



Annual Report and Accounts  
For the year ended 31 March 2016

Charity Number: SC011130

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## **TRUSTEES' ANNUAL REPORT**

### **1. Our objectives and activities**

National Museums Scotland is one of the leading museum groups in Europe. Millions of local and international visitors enjoy our four museums each year, and we care for one of the most diverse collections in the world. The sheer breadth of our holdings has huge power, bringing together the arts and sciences, the cultures of Scotland and the world, and the full spectrum of human ingenuity alongside the diversity of the natural world.

These collections have deep roots, spanning thousands of years. They enable us to explore, to debate and to celebrate our nation and the world around us - past, present and future. Inspired by the pioneers and thinkers who founded our institution and created our collections, National Museums Scotland is clear in its commitment to take every opportunity which realises our vision: Inspiring People, Connecting Scotland to the World and the World to Scotland.

With its roots in institutions going back hundreds of years, the current organisation was created on 1 October 1985 by the amalgamation of the National Museum of Antiquities of Scotland and the Royal Scottish Museum. The principal functions of the organisation are, as set out in Section 2(1) of the National Heritage (Scotland) Act 1985, to:

- a) care for, preserve and add to the objects in our collections;
- b) secure that the objects are exhibited to and interpreted for the public;
- c) secure that the objects are available to persons seeking to inspect them in connection with study or research;
- d) generally promote the public's awareness, appreciation and understanding of matters agricultural, archaeological, architectural, artistic, cultural, environmental, historical, industrial, military, scientific and social, both by means of the Board's collections and by such other means, including collaboration with other institutions, as they consider appropriate; and
- e) provide education, instruction and advice and carry out research.

National Museums Scotland wholly owns a limited company, NMS Enterprises Limited (NMSE), the aims of which are to:

- manage commercial facility hire and catering activities
- operate the shops in our museums
- publish books
- develop commercially our intellectual property

All profits are distributed to National Museums Scotland. The activities of National Museums Scotland and NMSE are consolidated in the accounting statements and together are referred to as the Group.

The main way that we make collections available and promote public awareness is through our four museums: the National Museum of Scotland on Chambers Street in Edinburgh, the National War Museum in Edinburgh Castle, the National Museum of Flight in East Lothian and the National Museum of Rural Life near East Kilbride. Increasingly we also use our website and other online channels.

In addition we reach out across Scotland in many ways including: an increasing focus on touring exhibitions in order to share the National Collections more widely; an average of some 2,500 loans from the National Collections annually; community based partnership projects, often within disadvantaged areas; training and skills development, including targeting young people; the provision of advice and support to the museum sector; administering the National Fund for Acquisitions and operating the Treasure Trove scheme.

To promote the care of and research into our collections, we are further developing the National Museums Collection Centre in Granton, north Edinburgh, as our main collections science, conservation, access & research facility.

The organisation has strong relationships with volunteers, who support the organisation in a variety of ways, from supporting our events and leading guided tours to assisting with curatorial and conservation activity. During the year we benefited from the support of an estimated 189 ongoing volunteers and 349 volunteers helping at one-off events such as the Airshow and with the Learning & Programmes family events (185 and 391 respectively in 2014/15).

## 2. Achievement and performance

National Museums Scotland has defined its vision as *'inspiring people, connecting Scotland to the world and the world to Scotland'*. The mission of National Museums Scotland is to *'preserve, interpret and make accessible for all, the past and present of Scotland, of other nations and cultures, and of the natural world'*.

We have made progress towards all of our strategic priorities in 2015/16, with the main developments and achievements being noted below. Further examples are provided in our Annual Review, which is available on our website.

We have far exceeded expectations of visitor numbers since the reopening of the National Museum of Scotland in 2011. In addition to the quality of the redevelopment itself, this is the result of our investment in exhibitions, events and active marketing communications. During 2014 we closed ten of our galleries in Chambers St as the next phase of major improvements commenced. This had the effect of reducing our visitor numbers in 2014/15, although these recovered in 2015/16 prompted by enhanced events programming and marketing. We expect attendance to further increase in 2016/17 following the opening of redeveloped galleries in July 2016.

During the year ended 31 March 2016, 118 academic publications were produced by our staff. In addition, the outcomes of research were communicated through a wide range of channels such as conferences and lectures, exhibitions and public events. This reflects our Research Programme which is based on four themes: Collectors and Collecting; Understanding the Natural World; Material Culture Creation and Use; and Identities and Cultural Contacts.

Our key performance indicators are reported to each Trustees meeting and to the Scottish Government on a quarterly basis. We achieved or exceeded most of our targets for 2015/16. Unusually high results were achieved in connection with the collections database and media coverage. During 2015/16 extensive review and updating of records was undertaken, with some records being updated more than once. Media coverage in China led to large increases in both reach and value. Non-government income increased significantly but was below target due to the National Museum project spend following a different timetable than originally planned, which means more of the non-government income will now be received in 2016/17.

	2014/15 Results	2015/16 Target	2015/16 Results
<b>Key Performance Indicators</b>			
Total museum visit numbers	2.3m	2.3m	2.4m
Total website visit numbers	1.6m	1.8m	2.0m
Total learning participation	188k	160k	239k
Visitor satisfaction (scored out of 10)	8.6	8.5	8.6
% Collections storage meeting appropriate standards	69%	70%	71%
Total number of object records online	27,000	32,000	32,180
Record input equivalent to % of collections database	17%	10%	196%
Total number of loans	2,661	2,100	2,603
Total number of academic publications	113	120	118
External participation in our annual programme of support for the Scottish museum sector	341	200	257
Reach of media coverage (Opportunities To See/hear)	1,800m	700m	5,900m
Value of media coverage (Advertising Value Equivalent)	£10.1m	£5m	£67.8m
Absence levels – working days lost per employee	6.5	7.5	6.3
Permanent salary costs as % of total costs	56%	56%	55%
Non-government income as % of total income	12%	46%	40%
CO2 emissions (tonnes)-% improvement from baseline	19%	15%	29%
% of estate in condition category B or better	72%	74%	74%

National Museums Scotland administers, on behalf of Scottish Ministers, the National Fund for Acquisitions (NFA). This provides grant funding to museums and galleries across Scotland to help them acquire new items for their collections. The budget allocated for financial year 2015/16 was £225k. During the year 67 payments totalling £156k were made to 27 organisations, supporting acquisitions worth £1.07m. This leverage of non-government funding underlines the key importance of the NFA to the museums and galleries across Scotland.

### 3. Financial review

Our operational financial strategy for 2015/16 was to maintain stability through a period of major investment in our estate, facilities and displays. Static funding from Government and increasing competition for other sources of operational funding represent a risk to stability which has to be successfully managed.

We are both a charity and a government body, which means that we report financial performance in two main ways. The principal differences lie within how information on major projects funding and depreciation are presented. Whilst these accounts must be prepared on a charity basis, the Trustees also provide information below in accordance with how the Scottish Government would see our finances.

#### As a charity

We had a very successful year securing a major increase in non-government income to invest in our museum buildings, displays and facilities in accordance with our funders' conditions. This investment underpins our delivery this year and in the future. It is vital in enabling us to build our reputation, reach and revenue in the short, medium and long-term. Museums are by definition long-term in their outlook. Continued investment is a key part of our strategy.

#### Major Investment Projects

During 2015/16 we completed an important phase of development at both the National Museums Collection Centre and at the National Museum of Flight. In 2016/17, the current phase of development at the National Museum of Scotland will conclude and open to the public. In addition, preparations are already underway for the next phases of development at all three of these sites. At the National Museum of Scotland we intend to display our internationally important Ancient Egypt and East Asia collections in two new gallery spaces. Improvements in research, access and storage facilities at the National Museums Collection Centre are also planned. A new hangar is planned at the National Museum of Flight so that our largest aircraft, most of which are currently outdoors, can be preserved for future generations and better interpreted for our visitors.

In addition to this, we are working to reduce a backlog of property maintenance works, which reached a peak value of £19.1 million at 31 March 2011, and is being addressed by working with the Scottish Government to implement our Estates Strategy over the long-term. This is based around the major projects listed above, vacating unsuitable premises and a detailed programme of smaller scale works, all of which require support by Scottish Government and other grants. New maintenance liabilities continue to emerge over time and a liability of over £13 million remains to be funded. At a time when government capital and revenue funding is reducing in real terms, and potentially even in cash terms, this remains a serious risk.

In the period, the group acquired tangible assets at a cost of £11.8m (2014/15 £6.9m), including £11.3m (2014/15 £6.6m) on buildings, £0.4m (2014/15 £0.0m) on permanent galleries and £0.1m (2014/15 £0.3m) on equipment purchases.

