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the Surreal Encounters exhibition to Hamburger Kunsthalle, 6 October 2016 – 22 January 2017, and the Museum Boijmans Van Beuningen, Rotterdam, 11 February – 28 May, 2017.

NGS had over 1.8m visits to its website during the year. A new website was launched in March 2017, which included the on-line collection. A digitisation programme began in early 2015 with a view to photographing the entire 2D collection by 2019. The programme is at the halfway stage and it is on target. By 31 March 2017, over 45,000 artworks had been digitised. Photography of the sculpture collection will begin in summer 2017 with a completion date of 2019. 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.

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

	2016/17	2015/16	2014/15	2013/14
Total visits to Edinburgh Galleries	2,407,632	2,209,278	1,994,973	1,460,259
Total visits to NGS works at other locations*	638,763	368,821	70,437	61,348
Total visits to website	1,805,879	1,626,060	1,367,440	1,389,528

*This figure excludes ARTIST ROOMS

3.4 *The Public Programme*

The 2016-17 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 Inspiring Impressionism. This major international exhibition demonstrated the importance of Daubigny and his connections with the Impressionists, especially Monet and Van Gogh. Numbers exceeded expectation with over 55,000 paying visitors coming through the door.

In total, five paying shows opened in 2016-17:

Scottish National Gallery	
Inspiring Impressionism: Daubigny, Monet & Van Gogh	RSA Upper Galleries, 25 June – 2 October 2016
Scottish National Gallery of Modern Art (Modern 1 & 2)	
Surreal Encounters: Collecting the Marvellous	Modern One, 4 June – 11 September 2016
Karla Black & Kishio Suga: A New Order	Modern One, 22 October 2016 – 19 February 2017
Joan Eardley: A Sense of Place	Modern Two, 3 December 2016 – 21 May 2017
Scottish National Portrait Gallery	
Facing the World: Self-Portraits Rembrandt to Ai Weiwei	16 July – 16 October 2016

There were many free exhibitions and displays throughout the year in addition to the paying shows. We had a flying visit in November from *The Goldfinch* by Carel Fabritius. This beautiful work was lent to us by the Mauritshuis Museum in The Hague. The painting had never been exhibited in Scotland before and had only

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visited the UK on a small number of occasions. It proved a popular draw for visitors. Other highlights included the biennial visit of works from the BP Portrait Award, this year won by Edinburgh-born Clara Drummond, and the Taylor Wessing Photographic Portrait Prize at the Portrait Gallery. This year's Artist Rooms show was Joseph Beuys: A Language of Drawing at Modern Two.

All of the temporary displays complemented our high quality permanent collection displays, contributing to another record year for visitors to our Edinburgh sites.

A strong education programme accompanied our displays and exhibitions as always. We have been developing a strand of activities for children in their early years and we have especially enjoyed developing Bring Your Own Baby, a gallery tour for parents of babies under 1 that welcomes conversation, questions, and gurgles! Our 'Strange Lands and Peculiar Places' holiday family programme welcomed 3,000 participants including over 200 children from 12 community groups including Clovenstone Community Centre and ESOL family learning who booked their very own session. The Goldfinch proved an inspiration for our programmes for schools and adult programme.

In total, there were around 67,500 participants in the NGS Education programme in 2016/17, 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 2016-17 NGS published 8 new titles.

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 now Chairman of the Bizot Group, a group of leading international museum directors, and sits on the Committee of the National Museum Directors Council, which represents the leaders of UK national and major regional museums.

3.6 Partnership and Collaboration

Working in partnership with users as well as other arts and voluntary organisations, 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.

Three of our paying exhibitions formed the cornerstone of our touring programme in 2016-17. Inspiring Impressionism was also exhibited at the Van Gogh Museum in Amsterdam and the Taft Museum of Art in Cincinnati, Surreal Encounters travelled to Hamburg and Boijmans Museum in the Netherlands and Facing the World was part of a partnership with Musée de Beaux Arts de Lyon and Staatliche Kunsthalle, Karlsruhe.

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ARTIST ROOMS was another strand of our national touring programme in 2016-17. Funding from The Art Fund and continuing support from Creative Scotland enabled NGS and Tate to share this outstanding collection with other venues in the UK. The aim of ARTIST ROOMS is to enable post-war and contemporary international art to be shared with audiences throughout the UK, as a catalyst for exciting and stimulating programming that will engage new audiences, particularly young people. The 2016-17 programme included partnerships with The Bowes Museum and Wolverhampton 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 success of this year's Public Programme in conjunction with planned fundraising initiatives has resulted in an increase in the financial contribution from exhibitions and memberships. This is discussed in greater detail in the Financial Overview.

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

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

Friends' membership stood at 12,185 on 31 March 2017, compared with 10,302 as at 31 March 2016. In 2016-17 their funds were 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 was provided for the sponsorship for the Taylor Wessing Photographic Portrait Prize 2015 exhibition held in Summer 2016 and for the *Surreal Adventures* outdoor activity at Modern One which accompanied the *Surrealist Encounters* exhibition, also in the Summer of 2016.

In 2016-17, Patrons generously supported the acquisition of *Summer Day in the Dunes* by Frances Walker and the American Patrons supported *Paysage* by Antoine-Louis Barye.

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 £78,000 during 2016-17.

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4 Financial Review

4.1 Introduction

The financial statements have been prepared in accordance with the Accounts Direction and 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	12,995	12,995
Purchase Grant	200	200
Capital Projects	2,250	2,250
	<u>15,445</u>	<u>15,445</u>
Non-Cash Items (Notional)		
Depreciation	980	2,025
Total	<u>15,445</u>	<u>17,470</u>

4.3 Financial Results

The Financial results for 2016-17 are set out in the Consolidated Statement of Financial Activities on page 31.

Total income, including donated assets, for the year was £33.5m and expenditure was £20.6m to give a net income figure for the year including unrealised gains on investments of £13.4m.

In addition, there is a revaluation gain on the Fixed Assets (buildings) in the year of £25.4m to give a total positive movement in funds of £38.8m.

