



Accounts
For the
Year Ended
31 March 2014

National Museums, Scotland Scottish Charity, No. SC 011130



National
Museums
Scotland

NATIONAL MUSEUMS SCOTLAND
ANNUAL REPORT AND ACCOUNTS
CHARITY NUMBER: SC011130

FOR THE YEAR ENDED 31 March 2014

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TRUSTEES' ANNUAL REPORT

TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 31 March 2014

1. The Principal Functions of National Museums Scotland

National Museums Scotland has defined its vision to be '*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*'.

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.

We achieve our goals through a structured system of planning and performance management. This is based on the identification of strategic priorities within the vision and mission, which cascade into specific actions at organisational, departmental and personal level and a set of Key Performance Indicator (KPI) measures. National Museums Scotland publishes a Strategic Plan, currently covering 2011-2016, which is distributed to all staff and key stakeholders and is available on our website. In addition, an annual Operational Plan defines the key deadlines/targets for the current financial year. Performance is reported in quarterly updates to the Operational Plan, in this Annual Report & Accounts, and the Annual Review. There is also a personal Performance Development and Review system for all staff.

2. The Organisation

National Museums Scotland operated four museums during 2013/14: 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. We are further developing the National Museums Collection Centre in Granton, north Edinburgh, as the main location for our stored collections and research & conservation facilities.

On 4 February 2013, the closure of the National Museum of Costume was announced. The museum had operated seasonally, with a closure during the winter, and was no longer sustainable under current funding and market conditions. The announcement confirmed that the museum would not re-open in spring 2013. Title to the land and buildings is held by Scottish Ministers and the future use of the museum site is currently under review by the Scottish Government. The site transferred back to the Scottish Government at book value on 30 September 2013.

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 was created on 1 October 1985 by the amalgamation of the National Museum of Antiquities of Scotland and the Royal Scottish Museum. Our activities are now defined primarily by the terms of the 1985 Act. In October 2006 the organisation adopted a new operational name, National Museums Scotland, and changed the names of some of its museums. This was part of a wider programme of strategic change and improved communications, and these names are used throughout

this report. Our statutory name, 'Board of Trustees of the National Museums of Scotland', is retained for use on legal and contractual documents.

Our commercial interests are promoted by NMS Enterprises Limited, the aims of which are to:

- exploit commercial facility hire and catering activities on behalf of National Museums Scotland
- operate the shops in our museums
- publish books
- exploit commercially our intellectual property

The National Museums Scotland Board controls NMS Enterprises Limited.

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

The external auditor is PricewaterhouseCoopers LLP, Erskine House, 68-73 Queen Street, Edinburgh EH2 4NH.

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

3. Related Organisations

National Museums Scotland wholly owns a limited company, NMS Enterprises Limited, which operates commercial services (hospitality, retail, publishing and image management) at our sites. Profits are donated to National Museums Scotland as Gift Aid.

The National Museums Scotland Charitable Trust is wholly independent of National Museums Scotland with its own Board of Trustees, whose 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 National Museums Scotland Charitable Trustees may make discretionary grants.

National Museums Scotland works closely with the Scottish Government as its principal funder, and collaborates on government initiatives with the other two National Collections Institutions: the National Galleries of Scotland and National Library of Scotland.

We work in partnership with a number of private and public sector organisations to support the delivery of our objectives. We work with the National Trust for Scotland for the operation of the National Museum of Rural Life, Historic Scotland for the operation of the National War Museum and the National Piping Centre in Glasgow which the organisation has supported with major collection loans and curatorial advice. We work across all 32 local authority areas and develop formal partnerships with regional museum services across Scotland to give strategic focus to our support for the sector. We are currently working with Museum nan Eilean, East Ayrshire Museums & Arts, McLean Museum and the McManus Galleries. During 2013/14 we completed an international skills development project with Museums of Malawi, sharing expertise in taxidermy, collections care and exhibition development, including mounting an exhibition on Dr David Livingstone at Chichiri Museum, Blantyre, Malawi (funded by the Scottish Government). These partnerships primarily focus on sharing knowledge, skills development and widening access to our collections. We also deliver an extremely popular programme of knowledge exchange workshops and advice for the sector and deliver projects to further this aspect as part of UK and International sector initiatives.