#### Reserves

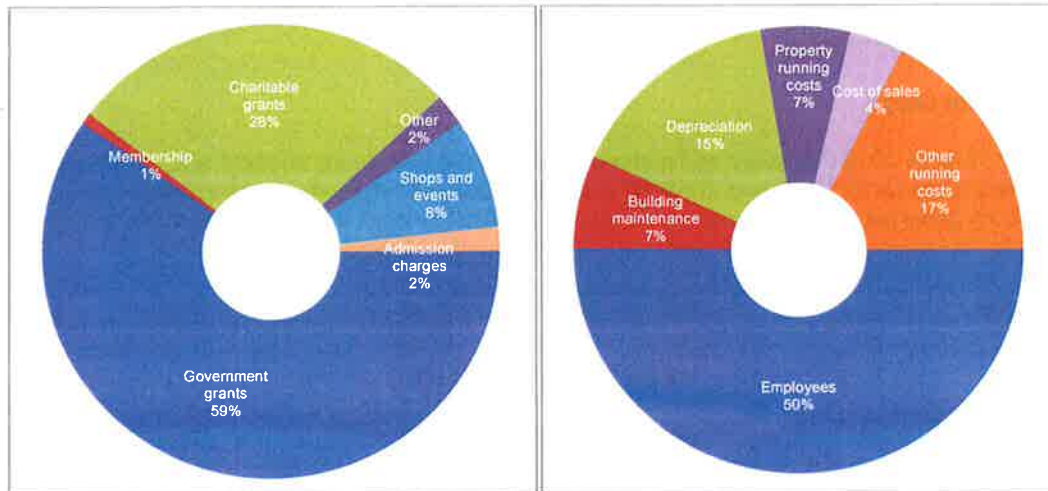
Reserves are reviewed regularly by the Board of Trustees and appropriate levels agreed based on current requirements and forward plans. As our principal funder, the Scottish Government requires the Group to hold unrestricted reserves at a level much lower than a charity would normally require.

We hold both restricted and unrestricted reserves and details on these are provided in Note 17. Restricted reserves principally represent the capital value of our assets, which will be written down in

future years as that value is consumed. These resources are restricted to this purpose and cannot be used in any other way.

The Board Reserve held in both the charity and its subsidiary (NMSE) is available for use and is held at a low level of usually less than £250,000.

**Our income and expenditure**



The Statement of Financial Activities shows we received £37.9m in 2015/16. Government grant remains of central importance but grants from charitable foundations and income from our shops and commercial events are increasingly important. Grants from charitable trusts and donations usually have specific conditions which make them Restricted.

We charge for admission at the National Museums of Flight and Rural Life. We do not charge for admission at the National War Museum, although visitors cannot access the museum unless they pay Historic Environment Scotland for admission to Edinburgh Castle. Admission to the National Museum of Scotland is free.

A significant part of our funds is used to employ the people we need to operate and develop the national museums. Running our buildings (maintenance, heat and light) takes another large part of our funds. Depreciation is the cost of using our capital assets gradually over many years. We continually invest to build up our capital base of buildings, facilities and displays. Cost of sales is principally the value of stock sold in our shops and the cost of commercial events. Other running costs includes a wide range of collections care and conservation, exhibition and display costs and the administrative costs of running the organisation.

**As a government body**

We recorded a balanced position for the 2015/16 year (2014/15 surplus £0.2m).

Group		2015/16	2014/15
		£m	£m
<b>Expenditure</b>	Employees Costs	15.1	14.1
	Other Operating Costs	10.7	12.2
		<b>25.8</b>	<b>26.3</b>
<b>Income</b>	Other income	5.4	6.3
	Contribution to capital expenditure	(0.1)	(0.3)
		<b>5.3</b>	<b>6.0</b>
<b>Net expenditure for the year</b>		<b>20.5</b>	<b>20.3</b>
<b>Funded by:</b>	Grant in aid (GIA) received	20.5	20.5
<b>Surplus/(Deficit) for the year</b>		<b>-</b>	<b>0.2</b>
<b>Board Reserve</b>	Opening Balance	0.1	(0.1)
	Surplus/(Deficit) for the year	-	0.2
	Closing Balance	0.1	0.1

We are required to operate within the financial limits prescribed in the Financial Memorandum issued by the Scottish Government, and to comply with the Scottish Public Finance Manual.

We are generally not permitted to borrow or invest funds and we have made no social investments.

These operational results exclude the financial impact of our major investments. During 2015/16 we invested £12.5m in improvements to our estate and displays. This was mainly financed through non-government sources of funding. We intend to continue with this investment in future years as a key part of delivering our strategy.

### Planning ahead

On 23 March 2016 the Board of Trustees approved the budget for 2016/17 and considered outline plans for 2017/18 and 2018/19. As indicated in the table below, the current savings and income generation programme is expected in 2016/17 to meet the combined challenge of rising costs, falling government grant income and continued investment.

<b>Group</b>	2015/16	2016/17	2017/18
	Actual	Budget	Plan
	£000	£000	£000
<b>Income</b>			
Grant-in-Aid	22,397	21,667	20,967
Other income	15,762	9,471	5,470
<b>Total Income</b>	<b>38,159</b>	<b>31,138</b>	<b>26,437</b>
<b>Operational Expenditure</b>			
Salaries	15,041	15,031	15,804
Operational Costs	10,583	10,871	10,392
<b>Total</b>	<b>25,624</b>	<b>25,902</b>	<b>26,196</b>
<b>Major Projects Expenditure</b>	12,468	5,236	683
<b>Surplus/(Deficit)</b>	<b>67</b>	<b>-</b>	<b>(442)</b>

We expect that costs will continue to grow in future years, which leads to the emergence of a deficit of £0.44m by 2017/18.

This assumes that government funding for running our museums remains static in cash terms at £20.3m a year from 2016/17. However there is a risk that this funding may be reduced as part of wider UK and Scottish Government financial management decisions.

The Scottish Government has provided no information on the funding we should expect to receive beyond 2016/17, which limits the effectiveness of our forward planning. Our early assessment of the implications of continued frozen government funding and current government policy indicate a potential annual deficit of £1.3million a year by 2019/20.

Given the funding and consequential resource reductions which have already been made over the past few years, it would be very difficult to deliver further cost reductions without affecting the quality and service levels expected by the public.

### Risk and uncertainty

In support of delivering our operations and plans for the future, National Museums Scotland maintains a register of major risks which is reviewed and updated regularly. We consider that the three key risks identified and managed in 2015/16 were:

- 1) A real-terms or cash reduction in Grant-in-Aid income from the Scottish Government.
- 2) Buildings not meeting appropriate legislative standards; not fit to be occupied by the public, staff or collections; or uneconomic to refurbish and requiring replacement.
- 3) Difficulties in recruiting and retaining staff in vital posts.

These risks are particularly associated with our relationship with the Scottish Government and their constrained financial position is leading or contributing to an increase in the severity of these risks. As far as possible, control mechanisms to minimise or mitigate these risks have been implemented and reviewed for effectiveness, with the ownership of each risk assigned to the relevant Executive Team member. However the source of the risk is outside the organisation and internal risk mitigation cannot eliminate the risks, particularly in the long term.

As far as possible, all of these risks will continue to be managed in 2016/17. Further detail on risk management is provided in the Governance Statement.

#### 4. Plans for the future

Our Strategic Plan for 2016-2020 sets out our values, aims and a new set of priorities for the four years ahead:

##### Our Values

Our values describe how we want to operate – with each other and externally:

- *Creative*: we are innovative and thrive on good ideas
- *Generous*: we are open, friendly and enabling
- *Collaborative*: we are enquiring, receptive and well connected
- *Forward-Thinking*: we look for the big picture as well as the detail

We capture all of the above in our brand, “*Real Things, Revealing Stories*”, which is at the heart of how we communicate and engage with people at our museums and beyond.

##### Our Aims

These four Aims direct our priorities, activities and actions:

- *Put People First*:  
Create inspiring experiences that help our audiences’ understanding of themselves and the world around them.
- *Value our Collections*:  
Preserve, interpret, share and make them accessible for all.
- *Increase our Reputation and Reach*:  
Connect more with people locally, nationally and internationally.
- *Transform our Organisation*:  
Develop our people and work together to deliver our ambitions and increase our income.

##### Our Priorities

- Creating inspiring visitor experiences at our Museums and elsewhere.
- Developing, preserving and increasing access to the National Collections.
- Strengthening and sharing collections knowledge and research.
- Reaching out to people across Scotland and the world.
- Transforming our digital engagement.
- Valuing, supporting and developing our people and empowering them to work together in new ways.
- Growing and diversifying our income.

Our Aims and Priorities have been translated into a new set of Key Performance Indicators and an annual Operational Plan, which together will help us track how well we are doing and focus on critical actions which have to be completed to achieve the Plan.

#### 5. Structure, governance and management

Our Trustees are appointed by Scottish Ministers for a single four-year term, with the possibility of reappointment for a second term. An induction programme is provided to new Trustees, with ongoing support and formal training as required. All Board members are appraised annually by the Chairman, in accordance with the Code of Practice for Ministerial Appointments to Public Bodies in Scotland. The

following were members of the Board who served during the year and up to the date of approval of these financial statements:

- Bruce Minto OBE (Chairman)
- Professor Christopher Breward D.Phil, FRSA, FRCA
- Dr Isabel Bruce OBE, PhD, BA, MRTPI, MCIPS, FRSSA
- Gordon Drummond
- Chris Fletcher BA, CA, FSA
- Dr Anna Gregor CBE, FRCR, FRCP
- Andrew Holmes MSc, MICE
- Dr Brian Lang CBE FRSE
- Lynda Logan
- Dr Catriona Macdonald
- Miller McLean, FCIBS, FIB
- Professor Walter Nimmo CBE, BSc, MD, FRCP, FRSCed, FRSA, FANZA, FRSE
- James Troughton DipArch, MA Cantab, RIBA
- Eilidh Wiseman

The following served as members of the Audit & Risk Committee during the year: Miller McLean (Chairman), Andrew Holmes, Chris Fletcher and Bruce Minto (ex-officio).

National Museums Scotland maintain a Board Members' Register of Interests, 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 to their registered interests and they review their details annually. This information is available on our website ([www.nms.ac.uk](http://www.nms.ac.uk)) and for inspection at the National Museum of Scotland on application to the Head of Corporate Policy and Performance.