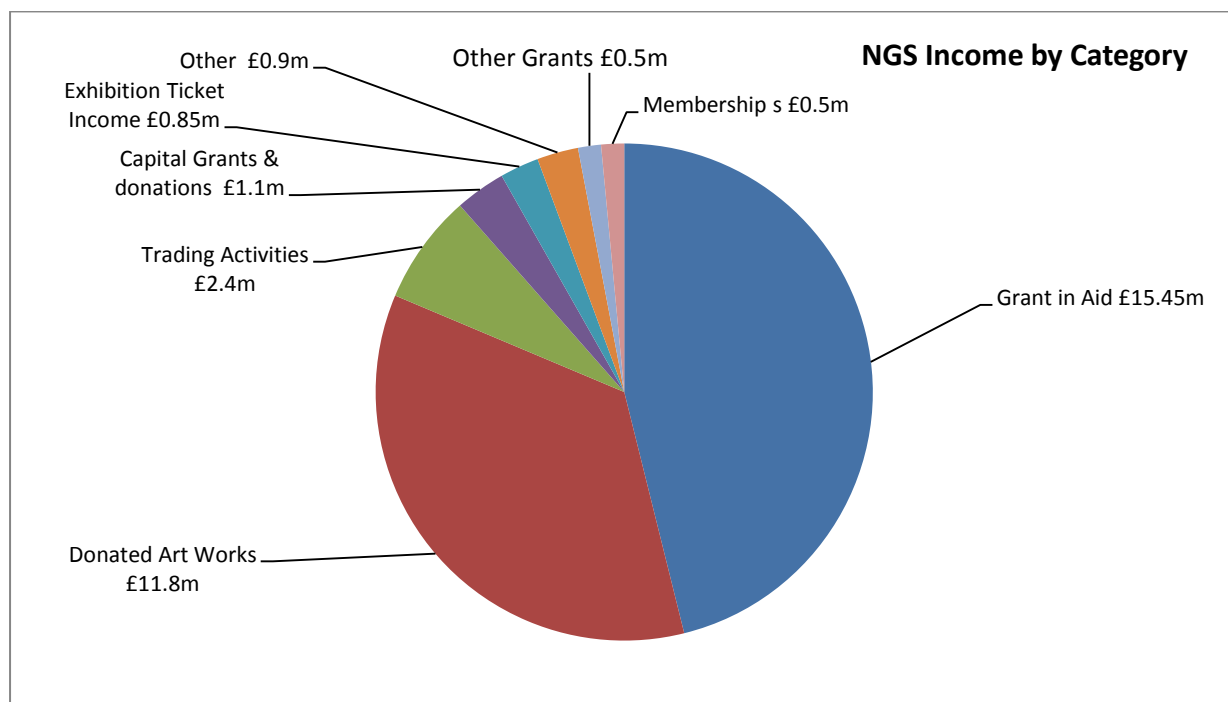
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Income

The following graph analyses the major sources of income for NGS in the financial year to 31 March 2017.



A detailed year on year comparison is set out in note 2 to the Financial Statements, page 39

The largest source of income for NGS is Grant in Aid (GIA) received from the Scottish Government. In the year to 31 March 2017 £12.995m (2016 £13m) of GIA was received to support the running costs of NGS, including £0.1m for a VES program. £2.45m (2016 £0.9m) of GIA was also allocated by the Scottish Government for capital projects and additions to the collection.

In line with NGS's business plan, progress has also been made to increase self-generated income during 2017, with membership income increasing year on year and other commercial income remaining steady.

Other Capital Grants and donations of £1.1m to support the development phase of the Scottish National Gallery Project and the software development associated with the Digital Engagement project were received during 2016-17 (2015-16, £0.6m).

In addition £0.5m (2016 £0.8m) of other grant funding was received from various sources to support the Digitisation of the collection and other education and curatorial initiatives.

Donated Artworks to the value of £11.8m were added to the collection during 2016-17 (2015-16, £1.3m). These include new artworks funded from cash donations of £4.6m and transfer of artworks under HM Government's Acceptance in Lieu of Inheritance Tax Scheme.

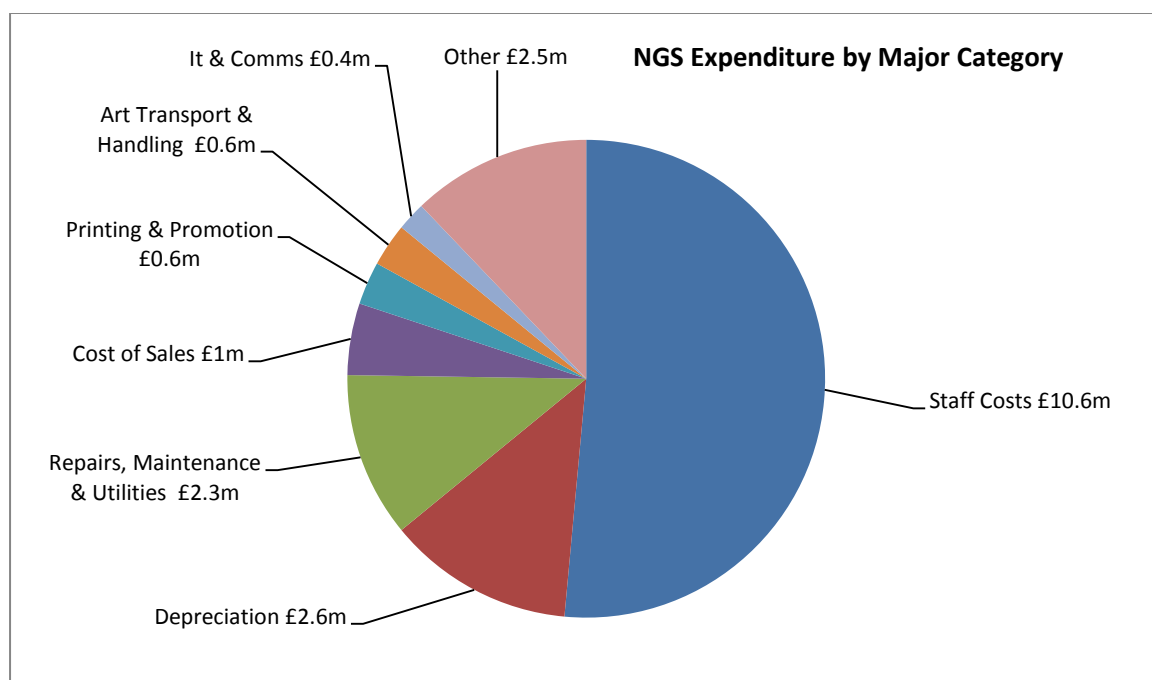
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Expenditure

The following graph analyses the major categories of expenditure by NGS in the financial year to 31 March 2017.