4. The Board of Trustees

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 (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
- Miller McLean, FCIBS, FIB
- Professor Walter Nimmo CBE, BSc, MD, FRCP, FRSCed, FRSA, FANZA, FRSE
- James Troughton DipArch, MA Cantab, RIBA
- Iain Watt BSc, FCIBS
- Dr Brian Lang FRSE (appointed 1 September 2014)
- Lynda Logan (appointed 1 September 2014)
- Dr Catriona Macdonald (appointed 1 September 2014)
- Eilidh Wiseman (appointed 1 September 2014)

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) 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 toward achieving these. A range of decisions are reserved for the Board, such as approval of major projects (£1 million and over). The Executive Team is responsible for advising on the development of strategy and its implementation through operational management.

5. Key Achievements in 2013/14

We have made progress towards all of our five-year strategic priorities in 2013/14, with the main developments and achievements being noted below. Further details are provided in our Annual Reviews and our Strategic Plan 2011-2016, which are available on our website.

	2012/13 Results	2013/14 Target	2013/14 Results	2014/15 Target
Key Performance Indicators				
Total museum visit numbers	2.5m	2.3m	2.5m	2.5m
Total website visit numbers	1.5m	1.4m	1.6m	1.8m
Total learning participation	217k	185k	185k	170k
Visitor satisfaction (scored out of 10)	8.8	8.8	8.7	8.8
% Collections storage meeting appropriate standards	65%	65%	65%	70%
Total number of object records online	11,449	15,000	22,045	27,000
Record input equivalent to % of collections database	19%	10%	13%	10%
Total number of loans	2,555	2,000	2,634	2,000
Total number of academic publications	131	115	100	120
External participation in our annual programme of support for the Scottish museum sector	162	190	319	200
New engagement with our collections and expertise across the world	9	9	10	N/A
Reach of media coverage (Opportunities To See/hear)	703m	460m	1,119m	570m
Value of media coverage (Advertising Value Equivalent)	£5.6m	£4.6m	£6.3m	£4.2m
Absence levels – working days lost per employee	8.1	7.5	7.3	7.5
Permanent salary costs as % of total costs	56%	60%	52%	60%
Non-government income as % of total income	12%	12%	14%	12%
CO2 emissions (tonnes)-% improvement from baseline	NA	5%	15%	10%
% of estate in condition category B or better	63%	63%	63%	72%

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 the year ended 31 March 2014, 100 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. Our Research Programme is based on four themes: Collectors and Collecting; Understanding the Natural World; Material Culture Creation and Use; and Identities and Cultural Contacts.

National Museums Scotland administers, on behalf of Scottish Ministers, the National Fund for Acquisitions (NFA). The allocation for financial year 2013/14 was £150k. During the year 63 payments totalling £112k were made to 26 organisations, supporting acquisitions worth £367k.

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 2013/14.

6. Financial Review

As a charity and statutory body with a group structure, we are obliged to provide a range of financial statements associated with a range of requirements. A simplified assessment of our operational results as a group is provided here as an aid to understanding our financial position.

We recorded an overall surplus of £0.1m for the year, using available self-generated income to invest in our estate. Outside normal operations, we made a donation to NMS Charitable Trust of £1.5m, resulting in an overall £1.4m deficit for 2013/14, which has been financed by the Board Reserve. This reduces from £1.6m at the beginning of the year to £0.2m at the close. Similar donations were made in 2012/13 and these donations are part of a multi-year financial strategy to support both our on-going operations and delivery of our major projects.