Trustees are responsible for determining the vision and overall strategic direction of the organisation and for monitoring progress towards these. A range of decisions are reserved for the Board, such as approval of major projects (£1 million and over). Dr Gordon Rintoul, The Director (Chief Executive and Accountable Officer), and the Executive Team are responsible for advising on the development of strategy and its implementation through operational management.

The National Museums of Scotland Charitable Trust is wholly independent of National Museums Scotland, with its own Board of Trustees. Their purpose is to aid any objects deemed legally charitable, giving preference to those which are directly or indirectly of benefit or assistance to National Museums Scotland. The Trust manages income received from donations, grants and bequests. Most of these funds are restricted and may only be applied for the purposes for which they were established. There is also a General Fund from which the Trustees may make discretionary grants.

National Museums Scotland works closely with the Scottish Government as a principal funder, and collaborates on government initiatives with the other National Collections Institutions.

The Scottish Government's *Programme for Government* sets out its programme of policy delivery and legislation, as well as summarising the Government's key achievements and main goals for the future - both legislative and non-legislative. The focus of the *Programme for Government* is on the following themes:

- *Creating More, Better Paid Jobs in a Strong, Sustainable Economy.*
- *Building a Fairer Scotland and Tackling Inequality.*
- *Passing Power to People and Communities.*

We make an important contribution across a range of areas within the Scottish Government's priorities. This is particularly so in terms of our economic contribution, our strong focus on widening access and participation, our provisions of a broad range of learning opportunities tailored to needs and our international activities.

Our work and the services we provide are aligned with the National Performance Framework, and most closely to the following five National Outcomes in the Framework:

- National Outcome 1: *we live in a Scotland that is the most attractive place for doing business in Europe.*
- National Outcome 4: *our young people are successful learners, confident individuals, effective contributors and responsible citizens.*
- National Outcome 13: *we take pride in a strong, fair and inclusive national identity.*
- National Outcome 14: *we reduce the local and global environmental impact of our consumption and production.*



- National Outcome 16: *our public services are high quality, continually improving, efficient and responsive to local people's needs.*

### Remuneration Policy

The remuneration of the Director is set by the Board of Trustees but requires the agreement of the Scottish Government. This remuneration is reviewed annually by the Board of Trustees. The Chairman of the Personnel and Remuneration Committee and the Chairman of the Audit & Risk Committee provide advice to the Chairman of the Board of Trustees on the salary and reward structure for the Director.

The remuneration of the remainder of senior management is reviewed annually and agreed by the Personnel and Remuneration Committee (PARC) on the advice of the Director working within the approved pay remit from the Scottish Government. A formal annual performance review process is in place for all staff, including senior management.

### 6. Reference and administrative details

The organisation's operational name is National Museums Scotland. Our statutory name, 'Board of Trustees of the National Museums of Scotland', is retained for use on legal and contractual documents.

Our registered address and principal place of business is Chambers Street, Edinburgh EH1 1JF.

National Museums Scotland has been granted charitable status: the charity number is SC011130.

The organisation's banker is The Royal Bank of Scotland, 6-8 George Street, Edinburgh EH2 2SA.

Legal advice is provided primarily by CMS, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN.

The external auditor is PricewaterhouseCoopers LLP, 141 Bothwell Street, Glasgow G2 7EQ.

So far as the Board of Trustees of the National Museums of Scotland is aware, there is no relevant audit information of which the auditors are unaware. The Board of Trustees has taken all the steps that it ought to have taken to make itself aware of any relevant audit information and to establish that auditors are aware of that information.



**CHAIRMAN**  
Bruce Minto

**DATE** 21 September 2016

## **GOVERNANCE**

### **STATEMENT OF THE ACCOUNTABLE OFFICER'S RESPONSIBILITIES**

#### **ACCOUNTABLE OFFICER'S RESPONSIBILITIES**

Under the National Heritage (Scotland) Act 1985, paragraph 9(3) schedule 7, Scottish Ministers have directed National Museums Scotland to prepare for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction appended to these accounts.

Section 2 of the Direction requires that we must account in accordance with the Government Financial Reporting Manual (FRoM). The FRoM is updated each year and section 1.4.1 of the 2015/16 FRoM requires that as a charity we "*should comply with regulations issued under charities legislation and, where applicable, the Statement of Recommended Practice (SORP) Accounting by Charities issued by the Charity Commission*".

The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs at the year-end both for National Museums Scotland ('the Charity') and National Museums Scotland consolidated with NMS Enterprises Limited ('the Group') and of our income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the Accounts, the Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The Principal Accountable Officer for the Scottish Government has appointed the Director of National Museums Scotland as Accountable Officer. 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 Museums Scotland's and the Group's assets, are set out in the Accountable Officer's Memorandum published by the Scottish Ministers.

DIRECTOR.....



Date

21 September 2016

# **GOVERNANCE**

## **GOVERNANCE STATEMENT**

### **Introduction**

National Museums Scotland is committed to best practice in all aspects of corporate governance and this statement describes the principal governance provisions which presently apply. The Board of Trustees keeps these provisions under review to take into account developing practice.

### **Legislation/Governing Body**

The legislation that governs the Board of Trustees of the National Museums of Scotland is the National Museums (Scotland) Act 1985 as amended by the Museums and Galleries Act 1992: <http://www.legislation.gov.uk/ukpga/1985/16>. The Board is statutorily responsible for the care of the collections, and for the overall performance of National Museums Scotland. So far as practicable and subject to the provisions of the Act, the Board's general functions are to:

- Care for, preserve and add to the objects in their collections.
- Secure that the objects are exhibited to and interpreted for the public.
- Secure that the objects are available to persons seeking to inspect them in connection with study or research.
- Generally promote the public's awareness, appreciation and understanding of matters agricultural, archaeological, architectural, artistic, cultural, environmental, historical, industrial, military, scientific and social both by means of the Board's collections and by such other means, including collaboration with other institutions, as they consider appropriate.
- Provide education, instruction and advice and carry out research.

The responsibilities of the Board cover the following main areas:

- Strategy, Planning and Performance Review.
- Commitment and Deployment of financial, human and other resources.
- Acquisitions for and Disposals from the Collections.
- Ensuring operation within the limits of statutory authority, complying with delegated authority agreed with the Scottish Government and set out in the Management Statement and Financial Memorandum, and adherence to conditions relating to the use of public funds.
- Representing the interests of stakeholders and furthering relationships with them.
- Ensuring that appropriate standards of corporate governance and personal conduct on the part of Trustees and staff are maintained.

These responsibilities are detailed in the *Board of Trustees of National Museums Scotland: Roles and Responsibilities* guidance document which is provided to all Trustees on appointment.

To discharge these responsibilities:

- The Board meets formally five times per annum. At each meeting, the Board of Trustees receives a written report on: key operational matters from the Director; a financial report; minutes of sub-committees of the Board; an update of relevant issues relating to National Museums Scotland Enterprises; and reports on specific topics as necessary. Risk-related issues are highlighted as necessary within these agenda items. The Board may also meet outside the normal Board meeting cycle to consider specific matters such as the development of strategy.
- The Board maintains six sub-committees, whose terms of reference and members are agreed by the Board. These are the Acquisitions Committee, Audit & Risk Committee, Estates Committee, Finance Committee, Nominations & Governance Committee and Personnel and Remuneration Committee.
- The Audit & Risk Committee meets at least three times per annum. It considers and approves the Internal Audit plan for each year. At each meeting, it receives: an update on key business issues; a report on progress on the key risks in the organisation's risk register and any significant issues affecting the other risks identified in the risk register; and reports from Internal and External Auditors. It also reviews the draft annual accounts on behalf of the Board.

## **Risk Management and Internal Controls**

### Scope of Responsibility

The Accountable Officer and Trustees have joint responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's strategies and intended outcomes, whilst safeguarding the public funds and assets for which the Accountable Officer is personally responsible, in accordance with the responsibilities assigned to the organisation.

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

### Purpose of the System of Internal Control

The system of internal control is designed to manage risk 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 risks to the achievement of the organisation's strategies and intended outcomes; evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

The system within the organisation accords with the SPFM and has been in place for the year ended 31 March 2016 and up to the date of approval of the financial statements, and accords with guidance from the Scottish Ministers.

### Risk and Control Framework

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

The National Museums Scotland Executive Team reviews the Risk Register formally every six months by reassessing risk through a process of probability and impact assessment. The key risks are reported upon at each Audit & Risk Committee meeting in detail as to current status, with any significant changes in these risks reported to the Board of Trustees. Control mechanisms to minimise or mitigate risks are identified and reviewed for effectiveness, and "ownership" of the risks is assigned to the relevant Executive Team member. Any training required is identified and taken forward as relevant.

There were no Personal Data-related incidents during the year.

More generally, the organisation is committed to a process of continuous development and improvement, developing systems in response to any relevant reviews and developments in best practice in this area.

### Review of Effectiveness

The Accountable Officer and Trustees have responsibility for reviewing the effectiveness of the system of internal control. Their review is informed by:

- The Executive Team, who have responsibility for the development and maintenance of the internal control framework;
- The work of the internal auditors, who submit regular reports to the Audit & Risk Committee which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement;
- Comments made by the external auditors in their management letters and other reports.

As noted above, the Executive Team formally reviews the Risk Register twice a year, with any significant issues being reported on and discussed at its fortnightly meetings as required. Quarterly updates on progress towards the achievement of Performance Indicators and the Strategic Actions in our Operational Plan are also both reviewed at these meetings to ensure they are in line with targets prior to communication to the Board and the Scottish Government. Any matters of significance affecting the business, such as Human Resources (recruitment, attendance, training), project assurance (key projects meeting targets),

monthly management accounts (budget/actual review and revised forecasts), Operational Plan progress, are reviewed and discussed, with appropriate action taken forward.

