



National Galleries of Scotland

Trustees' Annual Report and Financial Statements
for the year ended 31 March 2023

NATIONAL GALLERIES OF SCOTLAND
TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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Chairman's Foreword

I am pleased to present the Annual Report and Financial Statements for the National Galleries of Scotland for 2022-23.

The wider context for the year covered by these accounts has been one of economic, social, and political upheaval across the UK and beyond. The lingering impacts of the global pandemic, Brexit, economic instability, and inflation as well as wider geo-political conflict, including the outbreak of war in Ukraine, have combined to impact both our cost base and our income. Although visitor numbers were significantly higher than in 2021-22, they remain below pre-COVID levels with a corresponding impact on our ability to generate income from retail, catering, and other commercial activities. At the same time, energy and other costs have risen sharply and we have also had to support staff dealing with the cost-of-living crisis, adding to our salary bill. There is also intense competition for private sources of funding; and additional pressures arising from the need to address the climate emergency.

Against this challenging background, NGS was able to provide a strong offer to the public on-site in its Galleries in Edinburgh and on-line. Our exhibition programme over the summer of 2022 was a particular success attracting positive reviews and excellent visitor numbers. We have also continued to make good progress with our major capital projects. These include *Celebrating Scotland's Art*, the ambitious redevelopment of the Scottish National Gallery with new Galleries to house the world's most important collection of Scottish art. The new spaces will be opened to the public in September 2023. We are also continuing to develop our plans for a major new facility in north Edinburgh, *The Art Works*, which will be an innovative centre for conservation, research, and distribution of the collection.

Towards the end of 2022, ahead of the announcements of the Scottish Governments budget allocations for 2023-24, NGS highlighted the need for additional support in order for us to maintain current levels of service. This message was reinforced by the fact that we were forced to close one of our Galleries, Modern Two for an extended period over the winter months. We are grateful that Government responded with an increase in our allocation of Grant-in-aid for 2023-24, which will help to cover rising salary and other costs. Yet, at the time of writing, there remains much uncertainty about pay settlements for the year ahead and NGS has already faced industrial action from staff who have joined national campaigns for higher pay. It will be a formidable challenge to end this and future years with a balanced budget.

Against this background, we believe that our work is more important than ever before. We want NGS to play an important part in recovery and regeneration in Scotland over the coming years and our revised strategy looks to make NGS even more relevant to our different audiences, national and international. It is our ambition to ensure that we work across key issues in society, including health & well-being; the climate emergency and in playing our part in addressing inclusion and inequality.

The trustees extend their thanks to the Director-General, Sir John Leighton, and all the colleagues at NGS for their work and commitment over the last year. I would also like to thank all our trustees on the various boards and committees of the NGS for their huge contribution throughout the year. I would emphasise especially 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 not just for their on-going financial support but also for a real understanding of the importance of culture in Scotland and support for what we are trying to achieve.



Benny Higgins
Chairman

11 September 2023

Trustees' Annual Report

1 Introduction

National Galleries of Scotland (NGS) looks after one of the finest collections of art anywhere in the world, consisting of around 130,000 works of fine art. Our principal place of business and registered address is 73 Belford Road, Edinburgh, EH4 3DS, and the collection is displayed to the public at the following locations:

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

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

There are two partner galleries in the north and south of Scotland which house part of the collection, Paxton House in Berwickshire (since 1993) and Duff House in Banff (since 1995).

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

2 Objectives and Activities

2.1 Purpose, Functions and Vision

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

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

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

2.2 Long-term Aims

To achieve our vision as set out above, we have set out our strategy for 2022-27 which aligns with the national framework and Programme for Government. This programme is focused on how Scotland can continue to recover from the Covid-19 pandemic and address the current economic challenges, sitting alongside the drive to address the climate emergency, eradicate child poverty and build a sustainable economy.

NGS has three overarching aims which are inter-connected, and which help to deliver our vision:

- o Increased Participation
 - o We want to welcome and include everyone, reaching more people and more diverse groups.
 - o We want to open conversations with our audiences to discover new ways to experience and explore the collection together.

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- o Greater impact
 - o We want to make sure our work is both world-class and relevant.
 - o We will make an active contribution to some of the key challenges facing society, including improving health and wellbeing, combatting inequality, and addressing the climate emergency.
- o Investment in our future
 - o We will invest to make the most of our people and their talents, knowledge and skills, our collection, and buildings. We will take a long-term view about investing in all these areas, making sure everyone has a role to play.
 - o We will create more secure and varied sources of income so that we become more self-sufficient financially.

2.3 2022-23 Priorities

Recovery following the Covid pandemic continued through 2022-23. Visitor numbers improved considerably in comparison to 2021-22, reaching 80% of pre-Covid levels by March 2023. This had a positive impact on income levels, with an improved performance from the commercial side, including our shops and cafes. Online activity continued to evolve, with our digital offer developing a stronger connection with our audience.

Following the challenges faced by NGS during the pandemic, the business model was reviewed, and work was focused on six priority areas. Those six priorities remained relevant into 2022-23 as we evolved our strategic plan for 2022-27.

Aims and objectives for 2022-27 are aligned to business priorities to assist in managing and focusing resources and workload. Our six priorities are:

- o Public offer
- o Equalities, Diversity, and Inclusion
- o Environmental Response
- o Health & Well-being
- o Contributing to recovery: continuity and change
- o Income generation and managing the cost base

3. Achievements and Performance

3.1 Key Performance Indicators

NGS's key performance indicators (KPIs) for 2022-23 are set out below. Key points:

- Visitor capacity limits imposed during the pandemic, were removed in April 2022, allowing the gradual recovery to pre-Covid visitor levels. The galleries exceeded the targets with strong performances at the National and Modern One. In total, the number of visitors were 20% below the pre-Covid benchmark in 2018-19.
- Web traffic and engagement via social media was impacted by the limited programme of ticketed shows, which tends to drive activity. Work will continue in 2023-24 to develop online content and drive digital engagement.
- Digitisation of the collection continued at a steady pace. The target has been revised, with the aim of digitising the whole collection by 2037. This target considers collection growth and the need to re-photograph objects which require higher quality images. The focus in 2023-24 will turn to the review of the collection data.
- Visitor satisfaction scores met the target of 90% average across all sites. The new net promoter score is behind the sector benchmark but is anticipated to improve once the National is fully open later in 2023.
- Work to reduce carbon emissions continues. The 2022 target of a 60% reduction was surpassed well ahead of schedule. This target was retained for 2022-23 due to staff returning to the workplace and travel increasing.

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- Environmental conditions in the galleries remain at 52% of our spaces meeting minimum standard conditions. This will continue until our storage capacity and environmental conditions are improved with The Art Works.
- Income per visit is higher than the direct comparator pre-Covid in 2018-19. This is due to the lower number of visitors, and higher spend per visitor.
- Self-generated income was still impacted by the lower footfall, although recovered well post-Covid and exceeded expectations. The Trading Company sales were 6% ahead of target and the company generated a higher-than-expected net profit.
- Membership numbers did not meet the target, in part due to the decision not to employ face-to-face recruiters during the summer exhibitions and the reduction in the number of ticketed shows in the programme. A revised membership scheme will be launched in 2023-24.
- Donations per visitor met its target. Donation boxes are now up and running again at all sites to optimise income opportunities.

Key Performance Indicator	2021-22 Value	2022-23 Target	2022-23 Value	Status
Number of actual visits to all gallery sites	780,275	1,775, 714	1,958,515	●
Website sessions	2,812,855 sessions	No target set – compared to 2021-22	2,576,771	●
Digitisation of the collection	6,301	19,200	11,066 works digitised	●
Visitor Satisfaction	91%	90%	90% average across the sites	●
Visitor Net Promoter Score	-	Benchmark is 78% for galleries	65%	●
Engagement via social media	3.5%	No target set – compared to 2021-22	3.3%	●
Percentage reduction in carbon emissions	63.58%	60%	64.54%	★
Percentage of storage/gallery spaces providing minimum standard environmental conditions for our collection (m ²)	52%	100% by 2025	52% (static)	●
Income per visit	-	Compared to baseline of £2.08 in 2018-19	£2.45	●
Collection Review	-	No target set	100% (2,448 objects reviewed)	●
Trading Company profit/loss	£68,904	£8,000 profit	£111,000 profit	●
Membership income	£317,372	£350,000	£323,763	●
Donations per visit	Online: 8p In Gallery: 5p	6p	6p	●

Status Key:

●	Completed/ on target
★	Exceeding target by more than 3%
●	Not started/ Slightly off target
●	Off target by more than 3%

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3.2 Developing the Collection

The primary role of the Board of Trustees is to care for, research and develop the national collection of art. The collection is world-leading in quality, scale, and breadth, numbering around 130,000 objects including paintings, works on paper, photographs, sculpture, manuscript and archival material, digital works, installation, performance, and film. Displayed across our three sites and toured nationally and internationally and through the ARTIST ROOMS partnership, the collection ranges in period from the early Renaissance to the present day and includes works by many of the major figures in the history of European and North American art. We house the national collection of Scottish Art, the Bridgewater Loan, and the National Photography Collection.

As at 31 March 2023 there are 129,589* objects catalogued (134,176 as at 31 March 2022) in NGS's permanent collection. The decrease from 2022 can be attributed to return of some long loans back to their owners, including a large photograph collection of 8,323 items.

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

Paintings	3,708 (-1)
Works on Paper	56,883 (+466)
Photographs	52,752 (-5,148)
Sculpture	12,958 (+27)
Printed Material	579 (+19)
Manuscript Material	887 (+3)
Decorative and Applied Art	1,330 (+17)
Installation	116 (+3)
Mixed Media	63 (+0)
Accessory	94 (-1)
Photographic Equipment	159 (+29)
Other	57 (-1)

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

Most 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 2022-23 NGS continued to build this extensive collection where opportunity and funding allowed. The Scottish Government allocated an acquisition fund of £600,000 in 2022-23, which enabled several significant purchases. Further acquisitions were also made possible through generous donations, gifts and bequests and the use of NGS Trust Funds. Some of our purchases in 2022-23 are detailed below.

One of the most fascinating purchases of the year came to NGS through the Acceptance in Lieu Scheme. A French Renaissance Court Album with works by multiple artists including Jean Clouet, dating back to the 1500s, was acquired in 2022. The album contains 31 portrait drawings of the court of Francis I alongside 15 other French portrait studies and is a rare example of an object of this type.

The modern and contemporary collection has been enhanced by several major acquisitions this year. This included two works by Alberta Whittle, which were acquired ahead of her exhibition at Modern One in April 2023: *Lagareh – The Last Born*, a film installation, and *Entanglement is more than blood*, a richly textured tapestry installed on a gate-like structure. The works are an important addition to Scotland's national collection.

The Photography collection was boosted by a number of acquisitions including the purchase of the Annan Archive, a preeminent collection comprising a large holding of fine art photographs, original artworks by major Scottish artists, and commercial photographic outputs alongside family history and personal memorabilia that dates from the 1840s to the 1990s. Its origins are with the great Scottish photographer Thomas Annan (1829-1887), who established his career

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in Glasgow in the mid-1850s with the resulting archive remaining in family hands ever since. Through generous support from Art Fund and utilising a significant portion of the acquisition funds from Scottish Government we were able to secure this important archive for the nation.

NGS is grateful to individuals and funding bodies for the generous assistance and support which has enabled us to continue to expand the collection.

A detailed list of all our acquisitions, including gifts and bequests, is available on request.

3.3 Our Public Offer

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.

We had two major ticketed exhibitions in 2022-23. The first was *Barbara Hepworth: Art and Life*, which was displayed at Modern Two from 9 April until 2 October 2022. This was a major retrospective of around 120 works, spanning Hepworth's entire career. The second was the hugely popular *A Taste for Impressionism: Modern French Art from Millet to Matisse*, which was displayed at the Royal Scottish Academy building from 30 July until 13 November 2022. The exhibition told the story of the development of modernism from the Barbizon School to the Post-Impressionists and explored how NGS became home to a world-leading collection of Impressionist art.

The Portrait Gallery had three main exhibitions during the year to complement the many displays - *Counted: Scotland's Census 2022*, *You Are Here 2022* and *Artists at Work 2*. While these diverse offers highlighted the many people and stories of Scotland, together they forged part of the Portrait Gallery mission of celebrating who we are, who came before us and who will come after us. *Counted* explored identity through the photography collection, while *You Are Here* showcased the work of communities alongside key artworks from the permanent collection and *Artists at Work 2* was an opportunity to celebrate the wealth of creative talent within NGS by showing work created by colleagues. These free offers were extremely popular with our audiences.