The summary operational results for National Museums Scotland and NMSE combined were as follows:

Group	2013/14 £m	2012/13 £m
Income		
Grant in aid (GIA) received	20.3	20.6
Other income	5.4	4.8
Contribution to finance capital expenditure	(1.4)	(0.5)
	24.3	24.9
Expenditure		
Staff Costs	13.9	13.9
Other Operating Charges	10.3	10.5
	24.2	24.4
Surplus/(Deficit) for the year	0.1	0.5
Donations to NMS Charitable Trust	(1.5)	(2.0)
Use of Board Reserve	(1.4)	(1.5)
Board Reserve		
Opening Balance	1.6	3.1
Deficit for the year	(1.4)	(1.5)
Closing Balance	0.2	1.6

Notes

- 1) National Museums Scotland is required to operate within the financial limits prescribed in the Financial Memorandum issued by the Scottish Government sponsor directorate, and to comply with the Scottish Public Finance Manual. We are generally not permitted to borrow funds, and our powers to invest are circumscribed. Our principal funding is Grant-in-Aid from the Scottish Government. Current and future depreciation is fully funded by reserves held in Designated and Restricted Funds.
- 2) Operating surpluses from revenue-earning activities, donations and other sources, excluding Grant-in-Aid, may be taken to the Board Reserve Fund, which can be used at the Board's discretion provided any such additional expenditure can be accommodated within Scottish Government annual expenditure plans. Reserves are reviewed regularly by the Board of Trustees and appropriate levels agreed based on current requirements and circumstances.

The continued growth in Other Income is particularly notable. This is due to the increased emphasis now being placed upon self-generated income by Trustees and management. Although Grant in Aid income is expected to increase in cash terms in the coming years, in real terms it has been falling since 2010/11 and is planned to fall further. Developing our ability to self-generate income is becoming increasingly important.

Tangible assets are revalued every 5 years, with the most recent valuation at 31 March 2014. At this revaluation, the basis used included a revised and more consistently applied method of calculation, which in part led to a substantial downwards valuation during 2013/14. Revaluations have no direct impact on our financial sustainability but may provide information which is useful in formulating our Estates Strategy.

The combined financial results and appropriations are shown in full in the Consolidated Income and Expenditure Account. The accounts consolidate the results of National Museums Scotland's wholly-owned trading subsidiary NMS Enterprises Limited (NMSE). An Income and Expenditure Account for National Museums Scotland alone is also included.

7. Future Plans

Our current Strategic Plan for 2011-2016 focuses on four themes essential for our work – our collections, audiences, national and international connections and our people and resources. Our intended outcomes at the end of this planning period (to March 2016), grouped by theme, are to:

Collections

- Focus development of the collections through significant acquisitions and effective management.
- Increase access to and improve understanding of the collections through digital platforms, access to stored collections and public programmes.
- Develop and implement a programme of collections-based research, integrated with public programmes and partnerships.
- Enhance storage facilities for the long term preservation of and access to the collections.
- Improve conservation and care of the collections.

Audiences

- Sustain the revitalised National Museum of Scotland as a must-see and must-do destination for visitors.
- Develop the National Museum of Flight as a place for discovery and enjoyment.
- Establish creative collaborations for activities, events, and learning and interpretation resources at all sites.
- Reach more people across Scotland through programmes of touring exhibitions, learning and digital offerings.
- Grow community engagement through partnerships and external support.
- Raise our profile nationally and internationally through transforming the National Museums Scotland website.
- Develop and implement a programme of engaging, audience-focused, digital content made available via a variety of different platforms.

Connections

- Strengthen our position as a national museum and a recognised ambassador for Scotland.
- Strengthen our collections knowledge and expertise nationally through our collections-based training and professional exchange.
- Increase physical and virtual access to our collections through working in partnership on programmes of loans, exhibitions and research.

People and Resources

- Meet our organisational needs through an employee engagement strategy and programme.
- Increase visitor income through donation boxes and charged services.
- Increase income through sponsorship, donations, grants and memberships.
- Increase Gift Aid income from NMS Enterprises Limited.
- Consolidate the estates in line with the existing estate strategy by disposal/demolition and new build at the National Museum Collection Centre.
- Develop retained sites to be fit for purpose.
- Reduce our carbon footprint and made improvements across a range of environmental impacts.

- Communicate our sustainability commitments, achievements and programmes.

Operational Budget

On 26 March 2014 the Board of Trustees approved a budget for 2014/15 and considered outline plans for 2015/16 and 2016/17.