For 2015/16 the internal auditor has concluded that significant (with minor improvement opportunities) assurance can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

As outlined in section 3 of the Trustees Annual Report, the organisation continues to manage significant levels of risk, particularly in the following areas:

- A real-terms or cash reduction in Grant-in-Aid income from the Scottish Government.
- Buildings not meeting appropriate legislative standards; not fit to be occupied by the public, staff or collections; or uneconomic to refurbish and requiring replacement.
- Difficulties in recruiting and retaining staff in vital posts.

The Accountable Officer and Trustees consider that these risks have grown over the last year. If such growth continues, this may compromise our ability to fulfil our statutory and charitable obligations, and our ability to sustain an effective system of internal control.

	
<b>CHAIRMAN</b>	<b>DIRECTOR</b>
Date	Date
21 September 2016	21 September 2016

## **GOVERNANCE**

### **Independent auditor's report to the members of the National Museums Scotland, the Auditor General for Scotland and the Scottish Parliament**

We have audited the financial statements of the National Museums Scotland for the year ended 31 March 2016 under paragraph 9(3) schedule 1, of the National Heritage (Scotland) Act 1985 and section 44(1) ( c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Consolidated Statement of Financial Activities, Consolidated and Charity Balance Sheets, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### **Respective responsibilities of Accountable Officer and auditor**

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view in accordance with paragraph 9(3) schedule 1, of the National Heritage (Scotland) Act 1985, and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2016 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 under paragraph 9(3) schedule 1, of the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

### **Opinion on regularity**

In our 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.

### **Opinion on other prescribed matters**

In our opinion:

- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with under paragraph 9(3) schedule 1, of the National Heritage (Scotland) Act 1985, and directions made thereunder by the Scottish Ministers; and
- 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.

### **Matters on which we are required to report by exception**

We are required by The Charities Accounts (Scotland) Regulations 2006 to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.



Martin Pitt, (for and on behalf of PricewaterhouseCoopers LLP)  
141 Bothwell Street, Glasgow, G2 7EQ  
22 September 2016

Martin Pitt is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

NATIONAL MUSEUMS SCOTLAND

ACCOUNTING STATEMENTS

Consolidated Statement of Financial Activities for the Year Ended 31 March 2016

Group	Notes	2016	2016	2016	2015
		Unrestricted Funds £000	Restricted Funds £000	Total £000	Total £000
<b>Income from:</b>					
Donations and legacies	4	22,908	10,395	33,303	29,584
Charitable activities	4	1,530	-	1,530	1,554
Other trading activities	4	3,098	-	3,098	2,895
Investments	4	6	-	6	5
Other	4	1	-	1	-
<b>Total</b>		<b>27,543</b>	<b>10,395</b>	<b>37,938</b>	<b>34,038</b>
<b>Expenditure on:</b>					
Charitable activities	6	22,790	5,345	28,135	28,094
Raising funds	6	2,950	-	2,950	2,687
Other		-	48	48	-
<b>Total</b>		<b>25,740</b>	<b>5,393</b>	<b>31,133</b>	<b>30,781</b>
<b>Net income/(expenditure)</b>		<b>1,803</b>	<b>5,002</b>	<b>6,805</b>	<b>3,257</b>
Transfers between funds	17	(2,147)	2,147	-	-
Gains/(losses) on revaluation of fixed assets	17	-	4,167	4,167	6,389
<b>Net movement in funds</b>		<b>(344)</b>	<b>11,316</b>	<b>10,972</b>	<b>9,646</b>
<b>Reconciliation of funds:</b>					
Total funds brought forward		1,487	159,868	161,355	151,709
<b>Total funds carried forward</b>		<b>1,143</b>	<b>171,184</b>	<b>172,327</b>	<b>161,355</b>

The notes on Pages 18 to 32 form part of these accounts.



NATIONAL MUSEUMS SCOTLAND

ACCOUNTING STATEMENTS

Consolidated & Charity Balance Sheets for the Year Ended 31 March 2016

	Notes	Group		Charity	
		2016 £000	Restated 2015 £000	2016 £000	Restated 2015 £000
<b>Fixed Assets</b>					
Tangible assets	7	163,344	152,820	163,219	152,728
Heritage assets	9	7,929	7,529	7,929	7,529
Investments	12	1	1	200	200
<b>Total Fixed Assets</b>		<b>171,274</b>	<b>160,350</b>	<b>171,348</b>	<b>160,457</b>
<b>Current Assets</b>					
Stocks	13	769	667	-	-
Debtors	14	2,914	1,642	2,773	1,549
Cash at bank and in hand		1,396	2,849	1,336	2,591
<b>Total Current Assets</b>		<b>5,079</b>	<b>5,158</b>	<b>4,109</b>	<b>4,140</b>
<b>Current Liabilities</b>					
Creditors: amounts falling due within one year	15	(3,636)	(3,857)	(3,462)	(3,669)
<b>Net current assets</b>		<b>1,443</b>	<b>1,301</b>	<b>647</b>	<b>471</b>
<b>Total assets less current liabilities</b>		<b>172,717</b>	<b>161,651</b>	<b>171,995</b>	<b>160,928</b>
<b>Provisions</b>					
	16	(390)	(296)	(390)	(296)
<b>Net assets</b>		<b>172,327</b>	<b>161,355</b>	<b>171,605</b>	<b>160,632</b>
Financed by:					
Restricted funds:	17	171,184	159,868	171,184	159,868
Unrestricted Funds:	17	1,143	1,487	421	764
<b>Total Funds</b>		<b>172,327</b>	<b>161,355</b>	<b>171,605</b>	<b>160,632</b>

The Accountable Officer authorised these financial statements for issue on

  
Director

Date: 21 September 2016

The notes on Pages 18 to 32 form part of these accounts.

**NATIONAL MUSEUMS SCOTLAND**

**ACCOUNTING STATEMENTS**

**Consolidated Statement of Cash Flows for the Year Ended 31 March 2016**

Group	2016	2015
	£000	£000
	<i>Notes</i>	
<b>Cash flows from operating activities</b>		
Net cash provided by (used in) operating activities	10,056	6,046
<b>Cash flows from investing activities</b>		
Purchase of property, plant & equipment	7 (11,768)	(6,903)
Proceeds from the sale of property, plant & equipment	653	-
Purchase of heritage assets	9 (400)	(566)
Interest Received	6	5
Net cash provided by (used in) investing activities	(11,509)	(7,464)
<b>Cash flows from financing activities</b>	-	-
<b>Change in cash in the year</b>	<b>(1,453)</b>	<b>(1,418)</b>
<b>Cash at the beginning of the year</b>	<b>2,849</b>	<b>4,267</b>
<b>Cash at the end of the year</b>	<b>1,396</b>	<b>2,849</b>

**Reconciliation of net income/expenditure to net cash flow from operating activities**

Group	2016	2015
	£000	£000
<b>Net income/(expenditure) for the reporting period (as per the Consolidated Statement of Financial Activities)</b>	<b>6,805</b>	<b>3,257</b>
Adjustments for:		
Depreciation charges	7 4,711	4,480
Interest received	(6)	(5)
Loss/(profit) on the sale of property, plant & equipment	47	-
(Increase)/decrease in stocks	13 (102)	(61)
(Increase)/decrease in debtors	14 (1,272)	293
Increase/(decrease) in creditors	15 (221)	(1,735)
Increase/(decrease) in provisions	16 94	(183)
<b>Net cash provided by (used in) operating activities</b>	<b>10,056</b>	<b>6,046</b>

National Museums Scotland has no current asset investment and no net borrowing or finance lease obligations, and accordingly no cash flows from financing activities.

The notes on Pages 18 to 32 form part of these accounts.

**NATIONAL MUSEUMS SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

**1. Accounting Policies**

**a) Basis of Accounting**

The accounts have been prepared under the historical cost convention modified by the revaluation of fixed assets and by the inclusion of notional costs and are in accordance with directions given by Scottish Ministers in accordance with the National Heritage (Scotland) Act 1985. The Accounts Direction is reproduced as an appendix to the accounts.

Without limiting the information given, the accounts meet the requirements of the Companies Act 2006, the Charities Accounts (Scotland) Regulations 2006, the Charities and Trustee Investment (Scotland) Act 2005 and accounting standards issued or adopted by the Accounting Standards Board so far as they are appropriate. They also comply with SORP 2015, the Statement of Recommended Practice on the preparation of accounts of charitable organisations based upon FRS102, and with the accounting principles and disclosure requirements of the government Financial Reporting Manual (FRM).

The accounts have been prepared in accordance with applicable accounting standards in the United Kingdom and accounting policies have been consistently applied from year to year.

The new Charities SORP 2015 requires a range of presentational changes to made especially within the Statement of Financial Activities and associated notes.

The comparative figures for 2014/15 have been re-presented in the new format to aid meaningful comparison. Where the presentational changes have led to changes in the balance sheet, the figures are restated and further itemised in Note 27.

**b) Basis of Consolidation**

The accounts consolidate those of National Museums Scotland and its subsidiary company, NMS Enterprises Limited. The accounts are consolidated on a line by line basis for assets and liabilities. Uniform accounting policies are used across the group, and intra-group transactions are eliminated upon consolidation.

The National Museums Scotland Charitable Trust ("The Charitable Trust") exists to assist National Museums Scotland and other bodies or persons in the furtherance of museum-related activities. National Museums Scotland

cannot exercise control over the Charitable Trust, and the accounts of the Charitable Trust are not consolidated with those of National Museums Scotland.