A more detailed analysis of other costs with comparatives is available in note 7 to the Financial Statements on page 43.

Staffing costs continue to be the most significant category of expenditure for NGS. Total staff costs increased by £0.4m to £10.6m during 2016-17 (2015-16, £10.2m). The increases primarily arise with the implementation of Scottish Government pay policy. These costs also include £0.1m in respect of a voluntary exit scheme implemented in the year.

Estates costs in 2015-16 (£2.6m) included significant repair work, thus current year costs of £2.3m in 17-18 are lower. Other costs have remained flat year on year as budgets were cut in line with GIA reductions.

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.

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An investment management company, Cornelian Asset Managers Ltd, who were appointed in the year to March 2014 remain managers of the investment portfolio of the organisation.

4.5 Reserves & Reserves Policy

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

A detailed analysis of NGS's reserves and the movements during the year is set out in note 17 to the Financial Statements, page 52.

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 (2015-16, £100,000).

4.6 Payment of Creditors

It is our policy to pay suppliers within thirty days of invoice date unless alternative payment terms have been agreed. This was achieved on 97% of payments in 2016-17 (2015-16 97%). A 10 day payment initiative was introduced by the Scottish Government in December 2008 and we achieve this with 82% of our creditors (2015-16 76%).

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:

- Failure to invest in collections care & security, leading to potential 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 organization changes
- Meeting the externally-imposed increases in employment costs (pensions, living wage, NI)
- Security/safety of the collection, estate and people compromised due to inadequate investment in training and resources.
- Delay in any element of the major capital programme and the knock-on effect to other projects.
- Reputational damage as a result of inadequate funding and significant lowering of quality/ambition.
- Uncertainty regarding regulation, legislation and funding following political volatility

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 2017-22

Supporting our long-term vision and aims, the priorities and objectives set out in the following table have been identified for the next five years:

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

5.2 Outlook

A strong and vibrant arts sector is a key component to Scotland's tourism and culture sector 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.

Well over half (59%) 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 is therefore looking for ways to develop additional income through its trading company and through philanthropy and as many visitors as possible are also encouraged to become Friends or Patrons and support the work of the NGS.

NGS has been undergoing a major review of its business model, finding more efficient ways of delivering its service and reducing expenditure, while still retaining the quality of the programme. In parallel with this work NGS has been developing its brand and values. This has culminated in a streamlining of the senior management team and a move 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 embedding the brand during 2017-18.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Trustees' Annual Report (continued)

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

The Capital Projects discussed below are central to this plan.

5.3 Capital Programme

NGS has three capital projects planned over the coming years: the development of the Scottish National Gallery, the creation of a new National Collections Facility and the Systems of Engagement project.

The Scottish National Gallery project is undergoing an extensive review following completion of a major tender process in early 2017. The project will be slightly delayed and re-cast with a view to starting on-site in 2018 and completing in 2020. The project will create much improved gallery space for the Scottish collection.

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. Further information on both this and the Scottish National Gallery project is available in the Annual Review 2016/17.

The Systems of Engagement project is focused on developing the NGS IT infrastructure to optimise the use of information both internally and externally and ensure that information management systems are fully effective, consistent and continuously improving across the whole of the collection. As part of this project, NGS is currently working through digitisation of the entire collection. Target completion of this project is by the end of 2020. The second tranche of HLF Skills for the Future trainees started in autumn 2016. The project is 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.

This project has been hugely successful to date, 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 new NGS website.

Trustees' Annual Report (continued)

6 Structure Governance and Management

6.1 Status & History

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

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

6.2 Corporate Governance

NGS is a non-departmental public body primarily funded by the Scottish Government and managed on its behalf by a Board of Trustees, appointed by the Cabinet Secretary for Culture, Europe and External Affairs. NGS operates within a strict legislative and regulatory framework underpinned by the National Heritage (Scotland) Act 1985 and the Charities and Trustee Investment (Scotland) Act 2005.

The Board, with a maximum of 12 (minimum of 7) Trustees appointed by the Cabinet Secretary, meets six 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 were no changes to Board membership in 2016-17.

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 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 2017 there were three other sub-committees: the Remuneration Committee, the Major Capital Programme Committee and the Board Review Committee.

The NGS Trading Company Limited (registered in Scotland, SC312797) is managed on behalf of NGS by a Board, with membership drawn from the Board of Trustees, Senior Management Team and with an external adviser from the retail sector. The Board is chaired by Trustee Lesley Knox.

Trustees' Annual Report (continued)

The financial statements of NGS are audited by Audit Scotland, who were appointed by the Auditor General for Scotland for a period of five years to financial year ended March 2021.

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

6.3 Equal Opportunities and Diversity

NGS complies with the Equality Act 2010 and the specific equality duties outlined for Scottish public bodies. In line with the duties, NGS has established a set of equality outcomes to work towards. Those were first set out in 2013 and are updated biennially along with a report on progress against these outcomes, a report on our efforts to mainstream equalities in the work that we do, statements on the gender pay-gap and employee equality statistics. 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's participation in the Carbon Trust's Carbon Management Programme that resulted in the production of a Carbon Management Plan which outlined measures NGS was taking to reduce its carbon emissions by 20% by the end of 2014. Having exceeded this target by achieving a reduction of 30% against the baseline of 2008, a new target of 42% has been set, to be reached by 2020. Compared with 2008, electricity consumption has reduced by 33% and gas consumption by 28%.

Trustees' Annual Report (continued)

NGS gives full consideration to environmental matters when managing operations, altering the buildings and in reaching housekeeping decisions. Though much of the responsibility for these decisions will fall to senior management, all NGS staff are encouraged to play a role in protecting the environment by making the most efficient use of resources within their control. 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 98% compared with 2008.