Modern One meanwhile focused on its permanent collection including the newest acquisitions in *New Arrivals: From Salvador Dalí to Jenny Saville*, which was on display for much of the year. *Conversations with the Collection* was curated collaboratively and conceived as a new way for our visitors to experience the permanent collection in the free-to-enter upper floor galleries at Modern One. As a celebration of both Scottish and international modern and contemporary art from c.1900 to the present day, this interlinked and non-chronological series of thematic collection displays places creativity and conversation at its core.

We had a strong touring programme in 2022-23, sharing our collection across the UK and abroad. Some of our touring activity is detailed in section 3.6.

Learning & Engagement

In 2022-23 our learning and engagement programme continued to work with health and social care partners including Rowan Alba and we saw the development of a programme with Milestone House, a residential service supporting people recovering from addiction and transitioning back into the community. Our work in this area with Rowan Alba was recognised through our inclusion in the report titled *Creatively Minded at the Museum* by The Baring Foundation, along with 15 other UK institutions who are taking the lead to engage creatively with people with mental health problems. Our partnership with Edinburgh Children's Hospital Charity (EHC) continued throughout 2022-23 with Creative Clinic sessions that support children and their families who are visiting the Royal Hospital for Children and Young People Edinburgh as outreach patients, are patients on the ward or who are attending CAMHS. These sessions involve different creative activities which have a variety of benefits to both the children and their wider support network. *Your Art World*, the NGS online community for 3–18-year-olds to make and share their art, has continued and we are preparing an exhibition of work created by young people at the National opening in summer 2023. As part of this programme, the pupils from Dounby Primary in Orkney have created a school mascot called Bob who represents

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and raises awareness of the environmental concerns of Dounby pupils. Through travelling across Scotland, Bob will also raise awareness of concerns and issues relevant to pupils around Scotland. As well as Your Art World, our schools programme continues to deliver Career-long Professional Learning (CLPL) for teachers, artist-led workshops for schools and virtual visits to schools.

A highlight from the adult programme was the live online broadcast of our film of the rehearsed reading of NGS collection artist Maud Sulter's play *Service to Empire*. In the play Sulter, who is of mixed Scottish-Ghanian heritage, explores the life of former Ghanian President Jerry Rawlings, also of mixed Scottish-Ghanian heritage. The streaming was followed by a live Q&A with Adura Onashile, Director, and abridger of Sulter's text and Tiffany Boyle, co-curator on the project. The film and screening were produced by NGS with external funding from Art Fund and Creative Scotland. As a result of the project NGS was gifted by the artist's Estate a copy of the very rare original text of the play for the Portrait Gallery Library collection, and we have copyright permission of the Estate to publish the film [on the NGS website](#).

Our programme for families continued this year with regular sessions for families in the galleries and online and our popular school holiday programme continued with open session for all in the afternoon and sessions aimed at community groups in the mornings. Our summer holiday programme was based on the Barbara Hepworth exhibition and invited families to pick up a Family Art Basket and have fun with the materials and activities in the basket.

These are just some of the highlights from our varied learning and engagement programme.

3.5 Research and Scholarship

Colleagues from across NGS continued to deliver both internal and external work; contributing to research events and activities across the UK and abroad as well as publishing in journals, books, and articles. They also brought their expertise to national level groups namely, 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. We continued our internal research development with our research hubs and five doctoral students.

We also successfully applied for a grant from the Department for Business, Energy & Industrial Strategy's Public Sector Research Establishments fund to purchase a benchtop Hyperspectral Imaging system, costing £90,000 and a spectrophotometer with a small spot size suitable for colour measurements on artworks, costing £15,000. This equipment will enable us to research artists' materials and techniques and to monitor the condition of artworks and predict how they will change as they age, respectively.

3.6 Partnership and Collaboration

Working in partnership, NGS continues to develop useful and mutually beneficial relationships with museums, galleries and other organisations both within the UK and abroad, enhancing access to artworks from the collection and enabling access to artworks 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.

Between 1 April 2022 and 31 March 2023 we had 131 artworks on loan to 39 venues, 9 in Scotland, 9 in the rest of the UK, 12 in Europe and 9 further afield. Figures supplied by 24 of the venues indicate that over 3.2 million visitors had access to NGS artworks on loan across the world. International loans included a painting by Edith Rimmington to the exhibition *Il Latte dei Sogni* in the central pavilion at the Venice Biennale: 6 photographic works by Thomas Annan and Hill and Adamson to the Museo Nacional Centro de Arte Reina Sofia in Madrid: and a painting by Holbein to the Metropolitan Museum of Art in New York. Closer to home, we loaned 32 works on paper and paintings by Allan Ramsay to Inverness Museum and Art Gallery for the exhibition *Alison Watt: A Portrait Without Likeness*, and four works by John Byrne, including his portraits of Robbie Coltrane, Tilda Swinton and Billy Connolly, to the exhibition John Patrick Byrne: A Big Adventure at Kelvingrove Art Gallery and Museum in Glasgow. We lent a portrait of Sir Jackie Stewart by Theo

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Platt and Michael Turner to a one-day event at Thirlestane Castle in Lauder in support of Sir Jackie's *Race Against Dementia* charity.

At Duff House in Banff, we displayed Visionary Palaces: Designs by Karl Friedrich Schinkel along with the annual loan of a NGS masterpiece, Richard Dadd's portrait of Sir Alexander Morison, on display until September this year and to be followed by William Edward West's portrait of Lord Byron. We carried out a small rehang of works on loan to the picture gallery at Paxton House in Berwickshire and also met with the management team there to discuss further enhancing the relationship between Paxton House and NGS through cross promotions on websites and social media.

This year saw us touring collection both here in Scotland and abroad. The tour of a selection of photographs from the Mackinnon Collection, jointly acquired with the National Library of Scotland, continued into 2023, finishing at Museum nan Eilean having previously been on display at Kirkcudbright Art Galleries and Duff House in Banff. Visitor numbers were greatly impacted by the covid restrictions in force during much of the tour, however, 11,775 visitors across Scotland were still able to enjoy 'Scotland's Photograph Album'. The Greats: Masterpieces from the National Galleries of Scotland travelled to four venues across Japan between April and November. The exhibition comprising 93 paintings and works on paper by artists such as Titian, Raphael, Veronese, Rembrandt, and Rubens, was well received in Japan with over a quarter of a million visits recorded despite covid restrictions being in place for the duration of the tour. The exhibition generated over 900 newspaper, magazine and website articles, and a TV programme focussing on the National Galleries Scotland. The relationship with the Japanese tour partner Mainichi continues through 2024 and beyond with a touring exhibition *Canaletto and the Splendour of Venice* planned for 2024-2025 and another project post 2027 under discussion.

In response to Covid, Brexit, and the Climate Emergency we have continued to make changes in our processes and ways of working. We have significantly reduced our use of couriers to accompany loans and we are currently represented on an international subgroup focussing on virtual couriers as part of the refresh of lending protocols, promoted by the Bizot Group of international museum directors. The return of our exhibition called *The Greats* tour from Japan also presented us with an opportunity to look at new ways for sustainably disposing of packing crates. This led to 7 of the crates being adapted for use by Learning and Engagement at the Scottish National Portrait Gallery, and 23 crates have been delivered by Art Movement Team shuttle to 5 communities gardens across Edinburgh to use as garden planters.

ARTIST ROOMS is a major collection of modern and contemporary art, jointly owned by Tate and NGS. The ARTIST ROOMS programme has been an important strand in our national partnerships since 2009 and continues as a catalyst to encourage new collaborations with a range of partners of all types and sizes across the UK, in order to grow and diversify the audiences we reach. Following the hiatus during 2021-22, the ARTIST ROOMS team worked with partners to relaunch the programme from 2023 and are touring four exhibitions to venues across the UK from Spring 2023, alongside developing partner-led single venue exhibitions.

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.

Many of the above income sources have been significantly impacted due to the Covid 19 pandemic, and ongoing cost of living crises. To manage the recovery, a specific Leadership Team has been formed to focus on income generation and to manage and monitor the impact of ongoing income generation initiatives.

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

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.

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The support we receive from the Friends of the National Galleries of Scotland plays a vital role in helping us conserve, research, grow and care for the nation's collection of art, showcase world-class exhibitions and deliver an expansive year-round programme of learning and engagement activity.

Friends' membership grew 5% year-on-year, rising to 10,816 on 31 March 2023, compared with 10,322 on 31 March 2022. Retention at the end of 22/23 was 86%, which is above the average of 80% across members of the Association of Leading Visitor Attractions.

The Friends' events programme was re-launched in June 2022, with 44 events taking place over the year. Tickets sales have not yet recovered to pre-pandemic levels but have been increasing over the year and we hope will continue to do so as we move into the Summer, with a packed programme of activity and the opening of the new Scottish galleries.

Total income generated from Friend's membership and activities was £380k and has been used to support the fundraising target for the Scottish National Gallery Project.

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 £63,400 during 2022-23.

4 Financial Review

4.1 Introduction

The financial statements meet the requirements of the Companies Act 2006, 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 (FRS 102) (effective 1 January 2019) ("The Charity SORP"), the Charities Accounts (Scotland) Regulations 2006 (as amended) and the Charities and Trustee Investment (Scotland) Act 2005."

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. NGS is generally not permitted to borrow funds, and its 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	Offer Letter
	£000	£000
Cash items		
Running Costs	16,750	16,750
Purchase Grant	600	600
Capital Projects	4,990	4,990
	<u>22,340</u>	<u>22,340</u>
Non-cash items (Notional)		
Depreciation	1,368	2,500
Total	<u>23,708</u>	<u>24,840</u>

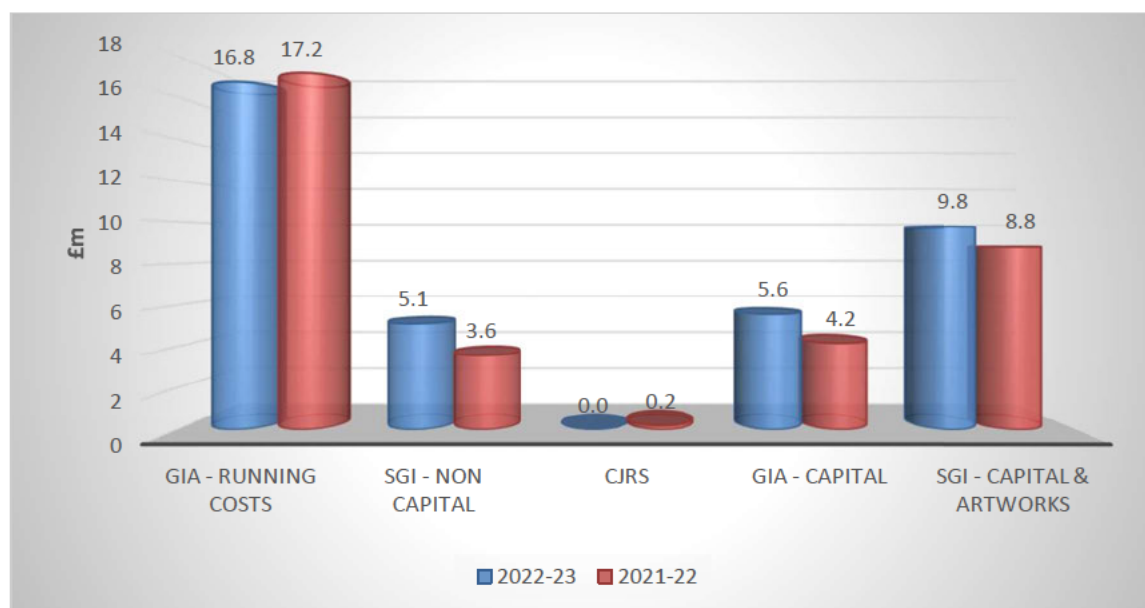
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4.3 Financial Results

The Financial results for 2022-23 are set out in the Consolidated Statement of Financial Activities on page 38.

Income

The following graph analyses the major sources of income for NGS in the financial year to 31 March 2023.



A detailed year on year comparison is set out in note 2 on page 46.

The largest source, making up 60% of total income continues to be Grant in Aid (GIA), with Self Generated Income (SGI) making up the remaining 40%. In 2022-23 GIA for running costs decreased by £410k to £16.75m (2021 £17.16m), as Covid support was no longer allocated. Additional GIA of £290k was allocated to NGS to support the implementation of an uplifted pay policy to reflect the cost of living crises challenges.