**c) Statement of Financial Activities**

Within the Statement of Financial Activities the development activity and the work of NMS Enterprises have been separated from the other categories as they are deemed to be activities intended to raise funds. The other categories of expenditure are deemed to be activities in the furtherance of our objectives.

Support costs are allocated between activities on the basis of gross expenditure in each category.

Costs of raising funds are defined as the salaries, operating costs and overheads of the Development department and of NMS Enterprises Limited.

**d) Income**

Income is recognised on an accruals basis.

Donations are recognised in the financial statements only when received. Donations received for the general purposes of the charity are credited to Unrestricted Funds. Donations for purposes restricted by the wishes of the donor are taken to Restricted Funds where these wishes are legally binding, except that any amounts required to be retained as capital in accordance with the donor's wishes would be accounted for instead as endowments.

Income may be received associated with an activity or event in a future financial year. This will be carried forward as part of creditors. There is no deferred income.

Annual membership income is accounted for over the period of membership.

**e) Government Grants**

Government grant in aid is unrestricted and accounted for in the year that it is received. Grant-in-aid relating to the acquisition of tangible fixed assets, intangible fixed assets or investments is ultimately credited to the Government Capital Reserve, which funds depreciation over the expected useful lives of the assets acquired. Grant-in-aid received for collections purchases is ultimately credited to the Heritage Assets Fund.

**NATIONAL MUSEUMS SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

There is no indication that government funding is likely to be withdrawn therefore the accounts are prepared on a going concern basis.

Land & Buildings	up to 60 years
Permanent Galleries	15 years
Leasehold improvements	up to 50 years
Plant & Equipment	3 to 7 years

**f) Pension Contributions**

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer defined benefit scheme. National Museums Scotland recognises the expected cost of providing pensions on a systematic and rational basis over the period during which the organisation benefits from employees' services by payment to the PCSPS of amounts calculated on an accruals basis. Liability for payment of future benefits is a charge on the PCSPS. Further information about the pension schemes is disclosed in Note 5.

Items costing less than £5,000 are written off in the year of purchase. Where assets are sold or written off they are shown as disposals in the accounts. Impairment reviews are undertaken when necessary to ensure that the service potential of assets remains undiminished.

Further information about capitalisation and valuation is included in Note 7.

**g) Grants to Outside Bodies**

National Museums Scotland may make grants available to outside bodies whose objectives coincide with ours, or if the work will result in additions to our collections. These would be recognised on payment.

**j) Heritage Assets**

A Heritage Asset is defined as a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Artefacts forming part of the National Museums Scotland collections as at 1 April 2001 or objects gifted are not included in the balance sheet due to valuation data not being available.

**h) Non-Recoverable VAT**

Non-recoverable VAT is recorded as an expense as it is incurred and is attributed to the activity on which it was incurred.

Objects purchased since 1 April 2001 are included in the balance sheet at cost. Depreciation is not charged and the objects are not revalued.

**i) Tangible Fixed Assets and Depreciation**

Land and buildings are valued every five years by a professional valuer. Buildings are re-valued annually using appropriate indices, unless a formal valuation has taken place. The method of valuation for specialised properties, that is land and buildings for which there is effectively no market, is depreciated replacement cost. Other properties are valued at open market value for existing use. Equipment is valued at current replacement cost less accumulated depreciation.

The Trustees believe that the collection of National Museums Scotland is unusual as an asset in many ways. It is inalienable, unique, irreplaceable, ancient, fragile and very valuable. It is truly "priceless" in that it cannot be valued meaningfully. This view has been reached due to the number of items, lack of comparative market values and the diverse nature of the collection, so that reliable cost or valuation information cannot be obtained.

Our policies for the acquisition, preservation, management and disposal of heritage assets are available on our website [www.nms.ac.uk](http://www.nms.ac.uk).

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

Our collections are on display in public museums, or can be accessed in store by request.

Depreciation is not provided on land or on buildings under construction, while depreciation is provided in equal annual instalments on the current cost of all other tangible fixed assets over their estimated useful lives, or the expected remaining useful lives of revalued assets. These are principally:

Access to the stores is facilitated by the relevant member of staff, so that visitors are accompanied, to maintain security, ensure health and safety rules are met, and to provide wider context and knowledge about the collection.

**NATIONAL MUSEUMS SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

**k) Investments**

Investments in subsidiary companies represent the value at cost of assets transferred to the company.

**l) Subsidiary companies**

National Museums Scotland owns the share capital of one subsidiary company, NMS Enterprises Limited.

**m) Finance Leases and Operating Leases**

Finance leases are capitalised in the Balance Sheet along with the corresponding liability for future payments. Operating leases are charged directly to the Income and Expenditure Account as incurred and are payable on a straight line basis over the lease term.

**n) Stocks**

Stocks are stated at the lower of cost or net realisable value, based on the first-in-first-out (FIFO) method of valuation, after making due allowance for obsolete or slow moving stock.

**o) Financial Instruments**

Cash is made up by balances held with the Royal Bank of Scotland which are available on demand and petty cash and float balances at our sites. Trade debtors are made up by balances due from customers at the year end, less any specific doubtful debt provided for. Trade Creditors are disclosed in line with the Liabilities and Provisions policy.

**p) Foreign Exchange Gains and Losses**

Any funds held in foreign currency would be translated to the Sterling equivalent at the Balance Sheet date. Gains and losses on

translation would be taken to the Income and Expenditure Account.

**q) Liabilities and Provisions**

Liabilities and provisions are recognised as resources expended as soon as there is a legal or constructive obligation committing the charity to the expenditure.

**r) Board Reserve Fund**

The net proceeds derived from revenue-earning activities, donations and other sources, excluding Grant-in-Aid, are taken to the Board Reserve Fund. The Board Reserve includes the accumulated profits retained by NMS Enterprises Limited. These funds are available for use at the Board's discretion.

**s) Revaluation Capital Reserve**

The revaluation reserve records changes in the value of the land and buildings occupied. A full revaluation is undertaken every five years, most recently as at 31 March 2015, with indexation applied each intervening year. These funds are not supported by cash and are not available for use.

**t) Designated Funds**

The operation of the accounting policies for tangible assets necessitates the creation of designated capital reserves, which are not supported by cash and are not available for use.

**u) Agency Arrangements**

National Museums Scotland administers on behalf of Scottish Ministers the National Fund for Acquisitions (NFA). Funds, income and expenditure associated with the NFA are excluded from the consolidated accounts.

**NATIONAL MUSEUMS SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

**2. Government Grant-In-Aid** (See Notes 1.e & 4)

Our main source of funding is government grant-in aid. In Charity Accounting this accounted for as part of donations and legacies income.

<b>Group and Charity</b>	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
<b>Grant-in-aid received:</b>		
Revenue	20,547	20,472
Capital	1,850	5,600
	<b>22,397</b>	<b>26,072</b>
Purchase Grant	200	200
<b>Total received during year</b>	<b>22,597</b>	<b>26,272</b>

The table below shows the outturn for the year against our final grant-in-aid offer letter. The outturn is lower than the offer letter for non-cash (notional) items mainly as a result of adjustments arising from the revaluation of properties during the year.

<b>Current year</b>	<b>Outturn</b>	<b>Offer Letter</b>
	<b>£000</b>	<b>£000</b>
<b>Cash Items</b>		
Running Costs	20,547	20,547
Purchase Grant	200	200
Capital Grant	1,850	1,850
	<b>22,597</b>	<b>22,597</b>
National Fund for Acquisitions (Note 23)	225	225
	<b>22,822</b>	<b>22,822</b>
<b>Non-cash Items (Notional)</b>		
Depreciation incl. permanent diminution in value	3,188	4,192
	<b>26,010</b>	<b>27,014</b>

For the purposes of the above comparison to the Grant in Aid Offer letter the Depreciation figure is shown adjusted for those assets not funded by the Scottish Government (i.e. excluding depreciation funded from the Board Capital Reserve).

**3. Financial Instruments** (See Note 1.o)

As a condition of government grant funding, financial instruments play a much more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with National Museums Scotland's expected purchase and usage requirements and the National Museums Scotland is therefore exposed to little credit, liquidity or market risk. As National Museums Scotland does not face significant medium to long-term financial risks from these sources, further disclosure is deemed unnecessary.

**4. Income** (See Note 1.d)

Our main sources of income are grants from government and other bodies which support charitable activity. Entry to the National Museum of Scotland in Chambers Street is free, which is made possible by grant-in-aid provided by the Scottish Government. Entry to the National War Museum is also free, although an entrance fee is charged by Historic Scotland for entry to Edinburgh Castle. Entrance charges are retained at other museums.

Significant trading income is generated by our subsidiary NMS Enterprises Limited.

**NATIONAL MUSEUMS SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

Group	2016			2015		
	Unrestricted	Restricted	Total	Unrestricted	Restricted	Total
	£000	£000	£000	£000	£000	£000
<b>Donations and legacies</b>						
Government grants	22,597	-	22,597	26,316	-	26,316
Charitable grants	162	10,395	10,557	1,638	1,476	3,114
Donations	149	-	149	154	-	154
<b>Total</b>	<b>22,908</b>	<b>10,395</b>	<b>33,303</b>	<b>28,108</b>	<b>1,476</b>	<b>29,584</b>
<b>Charitable activities</b>						
Admission charges	869	-	869	1,026	-	1,026
Memberships	301	-	301	277	-	277
Provision of services	188	-	188	141	-	141
Other	172	-	172	110	-	110
<b>Total</b>	<b>1,530</b>	<b>-</b>	<b>1,530</b>	<b>1,554</b>	<b>-</b>	<b>1,554</b>
<b>Other trading activities</b>						
Shops and events	2,969	-	2,969	2,703	-	2,703
Sponsorship	129	-	129	192	-	192
<b>Total</b>	<b>3,098</b>	<b>-</b>	<b>3,098</b>	<b>2,895</b>	<b>-</b>	<b>2,895</b>
<b>Investments</b>	<b>6</b>	<b>-</b>	<b>6</b>	<b>5</b>	<b>-</b>	<b>5</b>
<b>Other</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Income</b>	<b>27,543</b>	<b>10,395</b>	<b>37,938</b>	<b>32,562</b>	<b>1,476</b>	<b>34,038</b>

**5. Trustee and Staff Remuneration (See Note 1.f)**

**Trustee remuneration**

No remuneration or benefit in kind was paid to members of the Board of Trustees during 2015/16 (2014/15 - nil).