As indicated in the table below, the current savings and income generation programme is expected to meet the combined challenge of rising costs and falling income in 2014/15. However, the early indications are that costs will continue to grow in 2015/16 and 2016/17, which leads to the emergence of a deficit of around £0.2 to £0.3 million a year. Should these indications be confirmed, this would have to be addressed through another programme of savings and additional income generation.

NMS statutory body	2013/14	2014/15	2015/16	2016/17
	Approved	Budget	Plan	Plan
	£000	£000	£000	£000
Income				
Grant-in-Aid	20,324	20,422	20,522	20,727
Other income	2,976	3,052	3,210	3,771
Total Income	23,300	23,474	23,732	24,498
Expenditure				
Salaries	13,384	13,540	14,242	14,819
Operational Costs	9,916	9,934	9,697	10,009
Total Expenditure	23,300	23,474	23,939	24,828
Deficit	-	-	207	330

Given the work which has already been undertaken over the past few years, delivering further cost reductions and enhancement of earned income are likely to prove to be a considerable challenge.

Major Projects

We have to date committed to four major capital projects in the remainder of the Spending Review period. These are of critical importance if we are to continue to offer excellence to the people of Scotland and visitors from elsewhere:

National Museum of Scotland Masterplan implementation, Phase 3: this involves the renewal of a further ten exhibition galleries within the National Museum of Scotland. This will leave a further two galleries to be renewed at a later stage. The anticipated cost is in the region of £14.1 million. Final approval has been given by the Heritage Lottery Fund for a grant of £4.9 million towards this project. Further funding is currently being sought through fundraising from trusts, individuals and the corporate sector, with good progress being made.

National Museums Collection Centre Masterplan implementation – two projects: this involves demolition of existing buildings and construction of new facilities in Granton. A major new building is nearing completion to replace collection facilities at Port Edgar which have been vacated due to the construction of the new Forth Crossing and to replace unsuitable facilities in Leith. The Scottish Government has committed £11.8 million to the project in the Spending Review period. As a separate development, an extension to our main conservation building is planned for 2015/16 funded in part by Scottish Government grant and by receipts from asset disposals.

National Museum of Flight Masterplan implementation, Phase 2: a feasibility study has been undertaken for the £3.6 million restoration of two of the historic hangars and the redisplay of key objects from the aircraft collection. Part funding has been provided by the Scottish Government as the project addresses key site backlog maintenance issues, and we have received round 1 approval from the Heritage Lottery Fund for grant support of £1.3m. Further funding will be sought from trusts, individuals and the corporate sector.

In addition, we are working to reduce a backlog of property maintenance works, which reached a peak value of £19.1 million at 31 March 2011. This is being addressed by working with the Scottish Government to implement our Estates Strategy over the long-term, which is estimated to last up to ten years, covering the current and the next two Spending Reviews. The strategy is based around the major projects listed above, vacating unsuitable premises and a detailed programme of smaller scale works, all of which is supported by Scottish Government and other grants. However, new maintenance liabilities continue to emerge over time, especially when operational funding is reducing as it currently is, and a liability of up to £15 million remains to be funded. This remains a significant challenge and risk for the organisation.

8. Management and Operation

The Executive Team is the senior executive decision-making body, reporting through the Director to the Board of Trustees. The team comprises:

- Dr Gordon Rintoul, Director
- Julie Brown, Head of Corporate Policy and Performance
- Jane Carmichael, Director of Collections
- Ruth Gill, Director of Public Programmes
- Catherine Holden, Director of External Relations
- 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 (contracted from NMSE on a part-time basis)

National Museums Scotland has an equal opportunities policy which states that it is unlawful to discriminate, directly or indirectly, in recruitment or employment on grounds of sex, disability, age, gender reassignment, pregnancy, colour, race, nationality, ethnic or national origins, sexual orientation or religion or belief, or because someone is married or is a civil partner. We welcome job applications from all sectors of the community.