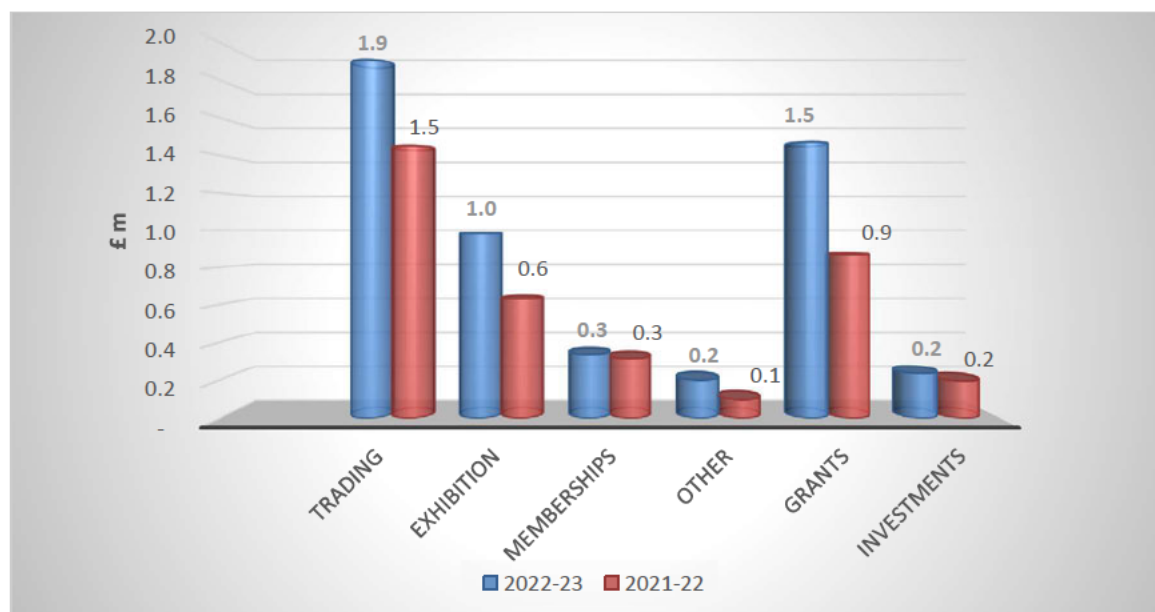
£5.59m (2021 £4.17m) of GIA was also allocated by the Scottish Government for capital projects and the acquisition of artworks. The two major projects continue to be the Scottish National Gallery and the Artworks, in addition to an ongoing programme of estates improvements and investment in Digital working solutions.

Donations of and in support of artworks continues to be a material component of NGS's income. New artworks can be funded from cash donations and transfer of artworks under HM Government's Acceptance in Lieu of Inheritance Tax Scheme. Income in relation to artworks was £3.4m in 2022-23 (2021 £4.7m).

The impact of the Covid pandemic and cost of living crises continues, and whilst for the second year in a row, visitor income has increased, it remains below pre Covid levels. Income from commercial activities, memberships and exhibitions increased significantly during 2022-23, as did income for grant funded activities.

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The graph below shows the major sources of income from charitable and other trading activities.



Expenditure

The following graph analyses the major categories of expenditure by NGS in the financial year to 31 March 2023.

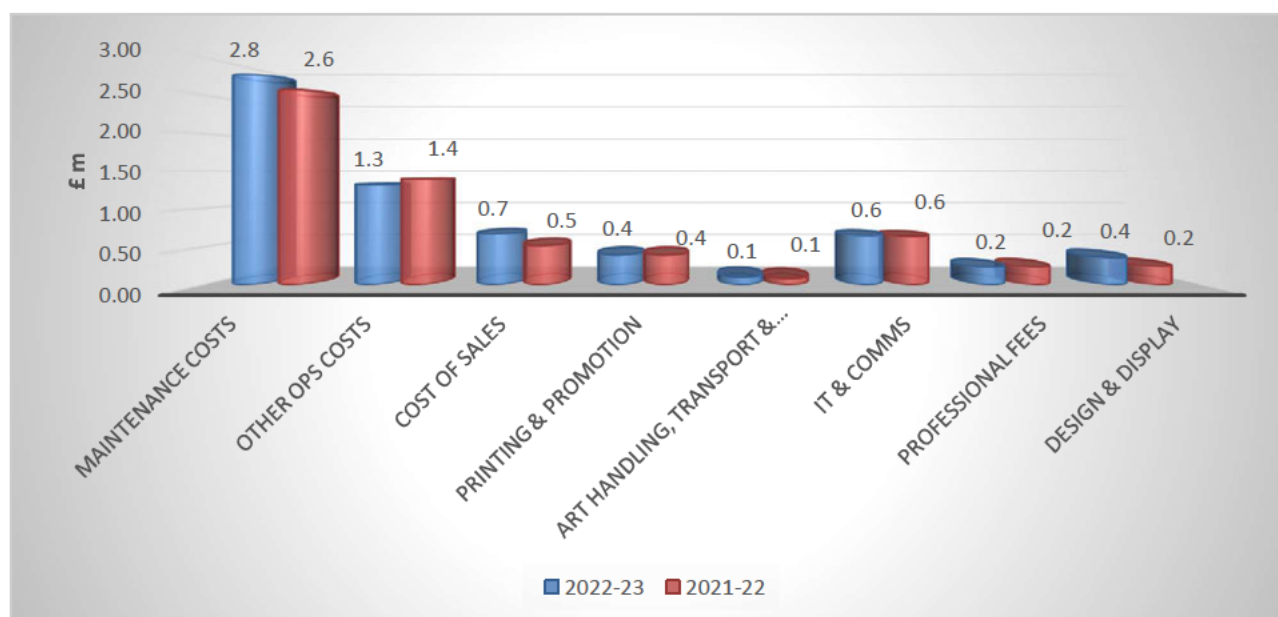


Staff costs continue to be the most significant category of expenditure for NGS. Total Staff costs of £15.09m (2021-22 £15.07m), were marginally higher due to pay policy, less the impact of managed gapping post the voluntary exit scheme in 2022. 2021-22 also included costs of a voluntary exit scheme, and the cost of additional roles related to the Covid pandemic.

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Trustees' Annual Report (continued)

Other operating charges can be analysed further as below.



Other operating charges continued to be managed closely to match the reduction in income, however maintenance costs increased due to the rise in utilities costs, and other business maintenance contract increases. Business rates relief also reduced in 2022-2023. Design and Display costs increased as all the sites reopened, and new exhibitions were launched.

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 regarding investment powers of trustees. The Audit and Risk Committee is responsible for overseeing the implementation of the NGS Investment Policy, which is based on those principles.

An investment management company, CCLA, was appointed in the year to March 2020 to manage NGS's portfolio of investments.

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 movement during the year is set out in note 17 to the Financial Statements, page 57.

As our most significant funder, the Scottish Government requires us to spend all the Grant-in-Aid received and not to hold material unrestricted reserves. Restricted reserves principally represent the capital value of our assets, or funds for restricted purposes. These resources are restricted to this purpose and cannot be used in any other way.

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 (2021-22, £100,000).

Trustees' Annual Report (continued)

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 98% of payments in 2022-23 (2021-22 98%). A 10-day payment initiative was introduced by the Scottish Government in December 2008, and we achieve this with 78% of our creditors (2021-22 79%).

4.7 Risk Management

In accordance with Scottish Government requirements and best practice, NGS uses a risk management framework to manage and monitor its key risks at both operational and strategic level. The strategic risk register was monitored on a quarterly basis by Leadership Team, Audit & Risk Committee, and the full Board of Trustees.

The major strategic business risks at date of signing the financial statements were as follows:

- Financial challenges arising from inflation due to the war in Eastern Europe and global supply chain issues, the resultant cost-of-living and government funding crisis and ongoing post-Covid recovery.
- Implications of Brexit and wider political instability and ongoing uncertainty/volatility regarding regulation, legislation, funding, potential Scottish independence, and the war in Eastern Europe.
- Failure to invest adequately in estates, resulting in a backlog of work which could impact the security and care of the collection and have negative impact on our business continuity, further impacted by the recruitment and retention challenges in the estates team.
- Delay in any element of the major capital programme and the knock-on effect on other projects, project costs, business as usual and income.
- Cyber breaches severely disrupt business operations in an environment of escalating cyber threats, internal resource conflict and organisational change.
- Negative staff morale and challenges to efficiency/effectiveness and workload arising from the impact of the cost-of-living and economic crises.
- Meeting financial pressures and staff retention challenges, including the externally imposed challenges to employment costs (inc. pensions, living wage, NI, potential for 35-hour week) and market pressures relating to employment (difficulty in recruiting/retention, unattainable market rates, high employment rates, high inflation, cost-of-living).
- Risk of damage or loss to the collection.
- The Art Works – insufficient funding to deliver the project and maintain the programme and subsequent threat to storage needs and running costs.
- Failure to respond adequately to climate emergency challenges and associated risks.
- Failure to invest in the development of the collections.

All risks are effectively managed by a series of control measures put in place by the Leadership Team. Risk is reviewed in detail by the Audit and Risk Committee on a quarterly basis. As we develop our approach to managing risk across the organisation, we are continuing our training and support programme for colleagues.

The focus in 2022-23 and going into 2023-24 is on the Extended Leadership Team, to build risk registers at directorate and team level and establish the connection to the strategic risk register, using risk discussions to actively inform decision-making.

Trustees' Annual Report (continued)

5 Future Plans

5.1 Strategic Plan 2022-27

Our vision, Art for Scotland: Inspiration for the World, sits at the heart of the strategy along with three overarching aims.

- Increased participation
- Greater impact
- Investment in our future

The five-year Strategic Plan for 2022-27, published in summer 2022, remains valid. An update will be developed over the summer of 2023 to take the five-year plan into 2028.

5.2 Outlook

A strong and vibrant arts sector is a key component to Scotland's tourism and creative sectors and participation in the arts is essential for a healthy society. NGS is already playing a key role in the delivery of the national strategy for Scotland's museums and galleries and will continue to investigate ways in which the collection can be shared with 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. This has been exacerbated by the Covid pandemic, which has had a significant effect on our financial wellbeing.

Close to 90% of NGS's operating cost budget 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. A second Voluntary Exit Scheme in March 2022 enabled 24 staff to leave the organisation, and managed gapping of some key posts has allowed NGS to manage to a balanced budget in 2022-23. The closure of Modern Two also was required in the winter of 2022-23 to manage the total cost base. An uplift in the grant-in-aid allocation for 2023-24 has allowed NGS to prepare a draft balanced budget subject to confirmation of funding for pay award, however the continuing pressures of wage and utilities and other operating cost inflation continue to give cause for concern.

NGS continues to seek opportunities to develop additional income streams and a focused group has been established to review and monitor income generation opportunities. Continuing to grow commercial and other income streams remains challenging due to the impact of the cost-of-living crisis on visitor spending power in a continuing reduced visitor base, however NGS has a strong exhibition programme planned for 2023-24 and the planned re-opening of the National gives cause for optimism.

NGS continually reviews its business model and organisation structure. Following the implementation of a Voluntary Exit Scheme in 2021 and 2022, NGS continues to review procedures and processes to find more efficient ways of working and thus to manage the staff numbers and related cost. This work will continue in 2023-24 as we revise our business model and create a re-skilled workforce fit for purpose.

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.

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Trustees' Annual Report (continued)

5.3 Capital Projects

NGS has two major capital projects in progress: the development of the Scottish National Gallery, which is nearing completion, and the creation of The Art Works which will house a national centre for the care and study of the permanent collection.

Celebrating Scotland's Art: The Scottish National Gallery project will transform the National, creating radically improved gallery space for the Scottish Collection and an enriched visitor experience and enhanced facilities for retail and catering. The building will also deliver greater energy efficiency and increased sustainability.

The building was handed back to NGS from the construction contractor in July 2023 and the project has commenced to re-instate the gallery spaces. The target date for opening the new spaces is September 2023. The total estimated final cost is £38.6m.

The Art Works project has the bold vision to create a purpose-built centre to house Scotland's art collection in Granton, North Edinburgh, with the building also serving as a hub both for research and for the local community. The project is moving through the design process, RIBA stage four and a planning application for the site has been lodged. Site enabling works have also been progressed. The significant challenge for 2023-24 remains working with the Scottish Government to establish sufficient funding confidence to progress to the next stage of the project.

NGS continues to work closely with the City of Edinburgh Council, feeding into the Granton Waterfront Regeneration Framework to ensure that the Art Works is an integral part of the plans for that area.

Once the National has re-opened, NGS will also be carrying out a more detailed refresh of our wider Five-Year Investment Plan taking into account the requirements to maintain and secure our collection and listed buildings whilst also continuing to look at our investment in technology to ensure we are protected from cyber threats and improving the visitor experience and operational effectiveness.

This review will also include a more detailed development of the pathway to net zero in response to the environmental crisis. This review will include recommendations on the investment sequence plan, based upon a risk-based prioritisation analysis.