6.6 Sickness Absence Data

For the 12 month period from 1 April 2016 to 31 March 2017, 2.7% of working days were lost as a result of sickness absence (2015-16, also 2.7%).

6.7 Data Handling

There were no personal data-related incidents in 2016-17. 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 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 will now be implemented across NGS under the management of our new Records Manager.

NGS is also taking into account the requirements under the new General Data Protection Regulation. All related policies and procedures will be reviewed as part of the implementation process in 2017-18.

6.8 Accountable Officer

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

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Trustees' Annual Report (continued)

7 Reference and Administration details

7.1 Trustees: 1 April 2016– 31 March 2017

Ben Thomson (Chairman) (to 30 June 2017)
Tricia Bey (Chair, Major Capital Programme Committee)
Alistair Dodds (Chair, Audit and Risk Committee)
Edward Green
Benny Higgins (Chairman from 1 July 2017)
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 2017, with the exception of the Chairman, continued to be serving Trustees up to and on the date the Financial Statements were signed. The Chairman retired from office on 30 June 2017. The new Chairman, from 1 July 2017, is current Trustee Benny Higgins. 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 2016 – 31 March 2017

Sir John Leighton	Director-General
Michael Clarke	Director of the Scottish National Gallery (to 30 September 2016)
Nicola Catterall	Chief Operating Officer
Simon Groom	Director of Scottish National Gallery of Modern Art
Christopher Baker	Director of the Scottish National Portrait Gallery
Jacqueline Ridge	Keeper of Conservation
Patricia Convery	Acting Director of Audience Engagement
Elaine Anderson	Head of Planning & Performance

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 2016-17, 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 2017

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
11 September 2017

Sir John Leighton
Accountable Officer
11 September 2017

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

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.

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, page 19 of the Trustee's report.

Scope of Responsibility

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

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

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling of public funds. It is mainly designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety, and secure effective accountability and good systems of internal control.

Purpose of the System of Internal Control

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

The system of internal control is based on an 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 2017 and up to the date of approval of the financial statements and accords with guidance from the Scottish Ministers.

Risk and Control Framework

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

In accordance with SPFM requirements and best practice NGS 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/Operational and strategic management 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.

In terms of data handling, the only sensitive personal data we process and share is in relation to staff payroll, which is transferred externally to our payroll handler. The personal data of our staff is held in our HR system. There is a database of personal data in relation to donors and supporters, but the processes are well controlled and staff trained to understand the sensitivity of the data. We never share or transfer that data to another organisation, unless done so under a contracted service, and that data belongs solely to NGS. There were no personal data-related incidents in 2016-17.

Governance Statement (continued)

Review of Effectiveness

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

- the Executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors, who submit to the organisation's Audit 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 2016-17, 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. The Audit and Risk Committee is responsible for setting the annual internal audit programme, identifying specific areas for audit. The Audit and Risk Committee and senior management team review all internal audit reports and are responsible for ensuring the implementation of any necessary adjustments.

Following a review of internal systems and risks in 2016-17 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 60% 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 will take 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 of the Trustees report, and a quinquennial maintenance schedule to address this. Both of these initiatives carry inherent risk.
- NGS continues to review its mixed economy 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 2020 have been prepared which will inform the development of a 3 year business plan from 2018. These plans will go some way towards addressing the risks, however as NGS becomes increasingly dependent on variable and discretionary income sources the risk of not covering our substantial fixed cost base increases.
- Staff costs are by far the biggest running cost incurred by NGS, representing over 81% of our revenue grant-in-aid. Even with relatively static headcount and more externally funded posts, we have experienced unavoidable increases due to increased employer's national insurance and pension contributions. In addition the impact of universal statutory living wage has the potential to increase NGS staff costs further as well as increasing the costs of contracted services (e.g. catering and cleaning).

Governance Statement (continued)

- 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.
- Fraud attempts from external parties have become increasingly common and more sophisticated. Whilst NGS has not fallen victim to any scams during the year, we have tested the adequacy of our security systems and response to potential cyber-attack through an internal audit. A number of actions were identified and the recommendations will be taken on board

Sir John Leighton
Accountable Officer
11 September 2017

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

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 annual report and accounts of National Galleries of Scotland and its group for the year ended 31 March 2017 under the 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, and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Consolidated Statement of Financial Activities, the Consolidated Balance Sheet, the Balance Sheet, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the National Galleries of Scotland Act 1906 as amended by the National Heritage (Scotland) Act 1985, and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2017 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the National Galleries of Scotland Act 1906 as amended by the National Heritage (Scotland) Act 1985, and directions made thereunder by the Scottish Ministers, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, 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.

Responsibilities of the Trustees and Accountable Officer for the financial statements

As explained more fully in the Statement of Trustees' and Accountable Officer's Responsibilities, the Trustees are 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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustees; and the overall presentation 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&I) 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.

Other information in the annual report and accounts

The Trustees are 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 in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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 2017

Report on other requirements

Opinions on other prescribed matters

I am required by the Auditor General for Scotland to express an opinion on the following matters.

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 and the remuneration and staff disclosures 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
Audit Scotland
4th Floor
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

12th September 2017

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Consolidated Statement of Financial Activities for the Year Ended 31 March 2017