During 2015/16 National Museums Scotland paid a total of £619 reimbursement of travel expenses to 4 Trustees for attending meetings at National Museums Scotland, while in 2014/15 a total of £1,397 was reimbursed to 5 Trustees.

**Staff costs and employee benefits**

*Staff Costs during the Year*

	Group		Charity	
	2016	2015	2016	2015
	£000	£000	£000	£000
Salaries	11,948	11,475	11,190	10,773
National Insurance Costs	830	803	772	746
Pension Costs	2,270	2,008	2,217	1,958
Early Retirement	616	(106)	616	(106)
<b>Total</b>	<b>15,664</b>	<b>14,180</b>	<b>14,795</b>	<b>13,371</b>

*Termination payments*

During the year there were no staff redundancies and 15 staff left voluntarily. All voluntary departure payments have been made in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), a statutory scheme made under the Superannuation Act 1972. These costs are fully accounted for in the year of departure.

**NATIONAL MUSEUMS SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

Group	No of Compulsory Redundancies		No of Other Departures Agreed		Total number of exit packages	
	2016	2015	2016	2015	2016	2015
	< £10,000	-	-	2	-	2
£10,000 - £25,000	-	-	6	-	6	-
£25,000 - £50,000	-	-	5	-	5	-
£50,000 - £100,000	-	-	2	-	2	-
Total number of exit packages	-	-	15	-	15	-
<b>Total resource cost (£000)</b>	-	-	<b>420</b>	-	<b>420</b>	-

*Numbers of employees*

In 2015/16 the average staff head count was 503 staff (2014/15: 505), which includes many part-time staff. The full-time equivalent staff numbers are shown below analysed by the activity categories shown in Note 6.

	Group		Charity	
	2016	2015	2016	2015
Curatorial	83	87	83	87
Conservation & Collections Management	45	43	45	43
Public displays & events	163	177	163	177
Security and Support Services	69	71	69	71
Marketing	11	8	11	8
Estates and Buildings	9	11	9	11
Governance	5	5	5	5
Development	8	8	8	8
Fundraising trading	13	13	-	-
<b>Total</b>	<b>406</b>	<b>423</b>	<b>393</b>	<b>410</b>

In 2015/16 9 employees were paid more than £60,000, as shown in the table below:

Group	Number of staff	
	2016	2015
£60,000 to £69,999	3	6
£70,000 to £79,999	5	4
£80,000 to £89,999	-	-
£90,000 to £99,999	-	-
£100,000 to £109,999	-	-
£110,000 to £119,999	1	1
Total	9	11

The total number reduced temporarily in 2015/16 due to staff turnover.

*Key management personnel*

The key management personnel are considered to be The Director (Chief Executive Officer) and the senior managers who are line managed by The Director. This staff group comprises:

- Dr Gordon Rintoul, Director
- Ruth Gill, Director of Public Programmes
- Catherine Holden, Director of External Relations (resigned 17 July 2016)
- Xerxes Mazda, Director of Collections
- David Spilsbury, Director of Finance and Planning
- Fiona Stewart, Director of Estates and Facilities
- Sheilagh Stewart, Head of Human Resources
- Peter Williamson, Managing Director of NMSE and Director of Visitor Operations



**NATIONAL MUSEUMS SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

The total cost of remuneration (excluding pensions) to these key management personnel in 2015/16 was £593k (2014/15 £616k), which is included in the table above. The total value reduced temporarily in 2015/16 due to staff turnover.

*Pension Costs*

We operate a range of pension provision for our staff, including both defined benefit and defined contribution schemes.

**Defined Benefit**

Most staff are members of the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer defined benefit scheme run by the UK Government. Our share of the underlying assets and liabilities has not been identified, which means we have to account for this scheme as if it is a defined contribution scheme. You can find further information in the resource accounts of the Cabinet Office (<http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/>).

Retirement benefits accrued under the defined benefit schemes to 453 staff during 2015/16 (2014/15 = 456 staff). For 2015/16, employers' contributions of £2,199k were payable to the PCSPS (2014/15 £1,944k) at one of four rates in the range of 20.0% to 24.5% per cent of pensionable pay, based on salary bands (the rates in 2014/15 were between 16.7% and 24.3%).

The contribution rates are set to meet the cost of the benefits accruing during 2015/16 to be paid when the member retires, and not the benefits paid during this period to existing pensioners. The rates are periodically reviewed by the UK Government and we are liable to pay whatever contribution rate is set. Due to demographic factors, we are therefore exposed to the risk of regular cost increases that we cannot reduce other than by employing fewer staff. There is no liability for any other employer's obligations arising from this scheme.

**Defined Contribution**

Charity employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £18k (2014/15 £14k) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay.

Defined contribution scheme pension contributions were not paid in respect of staff earning more than £50,000. Benefits accrued under defined contribution schemes to 9 staff during 2015/16 (2014/15 = 7 staff).

Staff of NMS Enterprises Limited are ineligible for membership of the PCSPS, but may join the NMSE Group Personal Pension Plan, a defined contribution scheme. NMS Enterprises contributes between 8% and 12.5% of pensionable salary, depending on age. For 2015/16, employers' contributions of £53k were payable (2014/15 £50k).

**6. Expenditure**

Group - Restricted	2016			2015		
	Direct Cost £000	Support Cost £000	Total £000	Direct Cost £000	Support Cost £000	Total £000
<b>Charitable activities</b>						
Curatorial	203	-	203	-	-	-
Conservation & Collections Management	155	-	155	-	-	-
Public displays & events	1,808	-	1,808	1,127	-	1,127
Estates and Buildings	3,179	-	3,179	2,863	-	2,863
<b>Total</b>	<b>5,345</b>	<b>-</b>	<b>5,345</b>	<b>3,990</b>	<b>-</b>	<b>3,990</b>
<b>Other</b>	<b>48</b>	<b>-</b>	<b>48</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Expenditure</b>	<b>5,393</b>	<b>-</b>	<b>5,393</b>	<b>3,990</b>	<b>-</b>	<b>3,990</b>

**NATIONAL MUSEUMS SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

Group - Unrestricted	2016			2015		
	Direct Cost	Support Cost	Total	Direct Cost	Support Cost	Total
	£000	£000	£000	£000	£000	£000
<b>Charitable activities</b>						
Curatorial	4,097	421	4,518	4,258	397	4,655
Conservation & Collections Management	1,741	179	1,920	1,877	175	2,052
Public displays & events	7,041	723	7,764	8,464	789	9,253
Security and Support Services	2,087	214	2,301	1,887	176	2,063
Marketing	1,093	112	1,205	1,034	96	1,130
Estates and Buildings	4,332	445	4,777	4,275	399	4,674
Governance costs	277	28	305	253	24	277
<b>Total</b>	<b>20,668</b>	<b>2,122</b>	<b>22,790</b>	<b>22,048</b>	<b>2,056</b>	<b>24,104</b>
<b>Raising funds</b>						
Development	560	57	617	578	54	632
Trading: cost of goods sold and other costs	2,333	-	2,333	2,055	-	2,055
<b>Total</b>	<b>2,893</b>	<b>57</b>	<b>2,950</b>	<b>2,633</b>	<b>54</b>	<b>2,687</b>
<b>Total Expenditure</b>	<b>23,561</b>	<b>2,179</b>	<b>25,740</b>	<b>24,681</b>	<b>2,110</b>	<b>26,791</b>

No grant funding has been provided to third parties.

**7. Tangible Assets** (See Note 1.i)

National Museums Scotland holds title to the National Museum of Scotland on Chambers Street, the National Museums Collection Centre at Granton in north Edinburgh, the National Museum of Flight in East Lothian and the former Dental Hospital in Chambers Street. Buildings at the National Museum of Rural Life are owned by the National Trust for Scotland, and the premises of the National War Museum at Edinburgh Castle are in the care of Historic Environment Scotland. National Museums Scotland owns the museum displays and other fittings and facilities at each site. We have full operational use of these assets and are responsible for their upkeep and maintenance.

To comply with the requirements of the Government FREM National Museums Scotland includes its fixed assets at their value to the business by reference to current costs as at 31 March 2016. All the properties were last valued by District Valuer Services (DVS) of the Valuation Office Agency in the capacity of External Valuers as at 31 March 2014. The valuations have been undertaken on the undernoted bases in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards 7th Edition.

Properties regarded by National Museums Scotland as operational are valued on the basis of Existing Use Value or, where this could not be assessed because there was no market for the asset, on the basis of the Depreciated Replacement Cost (DRC) subject to the prospect and viability of the occupation and use. The Valuation Report also includes a statement confirming that an open market valuation (allowing for alternative uses) for those properties valued on a DRC basis will produce amounts significantly lower than the DRC figures. The sources of information and assumptions made in producing the various valuations are set out in the Valuation Report which is not published in the financial statements. The valuation figures in the financial statements are the aggregate of separate valuations of parts of the portfolio, not a valuation or apportioned valuation of the portfolio valued as a whole.