NATIONAL GALLERIES OF SCOTLAND

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

The Board, with a maximum of 12 (minimum of 7) trustees appointed by the Cabinet Secretary, meets 5 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 two new members appointed to the Board in 2022-23: Dawn Thomson and Gemma Gray joined the Board in October 2022.

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. The Code of Conduct for Trustees was updated in 2022. 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 the NGS website.

The Board delegates authority on financial matters to an Audit and Risk sub-committee. The Audit and Risk Committee, comprising three trustees with the Director-General, Chief Operating Officer, and Director of Finance in attendance, has full delegated authority to take decisions on behalf of the Board. As at 31 March 2023 there were four other sub-committees: the Remuneration Committee, the Major Capital Programme Committee, the Board Review Committee, and the Ethics Committee.

The NGS Trading Company Limited (registered in Scotland, SC312797) is managed on behalf of NGS by a Board, with membership drawn from the Board of Trustees, Leadership Team and with an external adviser from the retail sector. The trustee Chris Sibbald chairs the Board.

The financial statements of NGS are audited by Audit Scotland, who was appointed by the Auditor General for Scotland. Audit Scotland's remuneration for 2022-23 is set as £31,780.

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

Trustees' Annual Report (continued)

6.3 Sustainability

Throughout this year we have continued to strengthen our environmental work around our three priority areas:

- Engaging and inspiring our audiences, colleagues, and partners.
- Achieving Net-Zero carbon emissions; and
- Protecting the collection from the impacts of climate change.

We have set up a Steering group and Engagement group to help support and monitor our Environmental Response Plan projects.

Our engagement work crosses multiple teams from our exhibitions, Learning & Engagement projects as well as internal sessions for colleagues. Exhibitions such as 'Conversations with the Collection' and 'Artists at Work 2' have environmental themes woven through the narrative. Our Conservation team display 'In the Frame' also gave our visitors an insight into the workings of the department including some of the steps they are taking to become more sustainable. Learning & Engagement projects such as 'Your Art World' have been a great platform for young people to express their interest in the environment and the world around them. Internally, we have been holding online lunch sessions for our colleagues to give insight into some of the major projects and activities happening in departments across the organisation as well as starting to roll out our own Climate Literacy training for all colleagues. We have strengthened our partnership working through the Scottish National Culture for Climate group (SNaCC), which includes organisations such as Creative Carbon Scotland, Museums Galleries Scotland, National Museums of Scotland, and National Library of Scotland.

We continue to progress our work towards net-zero carbon emissions from our buildings with further surveys and planning for longer term investment, looking at energy efficiency improvements and low carbon heating solutions. A travel survey was also conducted for colleagues to help support an active and sustainable travel plan in terms of commuting, our fleet vehicles and business travel. In addition, we have started to look at areas for improvement with our reporting in terms of quantifying the carbon emissions from our art transportation and how we can influence the reduction of these emissions.

6.4 Data Handling

In 2022/23, the majority of data protection work focused on day-to-day compliance such as impact assessments, reviewing data processing agreements and providing advice on new or revised processing purposes.

There was one formal Subject Access Request handled in the year and several rights requests, primarily relating to the withdrawal of consent to receive marketing.

There were no reportable data breaches in 2022-23. Information security incidents are monitored, and guidance issued as appropriate. The internal mechanism for reporting security incidents which might compromise personal data continues to work well and ensures escalation and action as required.

The record of processing activity requires a refresh which will be undertaken in 2023 in conjunction with development of an information asset framework for the organisation. Work on information security and broader information governance is ongoing.

Data Protection Impact Assessments have been undertaken for the introduction of new activities such as a new e-Commerce platform. None have identified any high risks which would require consultation with the Information Commissioner's Office.

6.5 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 2023

Trustees' Annual Report (continued)

7 Reference and Administration details

7.1 Trustees: 1 April 2022 – 31 March 2023

Benny Higgins (Chairman and Acting Remuneration Committee Chair)
Audrey Carlin (Chair, Major Capital Programme Committee)
Apphia Campbell
Gemma Gray (from 1 October 2022)
James McConville (Chair, Audit & Risk Committee from 1 October 2022)
Professor Nicholas Pearce (to 30 September 2022)
Lynn Richmond
Hannah Rudman
Professor Katherine Sang
Chris Sibbald
Rucelle Soutar
Dawn Thomson (from 1 October 2022)
Willie Watt (Chair, Audit & Risk Committee to 30 September 2022) (to 30 September 2022)
Andrew Wilson

All trustees serving on 31 March 2023 continued to be serving trustees up to and on the date the Financial Statements were signed. The operational management of NGS is delegated by the Board of Trustees to the Director-General and his Leadership Team.

7.2 Leadership Team: 1 April 2022 – 31 March 2023

Sir John Leighton	Director-General
Jacqueline Ridge	Director of Conservation & Collection Management
Line Clausen Pedersen	Director of Collection & Research (maternity Leave 19 December 2022-31 March 2023)
Anne Lyden	Interim Co-Director of Collection and Research
Imogen Gibbon	Interim Co-Director of Collection and Research
Bryan Robertson	Chief Operating Officer
Adam Christie	Interim Director of Audience & Digital (1 April 2022-31 January 2023)
Isabella Miller	Director of Audience (from 30 January 2023)
Valerie Urquhart	Director of Finance

There are four specialist sub-groups of the Leadership Team. The Collection Committee oversees acquisitions and loans and supports collections management matters. The Public Programme Committee directs and manages the public programme. The Programme Steering Board oversees the strategy and priorities for investment in capital projects and manages resource allocation across projects and general NGS business delivery. A new group focusing on income generation was established in 2022-23.

Remuneration for the Leadership Team at NGS is set with reference to market and industry comparatives for similar roles. Contracts are approved by the Remuneration Committee, and where appropriate by the Scottish Government. Annual adjustments to remuneration are made in line with Scottish Government pay policy.

For details of staff numbers employed in 2022-23, see the Remuneration Report on page 30.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Trustees' Annual Report (continued)

7.3 Principal Advisers and Auditors

Bankers:	Royal Bank of Scotland 36 St Andrew Square Edinburgh EH2 2AD	Bank of Scotland The Mound Edinburgh EH1 1YZ	
Legal Advisers:	Turcan Connell Princes Exchange 1 Earl Grey Street Edinburgh EH3 9EE	CMS Scotland Saltire Court 20 Castle Terrace Edinburgh EH1 2EN	Brodies LLP 15 Atholl Crescent Edinburgh EH3 8HA
Internal Auditors:	MHA Henderson Loggie The Vision Building 20 Greenmarket Dundee DD1 4QB		
Independent Auditors:	Audit Scotland 4 th Floor 102 West Port Edinburgh EH3 9DN		
Taxation:	Scott Moncrieff Exchange Place 3 Semple Street Edinburgh, EH3 8BL		
Investment Managers:	CCLA Mansfield Traquair Centre 15 Mansfield Place Edinburgh EH3 6BB		



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

11 September 2023



Sir John Leighton
Accountable Officer

11 September 2023

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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, and the Government Financial Reporting Manual (FReM) have been followed, subject to any material departures disclosed and explained in the financial statements;
- Make judgments and estimates on a reasonable basis;
- Observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business;
- Keep accounting records that are sufficient to show and explain the charity's transactions and disclose with reasonable accuracy at any time the financial position of the charity; and
- Safeguard the assets of the charity and take reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Governance Statement

Introduction

The National Galleries of Scotland is committed to best practice in all aspects of corporate governance. The corporate governance framework is set out in section 6.2, page 18 of the Trustee's report. This statement describes the principal governance provisions which currently apply.

Scope of Responsibility

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

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

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

Purpose of the System of Internal Control

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

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

The process within the organisation accords with the SPFM and has been in place for the year ended 31 March 2023 and up to the date of approval of the financial statements and accords with guidance from the Scottish Ministers.

Covid Pandemic & Cost of Living Crises

2022-23 has been a year of recovery in the aftermath of the Covid pandemic. There is now a significant increase in homeworking by office staff, using the new technology implemented during the pandemic. This offers greater flexibility in working patterns for staff but brings new challenges for people management. NGS continues to face unprecedented challenges in funding; visitor numbers and the related income generation are still below pre-COVID levels. At the same time, costs, including energy costs, are increasing and there is intense pressure to address the cost-of-living crisis being experienced by staff – salary inflation has impacted our staff costs. There is also increased demand on private sources of funding; and additional pressures arising from the need to address the climate emergency. Wage inflation has impacted the staff costs base. In response to these challenges, NGS has adapted its business model, for example through partial closure of one of sites, Modern Two, through flexible staffing models, cost management and a focus on income generation.

Discharge of Board Responsibilities

To discharge its responsibilities, the Board of Trustees met six times in 2022-23, five of which were regular meetings. At each of its regular meetings the Trustees received reports from the Director-General and Leadership Team, management accounts and key performance measures (quarterly), strategic risk register (quarterly), minutes of sub-committee meetings and gallery reports on collection matters (including, public programme, acquisitions, and loans), public engagement and operations. Safeguarding is a standing item on all board agendas to support trustees' responsibilities in relation to safeguarding children, young people, and vulnerable adults. In addition, the Board regularly discussed matters of strategic importance and input to the development of the strategic plan.

The sixth meeting was convened in August to review the plans for the Scottish National Gallery displays.

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Governance Statement (continued)

Other significant matters considered by the Board during the year:

- Financial sustainability and budget planning
- The Art Works Project (including approval to move to RIBA stage four)
- The Scottish National Gallery project
- Re-branding
- Trading Company support and business plan review
- Environmental sustainability

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

- Audit & Risk Committee
- Major Capital Programme Committee
- Remuneration Committee
- Board Review Committee
- Ethics Committee

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

The Board has continued its support of the Leadership Team in the development of the strategic plan. The strategy centres around six priorities: Our Public Offer; Equalities, Diversity, and Inclusion; Environmental Response; Health & Wellbeing; Business Continuity and Recovery; and Income Generation & Managing the Cost-base. Those priorities support the core vision, Art for Scotland: Inspiration for the World and align with the broader Scottish Government national framework and the key priorities of climate change, eradicating child poverty and a stronger, fairer, greener economy.

Audit & Risk Committee

The Audit & Risk Committee has full delegated authority from the Board to review and challenge all matters relating to the management of NGS's finances and oversee risk management and internal control. The Director-General, as Accountable Officer, the Chief Operating Officer, and Director of Finance all attend the meetings to advise the Trustees and respond to questions. External and internal auditors may also attend the meetings.

The Committee met four times during the financial year, chaired until September 2022 by Willie Watt, Trustee and Jim McConville, Trustee from October 2022. Major items of business were as follows:

- Quarterly review of performance against strategic objectives
- Quarterly review of management accounts
- Quarterly review of risk, including continuing review of cyber security.
- Quarterly review of Trading Company accounts, including follow-up reviews on business recovery following the Covid pandemic and the four-year business plan.
- Quarterly review of investment performance
- Review of internal audit reports (see below)
- Review of annual internal and external audit plans
- Review of annual accounts
- Quarterly review of financial and risk aspects of major capital projects
- Five-year financial projections
- Five-year capital investment plan
- Trading company support package.
- Review of costs/risks/delays on the SNG and The Art Works projects.
- Ongoing review of risks and budget implications due to the cost-of-living crisis.

NATIONAL GALLERIES OF SCOTLAND

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Governance Statement (continued)

The following internal audits were carried out by Henderson Loggie, our internal auditor:

- Financial Resilience
- ICT Network Arrangements/cyber-essentials/Disaster Recovery
- Staff Recruitment Retention & Development
- Equality, Diversity, and Inclusion

Reports were produced for each of those audits, management responses collated, and outputs scrutinised by the Audit & Risk Committee. An annual Follow-up audit report was also reviewed and an audit plan for 2023-24 considered.

Following a competitive tender process Henderson Loggie was reappointed as Internal Auditor for a further 3 years from July 2022.

Major Capital Programme Committee

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

The Committee met six times during the financial year. This included two joint meetings with the Audit & Risk Committee to discuss the ongoing financial and construction challenges of the Scottish National Gallery project and development of The Art Works project. The meetings were chaired by Audrey Carlin, Trustee.

Major items of business were as follows:

- Consideration of the construction challenges/additional costs of the Scottish National Gallery project.
- Consideration of key supplier risks
- Overview of risk and capital projects schedule
- The Art Works- ongoing project monitoring, development of the outline business case and progression to RIBA stage four.
- Development of the five-year capital investment plan

Remuneration Committee

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

The Committee met once during the year to consider NGS pay policy. It was also kept abreast of any relevant developments, including the impact of industrial action by the PCS union.

Board Review Committee

The Board Review Committee is responsible for reviewing the effectiveness of the Board of Trustees and ensuring an appropriate set of skills across the Board, identifying gaps, and feeding into new appointment criteria. The Committee did not meet formally in 2022-23. The committee is chaired by the Chairman of the Board, Benny Higgins.