	Note	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total 2017 £000	Total 2016 Restated £000
Income						
Grant in Aid	3	15,445	-	-	15,445	14,155
Donations and Legacies	2	439	12,669	-	13,108	2,011
Income from Charitable Activities	2	1,708	497	-	2,205	2,328
Other Trading Activities	2	2,590	-	-	2,590	2,651
Income from Investments	2	14	133	34	181	174
Total Income and Endowments		20,196	13,299	34	33,529	21,319
Expenditure						
Expenditure on Raising Funds	4	(1,840)	-	-	(1,840)	(1,752)
Expenditure on Charitable Activities	4	(15,651)	(497)	-	(16,148)	(16,528)
Depreciation	4	(2,570)	-	-	(2,570)	(2,388)
Total Expenditure		(20,061)	(497)	-	(20,558)	(20,668)
Net Gains/(Losses) on Investment Assets		12	332	83	427	(148)
Net Income/(Expenditure)		147	13,134	117	13,398	503
Creditor Release	24	-	-	-	-	815
Transfers Between Funds	17	(230)	260	(30)	-	-
Depreciation Release	17	1,590	(1,590)	-	-	-
Other Recognised Gains and Losses						
Gains/(Losses) on Revaluation of Fixed Assets	17	-	25,422	-	25,422	2,465
Net Movement in Funds		1,507	37,226	87	38,820	3,783
Reconciliation of Funds						
Total Funds b/f at 1 April 2016	17	80,242	206,667	924	287,833	284,050
Total Funds b/f at 1 April 2017	17	81,749	243,893	1,011	326,653	287,833
Total Fund Balances Made Up By						
General Fund	17	521	-	-	521	992
Capital Assets Fund	17	80,946	-	-	80,946	78,962
General Fund Revaluation Reserve	17	-	32,299	-	32,299	6,877
General Fund Capital Reserve	17	-	30,580	-	30,580	30,580
Donated Asset Reserve	17	-	176,394	-	176,394	165,143
Trust Funds & Bequests (incl. Purchase Fund)	17	282	4,620	1,011	5,912	5,279
Total Fund Balances		81,749	243,893	1,011	326,653	287,833

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

The notes on pages 35-57 form part of the financial statements

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Consolidated Balance Sheet as at 31 March 2017

	Note	Total 2017 £000	Total 2016 Restated £000
Fixed Assets			
Intangible Assets	10	678	149
Tangible Assets	8	121,839	96,068
Heritage Assets	9	197,901	185,962
Investments	11	4,786	4,358
		<u>325,204</u>	<u>286,537</u>
Current Assets			
Stocks	12	619	626
Debtors: amounts falling due within one year	13	4,146	989
Cash at bank and in hand	14	4,065	3,919
		<u>8,830</u>	<u>5,534</u>
Creditors: amounts falling due within one year	15	<u>(6,752)</u>	<u>(3,800)</u>
Net Current Assets		<u>2,078</u>	<u>1,734</u>
Total Assets less Current Liabilities		<u>327,282</u>	<u>287,271</u>
Provisions for liabilities and charges	16	(629)	(438)
Total Net Assets		<u><u>326,653</u></u>	<u><u>287,833</u></u>
Represented by:			
Unrestricted Reserves			
Designated	17	81,649	80,142
Undesignated	17	100	100
Restricted Reserves	17	243,893	206,667
Total Funds		<u>325,642</u>	<u>286,909</u>
Capital Funds – Permanent Endowments	17	1,011	924
Total Charity Funds		<u><u>326,653</u></u>	<u><u>287,833</u></u>

The financial statements on pages 31 – 57 were approved by the Accountable Officer and Board of Trustees on 11 September 2017 and authorised for issue on the same date.

Benny Higgins
On behalf of the Board of Trustees
11 September 2017

Sir John Leighton
Accountable Officer
11 September 2017

The notes on pages 35-57 form part of the financial statements

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Balance Sheet as at 31 March 2017

	Note	Total 2017 £000	Total 2016 Restated £000
Fixed Assets			
Intangible Assets	10	678	149
Tangible Assets	8	121,797	96,020
Heritage Assets	9	197,901	185,962
Investments	11	4,786	4,358
		<u>325,162</u>	<u>286,489</u>
Current Assets			
Debtors: amounts falling due within one year	13	4,563	1,440
Cash at bank and in hand	14	4,002	3,638
		<u>8,565</u>	<u>5,078</u>
Creditors: amounts falling due within one year	15	<u>(6,664)</u>	<u>(3,588)</u>
Net Current Assets		1,851	1,490
Debtors: amounts falling due after one year	13	219	292
Total Assets less Current Liabilities		<u>327,282</u>	<u>287,271</u>
Provisions for liabilities and charges	16	(629)	(438)
Total Net Assets		<u>326,653</u>	<u>287,833</u>
Represented by:			
Unrestricted Reserves			
Designated	17	81,649	80,142
Undesignated	17	100	100
Restricted Reserves	17	243,893	206,667
Total Funds		<u>325,642</u>	<u>286,909</u>
Capital Funds – Permanent Endowments	17	1,011	924
Total Charity Funds		<u>326,653</u>	<u>287,833</u>

The financial statements on pages 31 – 57 were approved by the Accountable Officer and Board of Trustees on 11 September 2017 and authorised for issue on the same date.

Benny Higgins
On behalf of the Board of Trustees
11 September 2017

Sir John Leighton
Accountable Officer
11 September 2017

The notes on pages 35-57 form part of the financial statements

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Consolidated Statement of Cash Flows for the Year Ended 31 March 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities:			
Net cash generated from operating activities	18	<u>8,326</u>	<u>2,777</u>
Cash flows from investing activities:			
Dividends and interest received		181	173
Purchase of artworks		(4,913)	(974)
Purchase of property, plant and equipment		(3,448)	(1,558)
Proceeds from the sale of property, plant and equipment		-	5
Net cash used in investing activities		<u>(8,180)</u>	<u>(2,354)</u>
Change in cash and cash equivalents in the reporting year		<u>146</u>	<u>423</u>
Analysis of changes in net funds:			
Cash and cash equivalents at the beginning of the reporting year	14	3,919	3,496
Cash and cash equivalents at the end of the reporting year	14	<u>4,065</u>	<u>3,919</u>
Change in cash and cash equivalents in the reporting year		<u>146</u>	<u>423</u>

The notes on pages 35-57 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). On transition to FRS102 no material prior year restatements were required.

The company 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 49 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 (FRM), 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 by the Scottish Government is transferred to the Capital Assets Fund (formerly the Deferred Grant Reserve), and released over the lifetime of the asset to offset asset depreciation.