Equipment was valued at current replacement cost using appropriate indices.

**NATIONAL MUSEUMS SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

<b>Group</b>						
<b>Cost or valuation</b>	<b>Land &amp;</b>	<b>Under</b>	<b>Leasehold</b>	<b>Permanent</b>	<b>Plant &amp;</b>	<b>Total</b>
<b>£000</b>	<b>Buildings</b>	<b>Constrctn</b>	<b>Imprvmts</b>	<b>Galleries</b>	<b>Equipment</b>	
1 April 2015	172,596	2,430	2,901	34,079	4,568	216,574
Additions	3,074	8,169	-	396	129	11,768
Transfers	289	(289)	-	-	-	-
Disposals	(913)	-	-	-	(79)	(992)
Revaluations	5,142	-	87	-	-	5,229
<b>31 March 2016</b>	<b>180,188</b>	<b>10,310</b>	<b>2,988</b>	<b>34,475</b>	<b>4,618</b>	<b>232,579</b>
<b>Accumulated Depreciation</b>						
1 April 2015	34,866	-	815	25,022	3,051	63,754
Charge for year	3,119	-	60	1,027	505	4,711
Disposals	(215)	-	-	-	(77)	(292)
Revaluations	1,038	-	24	-	-	1,062
<b>31 March 2016</b>	<b>38,808</b>	<b>-</b>	<b>899</b>	<b>26,049</b>	<b>3,479</b>	<b>69,235</b>
<b>Net Book Value</b>						
<b>31 March 2016</b>	<b>141,380</b>	<b>10,310</b>	<b>2,089</b>	<b>8,426</b>	<b>1,139</b>	<b>163,344</b>
1 April 2015	137,730	2,430	2,086	9,057	1,517	152,820

<b>Charity</b>						
<b>Cost or valuation</b>	<b>Land &amp;</b>	<b>Under</b>	<b>Leasehold</b>	<b>Permanent</b>	<b>Plant &amp;</b>	<b>Total</b>
<b>£000</b>	<b>Buildings</b>	<b>Constrctn</b>	<b>Imprvmts</b>	<b>Galleries</b>	<b>Equipment</b>	
1 April 2015	172,596	2,430	2,901	34,079	4,245	216,251
Additions	3,074	8,169	-	396	65	11,704
Transfers	289	(289)	-	-	-	-
Disposals	(913)	-	-	-	(79)	(992)
Revaluations	5,142	-	87	-	-	5,229
<b>31 March 2016</b>	<b>180,188</b>	<b>10,310</b>	<b>2,988</b>	<b>34,475</b>	<b>4,231</b>	<b>232,192</b>
<b>Accumulated Depreciation</b>						
1 April 2015	34,866	-	815	25,022	2,820	63,523
Charge for year	3,119	-	60	1,027	474	4,680
Disposals	(215)	-	-	-	(77)	(292)
Revaluations	1,038	-	24	-	-	1,062
<b>31 March 2016</b>	<b>38,808</b>	<b>-</b>	<b>899</b>	<b>26,049</b>	<b>3,217</b>	<b>68,973</b>
<b>Net Book Value</b>						
<b>31 March 2016</b>	<b>141,380</b>	<b>10,310</b>	<b>2,089</b>	<b>8,426</b>	<b>1,014</b>	<b>163,219</b>
1 April 2015	137,730	2,430	2,086	9,057	1,425	152,728

The charge for depreciation and diminution in value comprises:

<b>Group and Charity</b>	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Tangible assets depreciation	4,680	4,453
NMS Enterprises tangible assets depreciation	31	27
	<b>4,711</b>	<b>4,480</b>

**NATIONAL MUSEUMS SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

**8. Commitments**

Committed but not provided for in the Accounts	GROUP	
	2016	2015
	£000	£000
Capital expenditure:		
New storage & research building (Collections Centre)	38	256
Museum renewal (National Museum of Scotland)	3,697	3,245
Museum renewal (National Museum of Flight)	44	2,852
Other capital projects	-	36
	<b>3,779</b>	<b>6,389</b>
Operational expenditure	580	417
<b>Total Commitments</b>	<b>4,359</b>	<b>6,806</b>

**9. Heritage Assets (See Note 1.j)**

National Museums Scotland and its predecessor bodies have acquired objects for the collections over the previous two centuries. The collections cover geological, archaeological, scientific, engineering, artistic, historic and cultural subjects and are used for the purposes outlined in the Trustees Annual Report.

National Museums Scotland has been required to capitalise the cost of artefacts acquired since 1 April 2001. Artefacts acquired in the centuries prior to 1 April 2001 are excluded because reliable cost information is not available. As the collection is held and cared for in perpetuity depreciation and impairment does not arise.

National Museums Scotland considers that valuation of the 12 million objects in the collections would be impracticable and would have no beneficial purpose commensurate with the cost of valuation.

The cost of acquisitions and the source of funding over the last five years are summarised below. No assets have been disposed of, depreciated or impaired.

Group and Charity	2016	2015	2014	2013	2012
	£000	£000	£000	£000	£000
Opening balance	7,529	6,963	6,582	5,889	5,722
Government Grant	247	364	105	359	167
NMS Charitable Trust	135	94	114	60	-
Art Fund	-	107	52	125	-
National Heritage Memorial Fund	-	-	110	125	-
Others	18	1	-	24	-
Closing balance	<b>7,929</b>	<b>7,529</b>	<b>6,963</b>	<b>6,582</b>	<b>5,889</b>

**10. Intangible Assets**

No intangible assets are held by National Museums Scotland.

**11. Leases (See Note 1.m)**

National Museums Scotland has no finance leases. We lease the farm buildings and land at the National Museum of Rural Life under an operating lease. Payments under this are shown as rent of £23k in the accounts (£23k 2014/15). Future rental commitments at 31 March were as follows:

**NATIONAL MUSEUMS SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

Land & Buildings	GROUP AND NMS	
	2016	2015
	£000	£000
Not later than one year	23	23
Later than one year and not later than five years	90	90
Later than five years	1,780	1,803

**12. Investments** (See Notes 1.k & 1.l)

	Group		Charity	
	2016	2015	2016	2015
	£000	£000	£000	£000
<b>Opening &amp; Closing Balance</b>	<b>1</b>	<b>1</b>	<b>200</b>	<b>200</b>

NMS Enterprises Limited, a wholly-owned subsidiary of National Museums Scotland, holds 600 ordinary shares of £1 each in the Scottish Book Source. The trustees believe that the carrying value of the investments is supported by their underlying assets.

National Museums Scotland owns 200,000 £1 shares in NMS Enterprises Limited.

**13. Stocks** (See Note 1.n)

	Group		Charity	
	2016	2015	2016	2015
	£000	£000	£000	£000
Stocks Held for Resale	769	667	-	-

The current cost value of stocks is not materially different from historical cost and, accordingly, no adjustment has been made to reflect current cost.

**14. Debtors** (See Note 1.o)

Receivable Within 1Year:	Group		Charity	
	2016	2015	2016	2015
	£000	£000	£000	£000
Trade Debtors	354	379	115	172
Less: Provision for Amounts not recoverable	(4)	(4)	-	-
Charitable grant debtors	1,728	408	1,728	408
Subsidiary Company	-	-	98	96
VAT Recoverable	700	544	764	610
Prepayments	136	315	68	263
	<b>2,914</b>	<b>1,642</b>	<b>2,773</b>	<b>1,549</b>

**15. Creditors: amounts falling due within one year** (See Note 1.q)

	Group		Charity	
	2016	Restated 2015	2016	Restated 2015
	£000	£000	£000	£000
Trade creditors	(725)	(1,121)	(646)	(1,074)
Accrued expenditure	(2,279)	(1,850)	(2,279)	(1,850)
Taxation and social security	(340)	(334)	(291)	(240)
Income received in advance	(292)	(552)	(246)	(505)
	<b>(3,636)</b>	<b>(3,857)</b>	<b>(3,462)</b>	<b>(3,669)</b>

**NATIONAL MUSEUMS SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

**16. Provisions** (See Note 1.q)

These costs are likely to be incurred after the balance sheet date but the precise value and timing of payment is not known at that date. Early retirement costs are due and paid monthly under the Civil Service Classic pension scheme until the relevant members reach retirement age. Injury benefit costs are due to three individuals for life. Costs associated with voluntary exits have been provided based on the estimated actual cost of exit. Provisions have been made based on the current rates payable.