Ethics Committee

The Ethics Committee is responsible for monitoring ethical issues in relation to fundraising, donations and gifts, investments and partnerships and reviewing allegations of misconduct/breaches in relation to the ethics policy. It was formed in 2018 and meets on an ad hoc basis as need arises. The committee is chaired by the Chairman of the Board, Benny Higgins. The Committee met once in 2022-23 to consider an ongoing complaint relating to a Freedom of Information request and how it had been handled by staff.

Governance Statement (continued)

Risk and Control Framework

All bodies subject to the requirements of the Scottish Public Finance Manual (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 the above 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 three levels: Project/Departmental, Directorate and Strategic level. Key strategic risks have been identified and are effectively managed by a series of control measures put in place by the Leadership Team.

Our approach to mapping risk overall has evolved and a consistent process is now in place at strategic level and for all major projects. Work continued during 2022-23 to evolve our approach, to improve the integration of risk processes with strategic planning and operational management across the organisation and develop a more robust approach towards risk appetite. Risk appetite was defined and agreed by the Board during 2021-22 and is now part of the risk management process. Training and support for senior managers and trustees is ongoing.

More generally, the organisation is committed to a process of continuous improvement, developing systems in response to any relevant reviews and developments in best practice in this area. Effective measures for managing risk are in place for key operational areas such as Finance, HR, IT, health & safety, and business continuity. Additional departmental operational risk registers were developed during 2022-23, including collection care, with a view to rolling out across all departments in 2023-24.

The General Data Protection Regulation (GDPR) has significant implications for NGS as a data controller. NGS has a Data Protection Officer in post who ensures that NGS is compliant with DP regulations and follows good practice. There were no data breaches reported in 2022-23.

Review of Effectiveness by the Director-General

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

My review is informed by:

- the Directors within the organisation who have responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors, who submit to the organisation's 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 the areas reviewed in 2022-23, 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 considered appropriately. Following a review of internal systems and risks in 2022-23, I would firstly like to draw attention to the impact of wide-reaching economic, political, and social issues on NGS's operations. Of particular significance are the implications for NGS of climate change, wider political instability and ongoing uncertainty/ volatility regarding regulation, legislation, funding, the cost-of-living crisis, and high inflation, exacerbated by the impact of Brexit and war in Eastern Europe. The combined impact of these factors has significant implications for NGS's operations.

The main points are highlighted in greater detail below.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Governance Statement (continued)

Business Planning & Policy

- In line with similar organisations in the culture sector, the Covid-19 pandemic has had a major impact on all aspects of NGS's business, continuing to affect NGS's ability to deliver the long-term strategic vision through a period focused on business continuity and recovery. NGS is now in the recovery phase, with visitor numbers climbing back to nearer pre-Covid levels. Income levels remain affected by the lower number of visitors, and it is anticipated full recovery will not occur before 2025.
- Equality, Diversity, and Inclusion is one of NGS's strategic priorities and a programme has been developed to place this focus at the centre of all aspects of NGS's operation, for example recruitment, public offer, and staff training. This initiative adds further workload and challenges to NGS's capacity to deliver the planned outcomes alongside other priorities.
- The challenge of meeting compliance requirements is placing a burden on many departments. Aside from standard legislative compliance requirements across central departments, there is the challenge of due diligence with the collection. The Internal Auditors have also identified several areas which require further review and investment of staff time.
- A reduction in the Public Programme had been implemented during the pandemic, and whilst the programme will return to pre-Covid levels, the successful and sustainable delivery continues to be challenged due to rising costs and under-resourcing. A further reduction in our offer may be necessary to manage workload and costs.

Human Resources

- High workload remains a challenge as we continue to review staffing structure and manage our priorities and capital projects. An integrated plan, which identifies cross-departmental projects/work, is used to assist in managing the workload and identifying pinch points. A Skills and Capacity Planning exercise has continued through 2022-23.
- Staff costs are by far the biggest running cost incurred by NGS, representing around 90% of our revenue grant-in-aid. Even with relatively static core headcount and more externally funded posts, we have experienced unavoidable increases due to Scottish Government pay and pensions policy. The impact of universal statutory living wage is increasing NGS staff costs further. Following two VES schemes in 2021 and 2022, staff costs were managed through gapping. Any cost savings have however been eroded due to the implementation of the Scottish Government pay policy which has been only partially funded. Underlying this challenge is a pay system which is now outdated and the risks which this poses through the continuing industrial action/low morale and a high staff turnover, particularly in technical roles. The savings made through the Voluntary Exit Scheme have not been reinvested in skills development but used to support the broader funding gap. We are reviewing our staff structure to identify capacity needs and skills mix going forward, aligned with our strategy.
- A further challenge presents itself as the gap in pay scales of corporate services staff, Finance, HR, IT, Marketing and Estates etc teams between the private sector and government bodies has increased. This has made retention and recruitment extremely challenging in 2022-23.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Governance Statement (continued)

Financial Management

- Financial sustainability remains a significant challenge. Although visitor numbers have partly recovered following the pandemic, the impact of loss of income due to an ongoing reduction in visitor numbers will continue to impact NGS's financial position in the medium-term which will also impact the delivery of NGS's public offer. NGS's commercial subsidiary has recovered to a degree but continues to be impacted by the reduced visitor numbers and the impact of the cost-of-living crises on customer purchasing potential. This has been exacerbated by the temporary closure of Modern Two for a six-month period over the winter months. Financial forecasts to 2027 were prepared as part of the annual budget process and will require ongoing review as we expect that visitor numbers and income levels will continue to recover. This situation has demonstrated the financial risks to NGS of becoming increasingly dependent on variable discretionary income sources while maintaining a substantial fixed cost base.
- The impact of increasing inflation rates due to global factors with a resultant increase in fixed costs such as utilities, exhibition and other operating costs adds to the financial sustainability challenge, particularly when statutory funding levels are relatively static.

Collection

- Care for the collection is of paramount importance. Investment in systems and staffing resource has created some progress in this area, however further investment is required in conservation and collections management resource to manage the collection as effectively as possible. The organisation needs to know every object in its care, its location, and its condition. It requires the right skills and capacity in order to deliver this statutory obligation.
- Another statutory requirement is for NGS to develop the national collection. However, it is no longer possible to maintain an ambitious and consistent programme of acquisitions due to space restraints and irregular/inadequate patterns of Government support for this task.
- The existing backlog of compliance work in areas such as due diligence, audit legacy and cataloguing is being monitored and addressed as resources allow.

Major Investment/Projects

- The Scottish National Gallery project is nearing completion. There have been several construction challenges arising from defects in the original building structure and the constraints of working within a Heritage Site. The project is now due to complete later in 2023. This, alongside funding challenges, has had a knock-on effect on delivery of The Art Works project and NGS's public offer due to resourcing constraints.
- The longer-term resilience that NGS needs for Collections Care can only be provided through museum quality spaces with sufficient capacity to support collection development. The current storage facilities have insufficient space to store our existing collection resulting in artworks being stored in inappropriate conditions which may put the items at risk. Only 52% of our gallery/storage spaces meet minimum standards for environmental conditions for the collection. The proposed creation of a new facility at Granton (The Art Works) will concentrate facilities for preservation, research storage and distribution on one site. It will also provide state of the art spaces for those wishing to research and explore the collections and be a dedicated platform for outreach in the local community. The significant challenge for 2023-24 remains the establishment of sufficient funding confidence to progress to the next stage of the project. A programme to address this is in hand. In addition, we need to make progress in the provision of adequate climate controls at our display sites. NGS's storage requirements and costs prior to the opening of The Art Works must be managed in the interim.

Governance Statement (continued)

- Managing its response to the climate emergency is a high priority for NGS and improvement projects are included in the 5-year investment plan. NGS is working towards a more sustainable operating model in all aspects of its work and is also reflecting climate change issues in its public offer. A key element of this focus has been to define the requirements and plan to invest in our Estates as a critical element of NGS's pathway to net zero. This is outlined in the 5 Year Investment Plan, however the c£4m required over a 10-year period is not currently funded.
- NGS's ability to fundraise through public and private sector channels may also be constrained due to increased competition for philanthropic and other funds in the current environment which could have an impact on the delivery of capital projects in the pipeline.
- NGS occupies 5 Grade-A listed buildings in central Edinburgh. The high levels of visitor footfall and the expectations of world-class cultural facilities necessitates increased capital investment, but this is hard to achieve at a time of funding constraint. As noted above, NGS is striving to deliver two major capital projects and a quinquennial maintenance schedule to address this. These initiatives carry inherent risk. To effectively review the challenges of managing the NGS estate, and address the backlog in maintenance, a five-year investment plan has been prepared. The plan also outlines the funding required to maintain and develop our IT systems, with a particular focus on the cyber security risk, and outstanding business improvement projects.
- A backlog of maintenance and constraints on future investment pose risks to the security of our buildings, people, and collection, with for example the on-going risk of flood or fire damage. In 22/23 we carried out more thorough analysis of our estates and security systems. A detailed implementation plan, will be developed, using a risk-based approach, to establish a proposed sequence of investment over the next 5 years.
- The development of the suite of systems to track, control and manage NGS's collection has become critical and is a priority area for investment. A robust system which is fit for purpose and reliable is essential for hybrid working and online access to the collection in addition to supporting our digital offer. In this regard the development of the collection system commenced at the end of 2022-23 and will be developed over the following two years.
- The expectations of a national and international audience to interact with us digitally continues to grow. Investment in the right infrastructure, skills and knowledge is critical in being able to meet external expectation and future proof our audience engagement.
- Investment in the Trading Company is required to boost sales in all areas following the challenges of the Covid crisis. A review was undertaken in 2022 and several recommendations are being taken forward to diversify the income streams and to become less reliant on visitor income.

Counter-Fraud

- Fraud attempts from external parties have become increasingly common and more sophisticated. NGS has tested the adequacy of our security systems and response to potential cyber-attack through an internal audit. Over the last few years, we have made significant improvement in our digital infrastructure. Cyber essentials accreditation was achieved at the end of 2022. This review of NGS's cyber security follows the recommendations of the internal audit report. A plan is in place to develop our approach to information governance and security which goes beyond cyber essentials and into aspects of non-system-based information. This will be developed in 2023-24.



Sir John Leighton
Accountable Officer

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Remuneration and Staff Report

The information in the Remuneration and Staff report is reviewed by the external auditors for consistency with the financial statements, and the information relating to the remuneration and pension benefits of board members and the Leadership Team, fair pay disclosures, employee numbers, employee costs and number of exit packages has been audited by them.

Remuneration Policy

NGS operates a pay and grading system which is reviewed annually. Pay settlements are negotiated within the pay policy agreed with the Scottish Government and are approved by the Board of Trustees.

Remuneration of Leadership Team Director positions is set by the Board of Trustees ensuring fair and industry comparisons for similar roles. For ongoing salary reviews, the remuneration is reviewed and approved by the Remuneration Committee working within the pay remit from Scottish Government.

Remuneration of Board Members

No remuneration was paid to members of the Board of Trustees during 2022-2023 (2021-2022 nil). Reimbursement of Trustees travel expenses of £203 was paid to two Trustees during the financial year to March 2023 (2021-22 nil).

Senior Management Team Salary and Pension Benefits

The total cost of remuneration to key management personnel, the Leadership Team in 2022-23 was £616,775 (2021-22 £503,066).

The Government Financial Reporting Manual requires disclosure of information about directors' remuneration, where 'directors' is interpreted to mean those who influence the decisions of NGS as an entity. In NGS's opinion this means the Board of Trustees and the Director, Sir John Leighton. The salary and pension entitlement earned individually by the Accountable Officer for the year to 31st March 2023 is set out below:

	Salary		Pension Benefits		Total	
£'000	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22
John Leighton – Director General	115-120	115-120	55	55	170-175	170-175

Pension Benefits: The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

	Accrued pension at pension age as at 31/3/23 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/23	CETV at 31/3/22	Real increase in CETV
	£000	£000	£000	£000	£000
John Leighton - Director General	55-60	0	1,071	1,046	(55)

Remuneration and Staff Report continued

Cash Equivalent Transfer Value (CETV): This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits, they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued because of their total membership of the scheme, not just their service in a senior capacity to which disclosure applies. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

The real increase in the value of the CETV: This is the element of the increase in accrued pension funded by the employer. It excludes increases due to inflation and contributions paid by the employee. It is calculated using common market valuation factors for the start and end of the period.

Fair Pay Disclosures

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

The mid-point of the banded remuneration of the highest-paid director in NGS in 2022-23 was £117,500 (2021-22 £117,500 FTE).