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

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

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

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.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

2 Analysis of Total Income

	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total Group 2017 £000	Total Group 2016 £000
Grant in Aid	15,445	-	-	15,445	14,155
Donations and Legacies					
Grants – Capital Projects	-	885	-	885	617
Donations – Capital Projects	230	-	-	230	-
Donations – Artworks	-	11,784	-	11,784	1,308
Other	209	-	-	209	86
Total Income from Donations and Legacies	439	12,669	-	13,108	2,011
Income from Charitable Activities					
Grants – Other	-	497	-	497	810
Exhibition admission fees	847	-	-	847	895
Income from loans out	89	-	-	89	76
Educational events	172	-	-	172	138
Memberships	453	-	-	453	356
Other	147	-	-	147	53
Total Income from Charitable Activities	1,708	497	-	2,205	2,328
Other Trading Activities					
NGS Trading Company Income	2,419	-	-	2,419	2,455
Sponsorship – Exhibitions	171	-	-	171	196
Total Income from Other Trading Activities	2,590	-	-	2,590	2,651
Income from Investments					
Dividends	5	133	34	172	161
Interest	9	-	-	9	13
Total Investment Income	14	133	34	181	174
Total Income	20,196	13,299	34	33,529	21,319

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

3 Grant in Aid

	Group & NGS 2017 £000	Group & NGS 2016 £000
Grant in Aid Received		
Running Costs	12,995	13,055
Capital Projects	2,250	900
Purchase Grant	200	200
Total Grant in Aid Received	15,445	14,155
Allocated to:		
General Fund	12,995	13,055
Capital Assets Fund	2,250	900
Purchase Fund	200	200
	15,445	14,155

4 Analysis of Total Expenditure

	Note	2017 £000	2016 £000
Staff Costs		10,569	10,181
Other Operating Costs		7,419	8,099
Depreciation & Amortisation		2,570	2,388
Total Expenditure		20,558	20,668

	Direct Costs £000	Support Costs £000	Group 2017 £000	Group 2016 £000
Raising Funds				
Cost of fundraising	673	-	673	609
Cost of NGS Trading Company Ltd	1,149	-	1,149	1,136
Investment management costs	18	-	18	18
Total Expenditure on Raising Funds	1,840	-	1,840	1,763
Charitable Expenditure				
Exhibitions and education	5,499	1,749	7,248	6,891
Conserve and add to collections	3,723	1,571	5,294	5,249
Estates management	2,971	386	3,357	4,037
Audience development	1,878	941	2,819	2,728
Total Charitable Expenditure	14,071	4,647	18,718	18,905
Total Expenditure	15,911	4,647	20,558	20,668

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

5 Allocation of Support Costs

	Charitable Activities				Total 2017	Total 2016
	Exhibition and Education	Conserve & Add to Collection	Estates Managem- ent	Audience Developm- ent		
	£000	£000	£000	£000	£000	£000
Central and Finance	301	271	67	162	801	513
HR	131	118	29	71	349	349
Planning & Performance	110	98	24	59	291	401
IT	244	220	54	132	650	687
Depreciation (NGS)	962	864	212	518	2,556	2,377
Total	1,748	1,571	386	942	4,647	4,327

6 Trustees Remuneration and Staff Costs

	Group & NGS 2017	Group & NGS 2016
	£000	£000
Staff costs during the year		
Wages and Salaries	8,211	8,129
Social Security Costs	690	517
Other Pension Costs	1,668	1,535
Accounted for in grant aided activities	10,569	10,181

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 2017	Group & NGS 2016
£60,000 - £69,999	2	4
£70,000 - £79,999	4	2
£80,000 - £89,999	-	1
£90,000 - £99,999	-	-
£100,000 – 109,999	1	1

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:

<http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/>

For 2016-17, employers' contributions of £1,602,421 were payable to the PCSPS (2015-16 £1,563,297) at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. 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 2016-17 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

6 Trustees Remuneration and Staff Costs (continued)

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £49,820 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 £1,735, 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 £5,237. 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 2017 Permanent	Group 2017 Temporary	Group 2016 Permanent	Group 2016 Temporary
Security and Visitor Services	119	13	121	14
Gallery Curatorial and Administration	34	4	34	5
Service Departments	53	8	49	8
Central Administration	35	16	35	13
Revenue Earning Activities	27	10	27	8
	<u>268</u>	<u>51</u>	<u>266</u>	<u>48</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 2016/17 was £112,500 (FTE). This was 6.25 times (2015/16 6.49) the median remuneration of the workforce which is £17,932 (2015/16 £17,338).

Trustees Remuneration

No remuneration was paid to members of the Board of Trustees during 2016/17 (2015/16 nil).

	NGS 2017 £000	NGS 2016 £000
Total amount of travel expenses reimbursed	<u>2</u>	<u>3</u>
Number of trustees receiving reimbursement	<u>4</u>	<u>4</u>

Compensation for Loss of Office

In the year to 31 March 2017 two members of staff left under voluntary exit terms. The total cost of the arrangement was £89k.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

7 Analysis of Other Operating Charges

	Group 2017 £000	NGS 2017 £000	Group 2016 £000	NGS 2016 £000
Repairs, renewals and maintenance of buildings	1,635	1,628	2,053	2,053
Cost of sales	971	-	936	-
General expenses	727	637	748	708
Art transport, handling and storage	635	635	653	652
Rates and utilities	622	622	661	661
Printing and promotion	560	540	642	618
IT and communications	441	441	467	467
Legal, consultancy and other professional fees	366	343	433	380
Design and display	307	297	311	273
Education	285	285	254	254
Cleaning	223	223	167	167
Office costs and consumables	100	100	99	79
Travel, subsistence & hospitality	160	152	157	146
Conservation and restoration	136	136	128	128
Operating lease rentals	111	111	104	104
Training and recruitment	81	80	58	56
Internal and External Audit Fees	34	29	43	37
Vehicle costs	25	24	27	27
Shared service costs	-	-	158	159
	7,419	6,283	8,099	6,969

Audit fees include £22,200 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 2017