Group and Charity	Early Retirement	Injury Benefit	Voluntary Exit Scheme	Restated	
				2016	2015
	£000	£000	£000	Total	Total
Restated opening balance 1 April	(106)	(129)	(61)	(296)	(443)
Add: Provisions During Year	(18)	(172)	(16)	(206)	(9)
Less: Released During Year	-	-	-	-	85
Less: Paid During Year	50	48	14	112	71
<b>Closing Balance 31 March</b>	<b>(74)</b>	<b>(253)</b>	<b>(63)</b>	<b>(390)</b>	<b>(296)</b>

**17. Reserves – Restricted and Unrestricted** (See Notes 1.r, 1.s & 1.t)

	Fund brought forward	Income	Expenditure	Transfers between funds	Gains and losses	Fund carried forward
	£000	£000	£000	£000	£000	£000
<b>Restricted</b>						
Board Capital Reserve	28,527	9,856	(1,831)	47	-	36,599
Government Capital Reserve	83,985	-	(3,188)	1,850	-	82,647
Revaluation Capital Reserve	39,523	-	-	-	4,167	43,690
Heritage Assets Fund	7,665	153	-	200	-	8,018
Other Restricted Funds	168	386	(374)	50	-	230
<b>Total</b>	<b>159,868</b>	<b>10,395</b>	<b>(5,393)</b>	<b>2,147</b>	<b>4,167</b>	<b>171,184</b>
<b>Unrestricted</b>						
<i>Designated</i>						
Board Capital Reserve	1,425	-	(476)	65	-	1,014
Board Reserve - NMS	(661)	22,524	(22,931)	475	-	(593)
General Fund	-	2,050	-	(2,050)	-	-
<b>Total - Charity</b>	<b>764</b>	<b>24,574</b>	<b>(23,407)</b>	<b>(1,510)</b>	<b>-</b>	<b>421</b>
Board Reserve - NMSE	723	2,969	(2,333)	(637)	-	722
<b>Total - Group</b>	<b>1,487</b>	<b>27,543</b>	<b>(25,740)</b>	<b>(2,147)</b>	<b>-</b>	<b>1,143</b>
<b>Total Reserves</b>	<b>161,355</b>	<b>37,938</b>	<b>(31,133)</b>	<b>-</b>	<b>4,167</b>	<b>172,327</b>

There are three types of restricted fund:

a) *Capital Reserves*

These funds represent funding for expenditure which has been capitalised as Tangible Assets in the balance sheet where either the funds received were subject to restrictions (e.g. Heritage Lottery Fund receipts held in the Board Capital Reserve) or the funds were used to create assets the uses of which are themselves subject to restrictions (e.g. capital grant in aid held in the Government Capital Reserve). These will fund the future depreciation costs arising from those assets.

The Revaluation Capital Reserve represents the difference between the current and historic value of the Tangible Assets subject to disposal restrictions. Current valuations are subject to annual internal review and a full independent review every five years. This fund will be used to offset part of future depreciation costs or future reductions in valuation arising from reviews.

b) *Acquisitions for the collection*

The Heritage Assets Fund represents funding for capitalised expenditure on the items added to the Collection since 2001, the disposal of which is subject to legal restriction. These funds come from various sources (e.g. Heritage Lottery Fund, Art Fund) and may be subject to further restrictions tied to the funding received.

**NATIONAL MUSEUMS SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

c) *Other Restricted Funds*

Other restricted funds are maintained when funding is being held for a donor specified future purpose. These funds have not yet been used and are available to meet future restricted expenditure.

There are three types of unrestricted fund:

a) *Designated Funds*

The Board Reserve is partly used to fund Tangible Assets that are not subject to restrictions and which are therefore unrestricted. The designated Board Capital Reserve represents expenditure which has been capitalised as Tangible Assets in the balance sheet where there are no funding or disposal restrictions. It will fund future depreciation costs arising from those assets.

b) *Available Funds*

The only reserves which are directly available to support the future delivery of charitable activities are the General Fund, which is now held at zero, and the Board Reserve - NMS, which holds the accumulated surplus or deficit through the non-government revenue raising activities of the charity. These are maintained at a low level as part of operating within the government financial framework.

c) *NMS Enterprises Limited*

This represents the accumulated profits of the subsidiary company which either support the ongoing operations of the company or will be distributed to NMS as the parent organisation. In effect these are part of the Board Reserve and should be considered as available funds alongside the Board Reserve – NMS.

**18. Net Assets held in Reserves**

<b>GROUP AND NMS</b>	<b>Restricted Funds</b>	<b>Designated Capital Reserves</b>	<b>Board Reserve</b>	<b>Total</b>	<b>NMS Enterprises Limited</b>	<b>Group Total</b>
	£000	£000	£000	£000	£000	£000
Tangible assets	162,205	1,014	-	163,219	125	163,344
Heritage assets	7,929	-	-	7,929	-	7,929
Investments	-	-	200	200	(199)	1
Current Assets	1,050	-	3,059	4,109	970	5,079
Current Liabilities	-	-	(3,462)	(3,462)	(174)	(3,636)
Long-term liabilities	-	-	(390)	(390)	-	(390)
<b>Balance at 31 March</b>	<b>171,184</b>	<b>1,014</b>	<b>(593)</b>	<b>171,605</b>	<b>722</b>	<b>172,327</b>

**19. Related Party Transactions**

National Museums Scotland is a Non-Departmental Public Body (NDPB) sponsored by the Scottish Government (Culture and Historic Environment division). During the year National Museums Scotland received material levels of income from the Scottish Government as disclosed in Note 2.

We received significant levels of income (£3.682m) from the Heritage Lottery Fund (2014/15 £513k) in support of three projects which were ongoing at 31 March 2016.

The National Museums of Scotland Charitable Trust ("NMSCT") exists to advance education in matters agricultural, archaeological, architectural, cultural, environmental, historical, industrial, military, scientific and social. During the year Bruce Minto and Isabel Bruce, Trustees of National Museums Scotland, were also Trustees of NMSCT. National Museums Scotland received £5.027m in grants from NMSCT during the year (2014/15 £1.380m).

The following Trustees were also members of the NMS Enterprises Limited Board of Directors: Bruce Minto and Gordon Drummond.

None of the Trustees, members of key management personnel or related parties has entered into any material transaction with National Museums Scotland during the year.

**NATIONAL MUSEUMS SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

**20. Taxation**

National Museums Scotland has been granted charitable status by HMRC, and is entitled to tax exemptions on income and profits from investments and surpluses on any trading activities carried out in furtherance of the charity's primary objectives, if these profits and surpluses are applied solely for charitable purposes. In respect of 2015/16 NMS Enterprises Limited will distribute profits of £597k (2014/15 £637k) via Gift Aided payments to National Museums Scotland. Payment of gift aid eliminates any liability of the subsidiary to Corporation Tax in that year.

**21. Subsidiary Company (See Note 1.l)**

NMS Enterprises Limited, a company registered in Scotland, is a wholly owned subsidiary of National Museums Scotland set up to promote and develop our commercial activities by:

- managing commercial facility hire and catering activities,
- operating the shops in our museums,
- publishing books, and
- developing our intellectual property.

The results for the year to 31 March are summarised in the following table:

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Turnover	2,969	2,703
Cost of goods sold	(1,226)	(1,009)
Administrative costs	(1,107)	(1,046)
Trading profits from continuing operations	636	648
Interest Income	-	-
Profit/(Loss) reported in Consolidated I&E Account	<b>636</b>	<b>648</b>
Reserves at 1 April	723	468
Profit for the year	636	648
Profit distributed in year	(637)	(693)
Capital restructuring	-	300
<b>Reserves at 31 March</b>	<b>722</b>	<b>723</b>

**22. Contingent Liabilities**

There are no contingent liabilities as at the 31 March 2016.

**23. National Fund for Acquisitions (See Note 1.u)**

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	33	70
Grant Received	225	150
Disbursements	(156)	(187)
<b>Balance at 31 March</b>	<b>102</b>	<b>33</b>

As agents of Scottish Ministers, National Museums Scotland administers the National Fund for Acquisitions (NFA). As an agency arrangement, the Fund and its income and expenditure are not included in the consolidated accounts.

The allocation from Ministers for the financial year 2015/16 was £225k (2014/15 £150k). During the year 67 (2014/15 72) payments totalling £156k (2014/15 £198k) were made to 27 (2014/15 34) organisations, supporting acquisitions worth £1.07m (2014/15 £538k).

Further information on the Fund is available on our website at <http://www.nms.ac.uk/about-us/services-and-expertise/national-fund-for-acquisitions/>.



**NATIONAL MUSEUMS SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2016**

**24. External Audit**

PricewaterhouseCoopers LLP was appointed by the Auditor General Scotland as our external auditors, for which external audit fees were incurred in 2015/16 of £24k (2014/15 £25k). No other services were bought from this organisation.

**25. Date of Issue of Accounts**

The accounts are authorised for issue on the date they are signed by the external auditor and must be laid before Parliament before being released.

**26. Post Balance Sheet or Significant Events**

There were no material post balance sheet events prior to the date of issue of the financial statements.

There were no significant events or material uncertainties beyond the risks which have been identified in the Trustees Annual Report and Governance Statement.

**27. 2014/15 presentational changes**

Although no changes have been made in accounting policies, as shown below some of the 2014/15 figures provided for comparative purposes have been restated in accordance with the new Charities SORP.

<b>Group and charity</b>	<b>Original 2014/15</b>	<b>National Fund for Acquis- itions</b>	<b>Provis- ions</b>	<b>Other Restricted Funds</b>	<b>Restated 2014/15</b>
	£000	£000	£000	£000	£000
Current Assets					
Cash	2,882	(33)	-	-	2,849
Current Liabilities					
Creditors	(4,090)	33	35	165	(3,857)
Provisions	(261)	-	(35)	-	(296)
Restricted Funds	(159,703)	-	-	(165)	(159,868)

The National Fund for Acquisitions is now fully excluded from the balance sheet as it is an agency arrangement under the Charities SORP.

A change has been made to the accounting for provisions to show the full value of the provision within Provisions as we do not know the final value of the liability or when it will be due for payment.

Funds previously accounted for as deferred income within creditors are classified as restricted funds within reserves in accordance with the new SORP.

FINANCIAL MEMORANDUM: APPENDIX 2



NATIONAL MUSEUMS OF SCOTLAND

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of paragraph 9(3) of Schedule 1 to the National Heritage (Scotland) Act 1985, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2006, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 21 November 2002 is hereby revoked.

A handwritten signature in black ink, appearing to read 'David Stewart'.

Signed by the authority of the Scottish Ministers

Dated 31 March 2006