The lower, median, and upper quartiles were as follows:

	<u>1st Quartile</u>		<u>Median</u>		<u>3rd Quartile</u>	
<u>Year</u>	<u>Pay Ratio</u>	<u>FTE Salary</u>	<u>Pay Ratio</u>	<u>FTE Salary</u>	<u>Pay Ratio</u>	<u>FTE Salary</u>
2023	5.48	21,455	4.66	25,225	3.30	35,569
2022	5.76	19,976	4.88	23,553	3.41	33,727

The movements in the ratios and salaries reflect the implementation of the 2022-2023 pay award where higher % uplifts were made to lower staff bands.

The range of staff remuneration is from £21,455 to £108,576, FTE equivalent salary.

Pension Benefits and 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 therefore NGS accounts for this scheme as a defined contribution scheme.

The scheme actuary valued the PCSPS as at 31 March 2016. You can find details in the resource accounts of the Cabinet Office at: <https://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/>.

For 2022-23, employers' contributions of £2,922,115 were payable to the PCSPS (2021-22 £2,834,341) at one of four rates in the range 26.6% to 30.3% 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 2022-23 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 2023

Remuneration and Staff Report continued

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £42,993 were paid to one or more of the panels 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 £1,072, 0.5% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £4,352. Contributions prepaid at that date were £0.

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 2023	Group & NGS 2022
£60,000 - £69,999	11	6
£70,000 - £79,999	4	1
£80,000 - £89,999	2	5
£90,000 - £99,999	2	2
£100,000 – £109,999	1	1
£110,000 – £120,000	1	1

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

	Group 2023 Permanent	Group 2023 Temporary	Group 2022 Permanent	Group 2022 Temporary
Security and Visitor Services	113	25	124	20
Gallery Curatorial and Administration	44	12	44	12
Service Departments	49	8	52	4
Central Administration	46	6	45	8
Revenue Earning Activities	24	5	28	3
Total	276	56	293	47

FTE headcount numbers at 31st March 2023 by gender are included below:

	Key Management	Other Employees	Total FTE at 31 Mar
Male	3	144	147
Female	6	235	241
Total	9	379	388

Sickness Absence & Staff Turnover Data

For the 12-month period from 1 April 2022 to 31 March 2023, 2.65% of working days were lost as result of sickness absence (2021-22, 2.74%). Staff turnover was 23% (2021-22 35%) this includes leavers under voluntary exit schemes, and also seasonal staff.

Compensation for Loss of Office & Settlement Agreements

In the year to 31 March 2023 1 member of staff left under a voluntary exit scheme (VES) (2021-22 42 staff). This was an outcome of the VES scheme offered in 2021-22 and all costs were accounted for in 2021-22.

NATIONAL GALLERIES OF SCOTLAND
TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023
Remuneration and Staff Report (continued)

Trade Union Facility Time

There were 13 employees of NGS who were relevant TU officials during 2022-23, all of whom spent 1-50% of their working hours on facility time. The cost of this time to NGS is estimated as 0.21% of the total salary bill. The number of hours spent by relevant union officials on paid trade union activities as a percentage of total paid facility time hours was 100%.

Equality, Diversity and Inclusion


NGS is committed to complying 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 every four years. We publish a report on progress against these outcomes every two years, along with a report on our efforts to mainstream equalities in the work that we do, statements on the gender pay-gap and employee equality statistics. The last set of reports were published in spring 2023.

NGS has taken steps to move beyond compliance by taking a broader approach to equality, diversity, and inclusion, catalysed by the Black Lives Matter movement. An Equalities Steering Group was established in 2020 and tasked with developing a set of organisational commitments in consultation with stakeholders. These were agreed and published on our website. Action is ongoing to deliver these commitments and improve outcomes for people.

Significantly, in 2021/22 and into 2022/23, 'equality, diversity and inclusion' was set out as one of six strategic priorities for the organisation, to achieve our aim of encouraging participation by all.

Health and Safety

NGS appointed a new Health and Safety Advisor in August 2022. A full review of the existing health and safety management policies and procedures was undertaken to develop the system in line with the "HSG 65:2013 – Successful H&S Management System - Plan, Do, Check, Act" which is a recognised process for continual improvement in successful Health and Safety Management. The H&S system will continue to progress on the basis of the prioritised objectives, to manage risk and provide consistency for all safety standards and procedures across all sites. Our Health & Safety implementation plan is being developed in conjunction with the Health and Safety Committee, which has new Terms of Reference. The Committee has representation across the organisation to ensure regular review, planning, continuity, and consistency of approach. The Health, Safety and Welfare Policy was revised and approved in March 2023 and provides the basis of the health and safety governance structure, roles, and responsibilities within the National Galleries of Scotland. Health and Safety training has been re-established, post COVID, and we are back at full strength for our first aid cover. The Health and Safety Inductions for staff and volunteers are now revised and available on our SharePoint site. The health and safety implementation plan will continue to progress in 2023-24 along with the development of key performance indicators to measure progress of health, wellbeing, and safety with NGS.



Sir John Leighton
Accountable Officer

11 September 2023

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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

Reporting on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and Financial Statements of National Galleries of Scotland and its group for the year ended 31 March 2023 under the Charities and Trustees Investment (Scotland) Act 2005 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 NGS Statement of Financial Activities, the Consolidated and NGS Balance Sheet, the Consolidated and NGS 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 of the state of the body and its group as at 31 March 2023 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 Financial Statements (Scotland) Regulations 2006.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 2 December 2022. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the body and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the body and its group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the body and its group's current or future financial sustainability. However, I report on the body's arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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

Risks of material misstatement

I report in my separate Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Accountable Officer and Trustees for the financial statements

As explained more fully in the Statement of Trustees' and Accountable Officer's Responsibilities, the Accountable Officer and 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 and Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer and Trustees are responsible for assessing the body and its group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the body and its group's operations.

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the central government sector to identify that 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 The Charities Financial Statements (Scotland) Regulations 2006 are significant in the context of the body;
- inquiring of the Accountable Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the body;
- inquiring of the Accountable Officer concerning the body's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the body's controls, and the nature, timing and extent of the audit procedures performed.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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

Reporting 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. In addition to my responsibilities in respect of irregularities explained in the audit of the financial statements section of my report, 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.

Reporting on other requirements

Opinion prescribed by the Auditor General for Scotland on audited parts of the Remuneration and Staff Report

I have audited the parts of the Remuneration and Staff Report described as audited. In my opinion, the audited parts of the Remuneration and Staff Report have been properly 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.

Other information

The Accountable Officer and trustees are responsible for the other information in the Annual Report and Financial Statements. The other information comprises the Trustees' Annual Report and the Governance Statement.

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

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 the Trustees' Annual Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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

Opinions prescribed by the Auditor General for Scotland on the Trustees Annual Report and Governance Statement

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 Financial Statements (Scotland) Regulations 2006 to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.



Andrew Kerr
Audit Scotland
4th Floor, South Suite, The Athenaeum Building
8 Nelson Mandela Place,
Glasgow, G2 1BT

12 September 2023

Andrew Kerr is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Consolidated Statement of Financial Activities for the Year Ended 31 March 2023

	Note	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total 2023 £000	Total 2022 £000
Income						
Grant in Aid	3	22,340	-	-	22,340	21,328
Coronavirus Job Retention Scheme	-	-	-	-	-	200
Donations and Legacies	2	698	9,207	-	9,905	8,884
Income from Charitable Activities	2	2,363	500	-	2,863	1,863
Other Trading Activities	2	1,916	-	-	1,916	1,451
Income from Investments	2	30	171	33	234	194
Total Income and Endowments		27,347	9,878	33	37,258	33,920
Expenditure						
Expenditure on Raising Funds	4	(2,156)	-	-	(2,156)	(1,661)
Expenditure on Charitable Activities	4	(18,924)	(500)	-	(19,424)	(19,475)
Depreciation	4	(3,170)	-	-	(3,170)	(2,445)
Total Expenditure		(24,250)	(500)	-	(24,750)	(23,581)
Net Gains/(Losses) on Investment Assets		(8)	(273)	(56)	(337)	485
Net Income/(Expenditure)		3,089	9,105	(23)	12,171	10,824
Transfers Between Funds	17	(818)	851	(33)	-	-
Depreciation Release	17	1,801	(1,801)	-	-	-
Other Recognised Gains and Losses						
Gains/(Losses) on Revaluation of Fixed Assets	17	-	6,177	-	6,177	(2,984)
Net Movement in Funds		4,072	14,331	(56)	18,348	7,840
Reconciliation of Funds						
Total Funds b/f at 1 April	17	99,692	267,626	1,171	368,489	360,649
Total Funds c/f at 31 March	17	103,764	281,958	1,115	386,837	368,489
Total Fund Balances Made Up By						
General Fund	17	180	-	-	180	198
Capital Assets Fund	17	103,255	-	-	103,255	99,166
General Fund Revaluation Reserve	17	-	40,784	-	40,784	34,809
General Fund Capital Reserve	17	-	30,580	-	30,580	30,580
Donated Asset Reserve	17	-	204,238	-	204,238	195,782
Trust Funds & Bequests (incl. Purchase Fund)	17	329	6,356	1,115	7,800	7,954
Total Fund Balances		103,764	281,958	1,115	386,837	368,489

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

The notes on pages 42-62 form part of the financial statements

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

NGS Statement of Financial Activities for the Year Ended 31 March 2023

	Note	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total 2023 £000	Total 2022 £000
Income						
Grant in Aid	3	22,340	-	-	22,340	21,328
Coronavirus Job Retention Scheme	-	-	-	-	-	200
Donations and Legacies	2	698	9,207	-	9,905	8,884
Income from Charitable Activities	2	3,288	500	-	3,788	2,544
Other Trading Activities	2	-	-	-	-	-
Income from Investments	2	27	171	33	231	194
Total Income and Endowments		26,353	9,878	33	36,264	33,150
Expenditure						
Expenditure on Raising Funds	4	(423)	-	-	(423)	(332)
Expenditure on Charitable Activities	4	(19,796)	(500)	-	(20,296)	(20,127)
Depreciation	4	(3,148)	-	-	(3,148)	(2,421)
Total Expenditure		(23,367)	(500)		(23,867)	(22,880)
Net Gains/(Losses) on Investment Assets		(8)	(273)	(56)	(337)	485
Net Income/(Expenditure)		2,977	9,105	(23)	12,059	10,755
Transfers Between Funds	17	(818)	851	(33)	-	-
Depreciation Release	17	1,801	(1,801)	-	-	-
Other Recognised Gains and Losses						
Gains/(Losses) on Revaluation of Fixed Assets	17	-	6,177	-	6,177	(2,984)
Net Movement in Funds		3,960	14,332	(56)	18,236	7,771
Reconciliation of Funds						
Total Funds b/f at 1 April	17	100,177	267,626	1,171	368,974	361,203
Total Funds c/f at 31 March	17	104,138	281,958	1,115	387,211	368,974
Total Fund Balances Made Up By						
General Fund		554	-	-	554	683
Capital Assets Fund	17	103,254	-	-	103,254	99,166
General Fund Revaluation Reserve	17	-	40,784	-	40,784	34,809
General Fund Capital Reserve	17	-	30,580	-	30,580	30,580
Donated Asset Reserve	17	-	204,238	-	204,238	195,782
Trust Funds & Bequests (incl. Purchase Fund)	17	329	6,356	1,115	7,800	7,954
Total Fund Balances		104,137	281,958	1,115	387,211	368,974

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

The notes on pages 42-62 form part of the financial statements

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Consolidated and NGS Balance Sheet as at 31 March 2023

		Group 2023	NGS 2023	Group 2022	NGS 2022
	Note	£000	£000	£000	£000
Fixed Assets					
Intangible Assets	10	540	540	162	162
Tangible Assets	8	161,241	161,204	147,164	147,105
Heritage Assets	9	216,737	216,737	212,695	212,695
Investments	11	6,423	6,423	6,760	6,760
		<u>384,941</u>	<u>384,904</u>	<u>366,781</u>	<u>366,722</u>
Current Assets					
Stocks	12	547	4	535	-
Debtors: amounts falling due within one year	13	1,917	1,927	1,073	1,032
Cash at bank and in hand	14	4,940	4,492	7,093	6,639
		<u>7,404</u>	<u>6,423</u>	<u>8,701</u>	<u>7,671</u>
Creditors: amounts falling due within one year	15	<u>(5,124)</u>	<u>(4,931)</u>	<u>(6,873)</u>	<u>(6,699)</u>
Net Current Assets		<u>2,280</u>	<u>1,492</u>	<u>1,828</u>	<u>972</u>
Debtors: amounts falling due after one year	13	-	1,200	-	1,400
Total Assets less Current Liabilities		<u>387,222</u>	<u>387,596</u>	<u>368,609</u>	<u>369,094</u>
Provisions for liabilities and charges	16	<u>(385)</u>	<u>(385)</u>	<u>(120)</u>	<u>(120)</u>
Total Net Assets		<u>386,837</u>	<u>387,211</u>	<u>368,489</u>	<u>368,974</u>
Represented by:					
Unrestricted Reserves					
Designated	17	103,664	104,037	99,592	100,077
Undesignated	17	100	100	100	100
Restricted Reserves	17	281,958	281,958	267,626	267,626
Total Funds		<u>385,722</u>	<u>386,095</u>	<u>367,318</u>	<u>367,803</u>
Capital Funds – Permanent Endowments	17	<u>1,115</u>	<u>1,115</u>	<u>1,171</u>	<u>1,171</u>
Total Funds		<u>386,837</u>	<u>387,211</u>	<u>368,489</u>	<u>368,974</u>