8 Tangible Assets

Group	Land and Buildings £000	Assets Under Construction £000	Office Equipment and Computing £000	Fixtures and Fittings £000	Vehicles £000	Total £000
Cost or Valuation						
At 1 April 2016	100,533	1,021	1,849	4,623	111	108,137
Additions during year	1,344	919	34	375	17	2,689
Disposals	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Revaluation	24,102	-	-	-	-	24,102
Indexation	(7,268)	-	-	-	-	(7,268)
At 31 March 2017	118,711	1,940	1,883	4,998	128	127,660
Accumulated Depreciation						
At 1 April 2016	6,861	-	1,682	3,443	83	12,069
Charge for year	1,727	-	89	504	20	2,340
Disposals	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Revaluation	(8,588)	-	-	-	-	(8,588)
Indexation	-	-	-	-	-	-
At 31 March 2017	-	-	1,771	3,947	103	5,821
Net Book Value						
At 31 March 2017	118,711	1,940	112	1,051	25	121,839
At 31 March 2016	93,672	1,021	167	1,180	28	96,068

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 2017

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 2016	100,533	1,021	1,832	4,585	97	108,068
Additions during year	1,344	919	34	368	17	2,682
Disposals	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Revaluation	24,102	-	-	-	-	24,102
Indexation	(7,268)	-	-	-	-	(7,268)
At 31 March 2017	<u>118,711</u>	<u>1,940</u>	<u>1,866</u>	<u>4,953</u>	<u>114</u>	<u>127,584</u>
Accumulated Depreciation						
At 1 April 2016	6,861	-	1,680	3,426	81	12,048
Charge for year	1,727	-	89	494	17	2,327
Disposals	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Revaluation	(8,588)	-	-	-	-	(8,588)
Indexation	-	-	-	-	-	-
At 31 March 2017	<u>-</u>	<u>-</u>	<u>1,769</u>	<u>3,920</u>	<u>98</u>	<u>5,787</u>
Net Book Value						
At 31 March 2017	<u>118,711</u>	<u>1,940</u>	<u>97</u>	<u>1,033</u>	<u>16</u>	<u>121,797</u>
At 31 March 2016	<u>93,672</u>	<u>1,021</u>	<u>152</u>	<u>1,159</u>	<u>16</u>	<u>96,020</u>

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

8 Tangible Assets (continued)

Land and buildings were valued by District Valuer Services at 31 March 2017. The valuations have been 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 are 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 2017

9 Heritage Assets – Group and NGS

Cost or Valuation	£000
At 1 April 2016	185,962
Additions during the year	11,939
At 31 March 2017	197,901

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

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Donated assets and acquisitions funded by donations	11,706	1,403	1,833	5,380	6,125
Other acquisitions	233	175	9	224	1,044
Total cost/value of acquisitions	11,939	1,578	1,842	5,604	7,169

Significant acquisitions over the last five years include:

Flower Still Life with Bird's Nest by Jan van Huysum which was accepted by HM Government in lieu of Inheritance Tax and allocated to the Scottish National Gallery in 2013

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 2016

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

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10 Intangible Assets – Group and NGS

	Computer Software £000	Website £000	Assets Under Construction £000	Total £000
Cost or Valuation				
At 1 April 2016	226	-	118	344
Additions	-	-	759	759
Disposals	(25)	-	-	(25)
Transfers	-	877	(877)	-
At 31 March 2017	<u>201</u>	<u>877</u>	<u>-</u>	<u>1,078</u>
Accumulated Amortisation				
At 1 April 2016	195	-	-	195
Charge for the year	10	220	-	230
Disposals	(25)	-	-	(25)
At 31 March 2017	<u>180</u>	<u>220</u>	<u>-</u>	<u>400</u>
Net Book Value				
At 31 March 2017	<u>21</u>	<u>657</u>	<u>-</u>	<u>678</u>
At 31 March 2016	<u>31</u>	<u>0</u>	<u>118</u>	<u>149</u>

Intangible Assets under construction includes costs associated with the development of a new website.

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11 Investments

	Group & NGS 2017	Group & NGS 2016
	£000	£000
Market value at 1 April	4,358	4,506
Sale of investments	(1,558)	(910)
Realised (loss)/gain	43	(16)
Purchased investments	1,600	914
Movement in investments held as cash	(42)	(4)
Change in market value – unrealised (loss)/gain	<u>385</u>	<u>(132)</u>
Market value at 31 March	<u><u>4,786</u></u>	<u><u>4,358</u></u>
Investments at cost	<u><u>4,230</u></u>	<u><u>4,190</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 2017 is detailed below:

Asset Class	Percentage of Total Portfolio
Fixed Interest	22.1
UK Equities	31.6
International Equities	31.6
Other Assets	13.5
Cash	1.2

12 Stocks

	Group 2017	NGS 2017	Group 2016	NGS 2016
	£000	£000	£000	£000
Goods held for resale	<u>619</u>	<u>-</u>	<u>626</u>	<u>-</u>
Net book value of goods held for resale	<u><u>619</u></u>	<u><u>-</u></u>	<u><u>626</u></u>	<u><u>-</u></u>

NATIONAL GALLERIES OF SCOTLAND

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13 Debtors

	Group 2017	NGS 2017	Group 2016	NGS 2016
	£000	£000	£000	£000
Amounts falling due within one year				
Trade Debtors	124	136	112	53
Amounts owed by Group undertakings	-	73	-	73
Other Debtors	3,390	3,795	250	796
VAT Debtor	325	325	389	389
Prepayments	307	234	238	129
	<u>4,146</u>	<u>4,563</u>	<u>989</u>	<u>1,440</u>
Amounts falling due after more than one year				
Amounts owed by Group undertakings	<u>-</u>	<u>219</u>	<u>-</u>	<u>292</u>

Debtors due after more than one year represent amounts due by NGS Trading Company Limited in respect of the loan of £730k made by NGS Charity in 2011. This loan is repayable in 10 equal instalments, with the last repayment to be made in March 2021. Interest is charged on the loan at base plus 0.5%.