National Museums Scotland has a Sustainable Development Strategy to address a wide range of environmental impacts. The main objectives are:

- To set best practice standards, meet or exceed requirements of environmental legislation and commit to a process of continual improvement.
- To develop and implement best practice utilities management and to control the cost and consumption of natural resources.
- To minimise the production of waste and ensure that the maximum amount is either reused or recycled.

Details of environmental management (e.g. Carbon Dioxide (CO²) emissions) are included in our key performance indicators.

Details of pension schemes available to National Museums Scotland staff are disclosed in the Remuneration Report and the accounting policy note 1(p).

Corporate information is shared with staff through: the publication of plans and minutes; circulation of the Strategic Plan, Annual Review and supporters' magazine *Explorer*; a bi-monthly staff newsletter *Exchange*; quarterly staff presentations at all our sites; departmental meetings and monthly team briefings; formal Staff Notices; and our intranet. This is supported by a network of Internal Communications Champions across the organisation.

Management representatives regularly meet staff representatives from the three Trade Unions, under a Partnership Agreement agreed in 2005. Under this agreement the organisation has worked successfully with the Trade Unions in a range of areas. This includes reducing the number of working days lost per employee due to absence. During the year the number of working days lost per employee was 7.3 days (8.1 days in 2012/13). We will continue to work together to maintain and if possible reduce this number.

The organisation has strong relationships with volunteers, who support the organisation in a variety of ways, including with our events and leading guided tours to assisting with curatorial and conservation

activity. We benefited from the support of 185 on-going volunteers and 510 volunteers helping at one-off events such as the Airshow and with the Learning & Programmes family events (180 and 140 respectively in 2012/13) during the year.

9. Scottish Government Priorities

The overall Purpose of the Scottish Government's programme is: *"To focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing economic growth."*

To achieve this, the Scottish Government has been aligned to deliver on five overarching Strategic Objectives. These aim to make Scotland: wealthier and fairer; healthier; safer and stronger; smarter; and greener.

The Scottish Government has adopted an Outcomes-Based Approach to performance. Its National Performance Framework aims to demonstrate the Government's performance and provide a focus for public services on the delivery of the Government's programme and priorities. The Framework is supported by 16 National Outcomes which describe what the Government wants to achieve over the next ten years.

The activities of National Museums Scotland make a contribution towards all 16 Outcomes, to a greater or lesser extent, with the closest link to the following five:

National Outcome 1:	<i>We live in a Scotland that is the most attractive place for doing business in Europe.</i>
National Outcome 4:	<i>Our young people are successful learners, confident individuals, effective contributors and responsible citizens.</i>
National Outcome 13:	<i>We take pride in a strong, fair and inclusive national identity.</i>
National Outcome 15:	<i>Our people are able to maintain their independence as they get older, and are able to access appropriate support when they need it</i>
National Outcome 16:	<i>Our public services are high quality, continually improving, efficient and responsive to local people's needs.</i>

We will continue to contribute to these and other National Outcomes under our Strategic Plan.

10. Principal Risks

National Museums Scotland maintains a major risk register which is reviewed and updated regularly. The top 5 risks identified and addressed in 2013/14 were:

- Greater than expected major fall in income.
- Buildings not meeting appropriate legislative standard, uneconomic to repair or not fit to be occupied by staff or collections.
- Unexpected major increase in costs or cost savings cannot be sustained.
- Loss of control over NMS finances as reserves become unusable and multi-year expenditure management is no longer under NMS control.
- Failure to recruit and retain staff / Trustees in business critical posts leading to a deficiency of the right skills and experience for the organisation.

Control mechanisms to minimise or mitigate these risks were identified and reviewed for effectiveness, and ownership of each risk is assigned to the relevant Executive Team member. Further detail on risk management is provided in the Governance Statement.

11. Status of Land and Buildings and Significant Changes to Fixed Assets

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, Leith Custom House 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 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.

In the period, the group acquired tangible assets at a cost of £7.6m (2012/13 £2.3m), including £7.3m (2012/13 £1.7m) on buildings, £0.1m (2012/13 £0.2m) on permanent galleries and £0.2m (2012/13 £0.4m) on equipment purchases. There were no additions to intangible assets.