The financial statements on pages 38 – 62 were approved by the Accountable Officer and Board of Trustees and authorised for issue on 11 September 2023

Benny Higgins
On behalf of the Board of Trustees

Sir John Leighton
Accountable Officer

The notes on pages 42-62 form part of the financial statements

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Consolidated and NGS Statement of Cash Flows for the Year Ended 31 March 2023

		Group 2023 £000	NGS 2023 £000	Group 2022 £000	NGS 2022 £000
	Note				
Cash flows from operating activities:					
Net cash generated from operating activities	19	10,077	10,085	10,546	10,258
Cash flows from investing activities:					
Dividends and interest received		234	231	194	194
Purchase of artworks		(1,152)	(1,152)	(354)	(354)
Purchase of property, plant and equipment		(11,311)	(11,311)	(7,701)	(7,701)
Purchase of investments		-	-	(1,200)	(1,200)
Proceeds from the sale of property, plant and equipment		-	-	-	-
Net cash used in investing activities		(12,229)	(12,232)	(9,061)	(9,061)
Change in cash and cash equivalents in the reporting year		(2,152)	(2,147)	1,485	1,197
Analysis of changes in net funds:					
Cash and cash equivalents at the beginning of the reporting year	14	7,093	6,639	5,608	5,442
Cash and cash equivalents at the end of the reporting year	14	4,941	4,492	7,093	6,639
Change in cash and cash equivalents in the reporting year		(2,152)	(2,147)	1,485	1,197

The notes on pages 42-62 form part of the financial statements

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

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 2019).

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

Without limiting the information given, the financial statements meet the requirements of the Companies Act 2006, 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 (FRS 102) (effective 1 January 2019), the Charities Accounts (Scotland) Regulations 2006 (as amended) and the 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.

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 60 years
- Assets Under Construction - not depreciated
- Office Equipment and Computing - 4 years
- Fixtures and Fittings - 6 years
- Vehicles - 4 years
- Leasehold Improvements – over the duration of the lease
- IT Infrastructure – 4 years

Assets valued below £5,000 are not capitalised, except for Artwork purchases.

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

e) Heritage Assets

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

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 asset is donated. 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 2019, all incoming resources are accounted for in the Statement of Financial Activities. All grant-in-aid is shown in the Statement of Financial Activities, and that portion which is deemed as capital is transferred to the Capital Assets Fund and released over the lifetime of the asset to offset asset depreciation.

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

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

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

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

h) Resources Expended

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

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

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

i) Subsidiary Company

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

j) Investments

NGS Trust Funds and Bequests have listed investments from which income is derived and used to meet the specific objects of the funds. These investments are shown at market value in accordance with the Charities Statement of Recommended Practice (SORP 2019). 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.

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.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

1 Accounting Policies (continued)

m) Taxation

National Galleries of Scotland has been recognised as having charitable status by HM Revenue and Customs. Non-recoverable Value Added Tax arising from expenditure on non-trading activities is charged to expenditure.

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

n) Leases

Leases are regarded as operating leases and the rentals are charged to the Income and Expenditure Account on a straight-line basis over the term of the lease.

o) Deferred Income

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

p) Key Judgements and Estimates

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

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

2 Analysis of Total Income – Consolidated

	Unrestricted Funds	Restricted Funds	Endowment Funds	Total Group 2023	Total NGS 2023	Total Group 2022
	£000	£000	£000	£000	£000	£000
Grant in Aid	22,340	-	-	22,340	22,340	21,328
Coronavirus Job Retention Scheme	-	-	-	-	-	200
Donations and Legacies						
Grants – Capital Projects	173	5,585	-	5,758	5,758	3,721
Donations – Capital Projects	400	205	-	605	605	396
Donations – Artworks	-	3,417	-	3,417	3,417	4,699
Donations - Exhibitions	75	-	-	75	75	15
Other	50	-	-	50	50	53
Total Income from Donations and Legacies	698	9,207	-	9,905	9,905	8,884
Income from Charitable Activities						
Grants – Other	967	500	-	1,467	1,467	870
Exhibition admission fees	811	-	-	811	811	533
Museum & Galleries Exhibition Tax Relief	91	-	-	91	91	86
Income from loans out	7	-	-	7	7	13
Educational events	48	-	-	48	48	1
Memberships	337	-	-	337	337	316
Other	102	-	-	102	102	44
Recharges	-	-	-	-	925	-
Total Income from Charitable Activities	2,363	500	-	2,863	3,788	1,863
Other Trading Activities						
NGS Trading Company Income	1,916	-	-	1,916	-	1,451
Total Income from Other Trading Activities	1,916	-	-	1,916	-	1,451
Income from Investments						
Dividends	5	160	31	196	196	193
Interest	25	11	2	38	35	1
Total Investment Income	30	171	33	234	231	194
Total Income	27,347	9,878	33	37,258	36,264	33,920

In the year ended 31 March 2023, for the Group, Grant in Aid and Other Trading Activities income related only to Unrestricted Funds, Donations and Legacies was split £698k of Unrestricted and £9,207k of Restricted funds, Income from Charitable Activities was split £2,363k of Unrestricted and £500k of Restricted funds and Income from Investments was split £30k of Unrestricted, £171k of Restricted and £33k of Endowment funds.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

3 Grant in Aid

	Group & NGS 2023 £000	Group & NGS 2022 £000
Grant in Aid Received		
Running Costs	16,750	17,158
Capital Projects	4,990	4,170
Purchase Grant	600	-
Total Grant in Aid Received	22,340	21,328

4 Analysis of Total Expenditure

	Group 2023 £000	NGS 2023 £000	Group 2022 £000	NGS 2022 £000
Staff Costs	15,086	15,086	15,069	15,069
Other Operating Costs	6,494	5,633	6,067	5,390
Depreciation & Amortisation	3,170	3,148	2,445	2,421
Total Expenditure	24,750	23,867	23,581	22,880

	Direct Costs £000	Support Costs £000	Group 2023 £000	NGS 2023 £000	Group 2022 £000	NGS 2022 £000
Raising Funds						
Cost of fundraising	423	-	423	423	332	332
Cost of NGS Trading Company Ltd	1,733	-	1,733	-	1,329	-
Total Expenditure on Raising Funds	2,156	-	2,156	423	1,661	332
Charitable Expenditure						
Exhibitions and education	6,000	2,536	8,536	8,536	7,713	7,713
Conserve and add to collections	4,988	2,358	7,346	7,346	6,857	6,857
Estates management	3,202	290	3,492	3,492	3,499	3,499
Audience development	1,620	1,600	3,220	4,070	3,396	4,024
Covid Expenditure	-	-	-	-	455	455
Total Charitable Expenditure	15,810	6,784	22,594	23,444	21,920	22,548
Total Expenditure	17,966	6,784	24,750	23,867	23,581	22,880

Total Expenditure on Raising Funds and Depreciation relate only to Unrestricted Funds in the current and prior year. Total Expenditure on Charitable Activities relates to £19,646k (2021-22 £19,033Kk) of Unrestricted and £500k (2021-22 £442k) of Restricted Funds.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

5 Allocation of Support Costs

	Charitable Activities				Total 2023	Total 2022
	Exhibition and Education	Conserve & Add to Collection	Estates Managem- ent	Audience Developm- ent		
	£000	£000	£000	£000	£000	£000
Central and Finance	559	520	64	353	1,496	1,343
HR	257	238	29	162	686	653
Planning & Performance	155	144	18	98	415	414
IT	389	361	44	245	1,039	1,028
Depreciation (NGS)	1,177	1,095	134	742	3,148	2,421
Total	2,537	2,358	289	1,600	6,784	5,859

6 Staff Costs

	Group & NGS 2023 £000	Group & NGS 2022 £000
Staff costs during the year		
Wages and Salaries	11,130	11,245
Social Security Costs	1,092	1,017
Other Pension Costs	2,864	2,807
Accounted for in grant aided activities	15,086	15,069

Capitalised staff costs during the financial year amounted to £414,594 (2021-22 £326,540). Further analysis is shown within the Remuneration and Staff Report on page 30.

7 Analysis of Other Operating Charges

	Group 2023 £000	NGS 2023 £000	Group 2022 £000	NGS 2022 £000
Repairs, renewals, and maintenance of buildings	1,400	1,400	1,672	1,672
Cost of sales	664	-	517	-
General expenses	673	519	768	632
Art transport, handling and storage	98	98	82	82
Rates and utilities	896	896	461	461
Printing and promotion	352	349	396	395
IT and communications	644	644	634	634
Legal, consultancy and other professional fees	183	157	193	181
Design and display	364	364	243	243
Education	237	237	231	231
Cleaning	321	321	283	283
Office costs and consumables	71	71	69	69
Travel, subsistence & hospitality	130	126	28	28
Conservation and restoration	70	70	167	167
Operating lease rentals	160	156	157	152
Training and recruitment	113	113	100	100
Internal and External Audit Fees	48	41	41	35
Vehicle costs	25	25	25	25
Publications	45	45	-	-
	6,494	5,633	6,067	5,390

Audit fees include £31,780 (2021-22 £24,340) 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 2023

8 Tangible Assets

Group	Land and Buildings £000	Assets Under Construction £000	Office Equipment and Computing £000	Fixtures and Fittings £000	Vehicles £000	Leasehold Improvements £000	IT Infrastructure £000	Total £000
Cost or Valuation								
At 1 April 2022	113,900	32,530	2,357	4,811	286	76	506	154,466
Additions during year	217	10,176	207	163	38	-	121	10,922
Disposals	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-
Indexation	6,177	-	-	-	-	-	-	6,177
At 31 March 2023	120,294	42,706	2,564	4,974	324	76	627	171,565
Accumulated Depreciation								
At 1 April 2022	-	-	2,220	4,483	286	45	268	7,302
Charge for year	2,560	-	116	167	10	15	154	3,021
Disposals	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-
Indexation	-	-	-	-	-	-	-	-
At 31 March 2023	2,560	-	2,336	4,650	296	60	422	10,324
Net Book Value								
At 31 March 2023	117,734	42,706	228	324	28	15	206	161,241
At 31 March 2022	113,900	32,530	138	327	-	31	238	147,164

Assets under construction include development expenditure for the SNG (£36.2m) and TAW (£6.6m) projects.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

8 Tangible Assets (continued)

NGS	Land and Buildings £000	Assets Under Construction £000	Office Equipment and Computing £000	Fixtures and Fittings £000	Vehicles £000	Leasehold Improvements £000	IT Infrastructure £000	Total £000
Cost or Valuation								
At 1 April 2022	113,900	32,530	2,357	4,654	273	76	506	154,296
Additions during year	217	10,176	207	163	38	-	120	10,921
Disposals	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-
Indexation	6,177	-	-	-	-	-	-	6,177
At 31 March 2023	120,294	42,706	2,564	4,817	311	76	626	171,394
Accumulated Depreciation								
At 1 April 2022	-	-	2,220	4,385	273	45	268	7,191
Charge for year	2,560	-	116	145	10	15	153	2,999
Disposals	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-
Indexation	-	-	-	-	-	-	-	-
At 31 March 2023	2,560	-	2,336	4,530	283	60	421	10,190
Net Book Value								
At 31 March 2023	117,734	42,706	228	287	28	16	205	161,204
At 31 March 2022	113,900	32,530	138	268	-	31	238	147,105

Assets under construction include development expenditure for the SNG (£36.2m) and TAW (£6.6m) projects.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

8 Tangible Assets (continued)

Land and buildings were revalued by Graham and Sibbald at 31 March 2022. The valuations were undertaken in accordance with Royal Institute of Chartered Surveyors (RICS) Global Standards (UK supplement) - on a Depreciated Replacement Cost basis for buildings of a specialised nature and on the basis of existing use for other buildings.

At 31 March 2023, values were indexed in line with appropriate BCIS cost indices.