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

	Group 2017	NGS 2017	Group 2016	NGS 2016
	£000	£000	£000	£000
Amounts falling due within one year				
Local Government	-	-	1	-
Central Government	3,107	3,107	389	389
NHS Bodies	-	-	-	-
Public Bodies	-	-	14	9
External to Government	1,039	1,456	585	1,042
Total	<u>4,146</u>	<u>4,563</u>	<u>989</u>	<u>1,440</u>

14 Cash at Bank and In Hand

	Group 2017	NGS 2017	Group 2016	NGS 2016
	£000	£000	£000	£000
Cash at bank	4,065	4,002	3,919	3,638
Cash at bank and in hand	<u>4,065</u>	<u>4,002</u>	<u>3,919</u>	<u>3,638</u>

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15 Creditors: Amounts Falling Due Within One Year

	Group 2017 £000	NGS 2017 £000	Group 2016 Restated £000	NGS 2016 Restated £000
Trade Creditors	211	192	1,279	1,224
Other Creditors	187	187	709	709
	398	379	1,988	1,933
Other Taxation and Social Security	178	178	155	155
Accruals	5,464	5,395	1,174	1,017
Deferred Income	712	712	483	483
	6,752	6,664	3,800	3,588

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

	Group 2017 £000	NGS 2017 £000	Group 2016 Restated £000	NGS 2016 Restated £000
Amounts falling due within one year				
Local Government	-	-	154	154
Central Government	469	469	317	317
NHS Bodies	-	-	-	-
Public Bodies	-	-	12	12
External to Government	6,283	6,195	3,317	3,105
Total	6,752	6,664	3,800	3,588

Analysis of Deferred Income:

	Group & NGS 2017 £000	Group & NGS 2016 £000
As at 1 April	483	631
Charged in year	534	276
Released in year	(305)	(424)
Total as at 31 March	712	483

16 Provisions for Liabilities and Charges

	Group & NGS 2017 £000	Group & NGS 2016 £000
As at 1 April	438	26
Charged in year	626	422
Released in year	(435)	(10)
Total as at 31 March	629	438

The major component of provisions at the year-end and the in-year release is in related to major capital contracts.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

17 Consolidated Reserves

	Unrestricted					Restricted						Endowment	Total
	General Fund £000	Trust Funds Central £000	Purchase Funds £000	Capital Assets Fund £000	Total £000	General Fund £000	General Fund Revaluation Reserve £000	General Fund Capital Reserve £000	Donated Asset Reserve £000	Trust Funds £000	Total £000	Trust Funds Endowment £000	Total £000
Opening balance 1 April 2016 (Restated)	992	248	40	78,962	80,242	-	6,877	30,580	165,143	4,067	206,667	924	287,833
Government Grant in Aid	12,995	-	200	2,250	15,445	-	-	-	-	-	-	-	15,445
Other Income	4,737	-	-	-	4,737	497	-	-	12,501	168	13,166	-	17,903
Investment Income	9	5	-	-	14	-	-	-	-	133	133	34	181
Total Income	17,741	5	200	2,250	20,196	497	-	-	12,501	301	13,299	34	33,529
Expenditure in Year	(20,061)				(20,061)	(497)	-	-	-	-	(497)	-	(20,558)
Investments revaluation	-	12	-	-	12	-	-	-	-	332	332	83	427
Net (Exp)/Inc - SOFA	(2,320)	17	200	2,250	147	-	-	-	12,501	633	13,134	117	13,398
Buildings Revaluation	-	-	-	-	-	-	25,422	-	-	-	25,422	-	25,422
Depreciation release	2,079	-	-	(489)	1,590	-	-	-	(1,590)	-	(1,590)	-	-
Transfers between reserves	(230)	-	(223)	223	(230)	-	-	-	340	(80)	260	(30)	-
Net Movement in Funds (SOFA)	(471)	17	(23)	1,984	1,507	-	25,422	-	11,251	553	37,226	87	38,820
Closing balance 31 March 2017	521	265	17	80,946	81,749	-	32,299	30,580	176,394	4,620	243,893	1,011	326,653

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

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 (2015/16 £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

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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 2017

18 Notes to the Consolidated Statement of Cash Flows

	2017	2016
	£000	Restated £000
Net movement in funds (as per the Statement of Financial Activities)	38,820	3,783
Adjustments for:		
Depreciation charges	2,570	2,388
(Gains)/losses on revaluation of fixed assets	(25,421)	(2,465)
Losses/(gains) on investments	(428)	148
(Profit)/loss on sale of fixed assets	-	(3)
Dividends and interest shown in investing activities	(181)	(173)
Donations of artworks for the collection	(7,026)	(604)
Increase/(decrease) in provisions	190	412
(Increase)/decrease in stocks	7	(104)
Decrease/(increase) in Debtors	(3,157)	705
(Decrease)/Increase in Creditors	2,952	(1,310)
Net cash provided by (used in) operating activities	<u>8,326</u>	<u>2,777</u>

19 Financial Commitments – Group and NGS

	2017	2016
	£000	£000
	Land & Buildings	Land & Buildings
Leases expiring within one year	20	20
Leases expiring after one year but within five years	69	69
Leases expiring after five years	-	-
	<u>89</u>	<u>89</u>

NATIONAL GALLERIES OF SCOTLAND

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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:

	2017	2016
	£000	£000
Turnover	2,416	2,452
Cost of sales	(971)	(959)
Administrative costs	(1,178)	(1,154)
Other operating income	2	4
Trading profits from continuing operations	269	343
Gift Aid to National Galleries of Scotland	(266)	(341)
Result after Gift Aid	3	2
Interest income	1	3
Interest payable	(4)	(5)
Profit before taxation	-	-
Taxation	-	-
Profit after taxation	-	-

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 £15.4m (2015/16 £14.1m). 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 Michael Clarke, Director of the National Gallery are also directors of NGS Trading Company Limited.

In addition to being a Trustee of NGS, Benny Higgins is Chief Executive Officer of Tesco Bank plc. Tesco Bank plc sponsors 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.

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During the year the NGS Foundation made donations of £1.1m (2015/16 £1m) to NGS for various projects. During the period to March 2017 administrative services were gifted to NGS Foundation by NGS under the terms of a service agreement.

In March 2017 NGS Charity granted NGS Foundation £0.2m

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 (2015/16 £nil). There were no individual losses or special payments of more than £250k.

24 Creditors – Prior Year Adjustment

The financial statements have been restated to correct the impact of an overstatement of accruals included in the creditors balance as at 31 March 2016.

Summary of prior year accounting impact	£000
Creditors (accruals)	(815)
Net movement in funds	815

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TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

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 (FReM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 12 March 2001 is hereby revoked.

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

Signed by the authority of the Scottish Ministers

Dated 31 March 2006