As at the date of valuation the Scottish National Gallery was undergoing significant construction works involving alteration, extension, and refurbishment of the site and only the elements of the buildings that are in use have been valued.

The Construction work at the SNG was completed and the building handed over in July 2023. The building will be fully operational in September 2023. A valuation of the new areas will be made at March 2024, and any adjustment to the valuation reflected in the 2023-24 financial statements.

Valuations provided by Graham and Sibbald at 31st March 2022 were as follows:

Scottish National Gallery	£16,600,000
Scottish National Portrait Gallery	£21,650,000
Scottish National Gallery of Modern Art (Modern One) and Lodges	£32,060,000
Scottish National Gallery of Modern Art (Modern Two) and Lodges	£18,690,000
Weston Link	£11,650,000
Royal Scottish Academy	£12,000,000
Granton Art Store	£1,250,000
Total	£113,900,000

NATIONAL GALLERIES OF SCOTLAND

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9 Heritage Assets – Group and NGS

	Value at 1 Apr 2022	Additions	Value at 31 Mar 2023
	£000	£000	£000
Artworks at cost	4,256	1,152	5,408
Artworks at valuation	208,439	2,890	211,329
	<u>212,695</u>	<u>4,042</u>	<u>216,737</u>

Government Financial Reporting Manual guidelines require that the additions to the gallery collections after 1 April 2000 should be treated as non-operational heritage assets.

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

Five Year Financial Summary of Acquisitions

	2023 £000	2022 £000	2021 £000	2021 £000	2019 £000
Donated assets and acquisitions funded by donations	3,383	4,746	1,789	1,043	3,974
Other acquisitions	659	84	182	208	298
Total cost/value of acquisitions	<u>4,042</u>	<u>4,830</u>	<u>1,971</u>	<u>1,251</u>	<u>4,272</u>

Significant acquisitions over the last five years include:

At the Edge of Town by Peter Doig which was accepted in lieu of tax by HM Government from the Kennedy Doig family and allocated to the SNGMA in 2021.

La Légende des siècles [The Legend of the Centuries] by René Magritte which was bequeathed to National Galleries of Scotland from Drue Heinz in 2018.

A French Renaissance Court Album with works by multiple artists including Jean Clouet, dating back to the 1500s, was acquired in 2022, accepted in lieu of tax by HM Government.

NATIONAL GALLERIES OF SCOTLAND

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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 2022	304	1,093	-	1,397
Additions	147	50	330	527
Disposals	-	-	-	-
Transfers	-	-	-	-
At 31 March 2023	451	1,143	330	1,924
Accumulated Amortisation				
At 1 April 2022	202	1,033	-	1,235
Charge for the year	49	100	-	149
Disposals	-	-	-	-
At 31 March 2023	251	1,133	-	1,384
Net Book Value				
At 31 March 2023	200	10	330	540
At 31 March 2022	61	60	-	225

Assets under construction represent a major upgrade to the NGS website, a key tool in engaging with our audience in support of our strategic priorities.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

11 Investments

	Group & NGS 2023 £000	Group & NGS 2022 £000
Market value at 1 April 2022	6,760	5,075
Sale of investments	-	-
Realised gain	-	-
Purchased investments	-	1,200
Change in market value – unrealised (loss)/gain	(337)	485
Market value at 31 March 2023	6,423	6,760
Investments at cost	6,287	6,287

Investments are managed by CCLA Investment Management Limited. Asset allocation as at 31 March 2023 is detailed below:

Asset Class	Percentage of Total Portfolio
Overseas Equities	63.75
UK Equities	8.44
Fixed interest	7.68
Infrastructure & Operating Assets	7.45
Cash & Near Cash	5.23
Property	3.22
Contractual & Other Income	2.17
Private Equity & Other	2.04
Derivatives	0.02

12 Stocks

	Group 2023 £000	NGS 2023 £000	Group 2022 £000	NGS 2022 £000
Goods held for resale	547	4	535	-
Net book value of goods held for resale	547	4	535	-

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

13 Debtors

	Group 2023 £000	NGS 2023 £000	Group 2022 £000	NGS 2022 £000
Amounts falling due within one year				
Trade Debtors	127	213	85	86
Amounts owed by Group undertakings	-	-	-	11
Other Debtors	906	830	219	166
VAT Debtor	769	769	704	704
Prepayments	115	115	65	65
	1,917	1,927	1,073	1,032

Amounts falling due after more than one year

Amounts owed by Group undertakings	-	1,200	-	1,400
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Debtors due after more than one year represent amounts due by NGS Trading Company Limited in respect of the loan facility of £1.4m made by NGS Charity initially in 2012, extended in 2018 and 2021. This loan is repayable on demand by NGS, with the last repayment to be made in March 2031. Interest is charged on the loan at base rate plus 1%.

14 Cash at Bank and In Hand

	Group 2023 £000	NGS 2023 £000	Group 2022 £000	NGS 2022 £000
Cash at bank	4,941	4,492	7,093	6,639
Cash at bank and in hand	4,941	4,492	7,093	6,639

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15 Creditors: Amounts Falling Due Within One Year

	Group 2023 £000	NGS 2023 £000	Group 2022 £000	NGS 2022 £000
Trade Creditors	1,595	1,557	2,641	2,609
Other Creditors	284	129	206	64
	1,879	1,686	2,847	2,673
Other Taxation and Social Security	264	264	324	324
Accruals	2,009	2,009	1,459	1,459
Deferred Income	973	973	2,243	2,243
	5,125	4,932	6,873	6,699

Analysis of Deferred Income:

	Group & NGS 2023 £000	Group & NGS 2022 £000
As at 1 April	2,243	1,316
Charged in year	832	1,933
Released in year	(2,102)	(1,006)
Total as at 31 March	973	2,243

16 Provisions for Liabilities and Charges

	Group 2023 £000	NGS 2023 £000	Group 2022 £000	NGS 2022 £000
As at 1 April	120	120	298	298
Charged in year	385	385	110	110
Released in year	(120)	(120)	(288)	(288)
Total as at 31 March	385	385	120	120

Provisions charged in the year relate to the final 2022-2023 pay award and costs to be incurred to relocate high voltage cabling to allow development on the Artworks site.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

17 Consolidated Reserves

	Unrestricted				Restricted				Endowment	Total
	General Fund £000	Trust Funds Central £000	Purchase Funds £000	Capital Assets Fund £000	General Fund £000	General Fund Revaluation Reserve £000	General Fund Capital Reserve £000	Donated Asset Reserve £000	Trust Funds Endowment £000	Total £000
Opening balance 1 April 2022	198	311	16	99,166	-	34,809	30,580	195,782	1,171	368,489
Government Grant in Aid	22,340	-	-	-	-	-	-	-	-	22,340
Other Income	4,977	-	-	-	500	-	-	9,174	-	14,685
Investment Income	25	4	-	-	-	-	-	171	33	233
Total Income	27,342	4	-	-	523	-	-	9,174	33	37,258
Expenditure in Year	(24,250)	-	-	-	(500)	-	-	-	-	(24,750)
Investment revaluation		(8)	-	-	-	-	-	-	(56)	(337)
Net (Exp)/Inc - SOFA	3,092	(4)	-	-	-	-	-	9,174	(23)	12,171
Buildings Revaluation	-	-	-	-	-	6,177	-	-	-	6,177
Depreciation release	3,148	-	-	(1,346)	-	(202)	-	(1,600)	-	-
Transfers between reserves	(6,258)	-	5	5,435	-	-	-	882	(33)	-
Net Movement in Funds (SOFA)	(18)	(4)	5	4,089	-	5,975	-	8,456	(56)	18,348
Closing balance 31 March 2023	180	307	21	103,255	-	40,784	30,580	204,238	1,115	386,837

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

17 Consolidated Reserves (continued)

The Financial Statements comprise several 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 £100,000 (2020-21 £100,000).

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 2019.

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 2019.

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

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

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

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

17 Consolidated Reserves (continued)

ARTIST ROOMS Fund For the purchase of works of art for the ARTIST ROOMS collection, and support of the Artist Rooms programme.

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

18 Group Net Assets by Fund

	Unrestricted	Restricted	Endowment	Total 2023	Total 2022
	£000	£000	£000	£000	£000
Fixed Assets	102,917	275,602	-	378,519	360,021
Investments	151	5,253	1,018	6,423	6,760
Cash	3,381	1,462	97	4,940	7,093
Current Assets (excluding cash)	2,427	-	-	2,427	1,608
Current Liabilities	(4,727)	(360)	-	(5,087)	(6,873)
Provisions	(385)	-	-	(385)	(120)
Total	103,764	281,958	1,115	386,837	368,489

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

19 Notes to the Statement of Cash Flows

	Group 2023 £000	NGS 2023 £000	Group 2022 £000	NGS 2022 £000
Net movement in funds (as per the Statement of Financial Activities)	18,348	18,237	7,840	7,771
Adjustments for:				
Depreciation charges	3,170	3,148	2,445	2,421
(Gains)/losses on revaluation of fixed assets	(6,177)	(6,177)	2,984	2,984
Losses/(gains) on investments	337	337	(485)	(485)
(Profit)/loss on sale of fixed assets	-	-	-	-
Dividends and interest shown in investing activities	(233)	(230)	(194)	(194)
Donations of artworks for the collection	(2,890)	(2,890)	(4,475)	(4,475)
(Decrease)/increase in provisions	265	265	(178)	(178)
Decrease/(increase) in stocks	(12)	(4)	183	-
Decrease/(increase) in debtors	(844)	(696)	284	298
(Decrease)/Increase in creditors	(1,886)	(1,905)	2,142	2,116
Net cash provided by (used in) operating activities	10,078	10,085	10,546	10,258

20 Financial Commitments – Group and NGS

Future minimum lease payments required under non-cancellable operating leases existing at 31st March are as follows:

	2023 £000	2022 £000
	Land & Buildings	Land & Buildings
Not later than one year	127	127
Leases expiring after one year but within five years	16	95
Leases expiring after five years	-	-
	143	222

At the end of 2022-23, NGS is contractually committed to two capital projects, the refurbishment of the Scottish National Gallery and the design of the Artworks building. The amount contracted for but not provided in the financial statements as at 31st March 2023 was £0.8m in respect of the Scottish National Gallery, and £0.6m for the Artworks.

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

21 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:

	2023	2022
	<u>£000</u>	<u>£000</u>
Turnover	1,914	1,451
Cost of sales	(665)	(517)
Gross profit	1,249	934
Administrative costs	(1,099)	(841)
Other operating income	3	-
Operating (loss)/ profit	154	93
Interest income	2	-
Interest payable	(45)	(24)
Profit/ (loss) before taxation	111	69
Taxation	-	-
Profit/ (loss) after taxation	111	69

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.

22 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 £22.34m (2021-22 £21.328m). NGS also entered 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 any material transactions with NGS during the year. Benny Higgins was appointed Executive Chairman for Buccleuch Group in March 2019. NGS has works of Art on loan from and to various Buccleuch Trusts.

NGS is the parent company of NGS Trading Company Limited (NGST). During the year NGS had various material transactions with NGS Trading Company Limited, including a loan facility of £1.2m and provision of a letter of support. The letter of support confirms the Board of Trustees intention to continue its financial support for NGST for the foreseeable future.

Benny Higgins, Chairman, Sir John Leighton, Director-General, and Chris Sibbald were also directors of NGS Trading Company Limited during the financial year to March 2023.

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 with the aim of helping NGS fulfil its mission for the public benefit. The NGS Foundation was founded in 2012 to further the charitable purposes of the Board of Trustees of the National Galleries of Scotland through active fundraising and investment.

NGS recognised grant income of £4.99m (2021-22, £1.5m) from NGS Foundation for various projects. During the period to March 2023 administrative services were gifted to NGS Foundation by NGS under the terms of a service agreement. In March 2023 NGS Charity granted NGS Foundation £0.1m. Bryan Robertson, Chief Operating Officer NGS, and Chris Sibbald are directors of the NGS Foundation, but the majority of the NGS Foundation directors are unconnected to NGS Charity.

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

NATIONAL GALLERIES OF SCOTLAND

TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

23 Taxation

National Galleries of Scotland has been recognised as having 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.

24 Losses and Special Payments

Losses and special payments during the year amounted to £nil (2021-22 £nil). There were no individual losses or special payments of more than £250k.

25 Contingent Liabilities

There were no contingent liabilities as at March 31st, 2023.

NATIONAL GALLERIES OF SCOTLAND
TRUSTEES' ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

Appendix: Direction by the Scottish Ministers



NATIONAL GALLERIES OF SCOTLAND

DIRECTION BY THE SCOTTISH MINISTERS

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



Signed by the authority of the Scottish Ministers

Dated 31 March 2006