12. Prompt Payment Code

National Museums Scotland's payment policy is to comply with Scottish Government guidelines, which stipulate that payments to suppliers must be made within 30 days of receipt of invoice. The average number of payment days during 2013/14 showed that on average we paid 90% of invoices within 30 days (2012/13 75%).

In 2008, the Scottish Government announced that they aspire to a ten day payment target. Although we share this aspiration, the revised target was not considered to be practically achievable for National Museums Scotland during 2013/14.

13. External Audit

The consolidated accounts are audited by PricewaterhouseCoopers LLP, appointed by the Auditor General Scotland, for which external audit fees were incurred in 2013/14 of £24k (2012/13 £23k).

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 information and to establish that National Museums Scotland auditors are aware of that information.

14. Post Balance Sheet Events

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



CHAIRMAN
Bruce Minto

DATE 17 September 2014

REMUNERATION REPORT

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

The PARC consists of three Trustees. During the year these were Iain Watt (Chairman), Dr Isabel Bruce and Dr Anna Gregor. The Director, the Head of Human Resources and the Employee Relations and Resourcing Manager also attend the meetings. As part of its advisory and review role, the PARC considers the following:

- The need to recruit, retain and motivate suitably able and qualified people;
- Government policies for improving the public services; and
- The affordability of recommendations for salary review.

Service Contracts

Although senior management are not civil servants, National Museums Scotland follows the principles of the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition. Unless otherwise stated below, the employees covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, could result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Remuneration (including salary) and pension entitlements

The following section provides detail of the remuneration and pension interests of senior management (Executive Team). No bonus or benefits in kind were paid in either year.

		2013-14			2012-13		
		Salary ⁽¹⁾ £000	Pension Benefits ⁽²⁾ £000	Total £000	Salary ⁽¹⁾ £000	Pension Benefits ⁽²⁾ £000	Total £000
Director	Gordon Rintoul	110-115	20-25	130-140	105-110	45-50	150-160
Director of Estates & FM	Fiona Stewart	70-75	25-30	95-105	65-70	25-30	90-100
Director of Collections	Jane Carmichael	75-80	15-20	90-100	75-80	45-50	120-130
Director of External Relations	Catherine Holden	75-80	5-10	80-90	75-80	10-15	85-95
Director of Public Programmes	Ruth Gill	65-70	25-30	90-100	5-10 (70-75 FYE)	0-5	5-15
Director of Finance & Planning	David Spilsbury	65-70	20-25	85-95	20-25 (65-70 FYE)	5-10	25-35
Director of Visitor Operations	⁽³⁾ Peter Williamson	30-35	n/a	30-35	30-35	n/a	30-35
Head of Human Resources	Sheilagh Stewart	60-65	10-15	70-80	60-65	25-30	85-95

Notes

- 1) Salary includes gross salary, overtime and any other allowance to the extent that it is subject to UK taxation. The salaries shown in the table are the amount earned in the financial year. Overtime is not paid to senior management
- 2) 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.
- 3) Peter Williamson is employed by NMSE Limited, and contracted on a part time basis to National Museums Scotland as Director of Visitor Operations. He is a member of the NMSE Group Personal Pension Plan, a defined contribution scheme. The figures above reflect payments made to NMSE to cover the cost for this service
- 4) The details included in this table are subject to audit.

Pay multiples

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

The banded remuneration of the highest-paid director in National Museums Scotland in the financial year 2013/14 was £110-115,000 (2012/13 £105-110,000). This was 5.2 times (2012/13 5.1) the median remuneration of the workforce, which was £21,127 (2012/13 £20,862).

In 2013/14, no employee received remuneration in excess of the highest-paid director (2012/13 none). Remuneration ranged from £14,000 to £115,000 (2012/13 £14,000 to £110,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer of pensions.

Pension benefits

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

	Accrued pension at pension age as at 31/3/14 and related lump sum ⁽¹⁾ £000	Real increase in pension and related lump sum at pension age ⁽²⁾ £000	CETV at 31/3/14 £000	CETV at 31/3/13 £000	Real increase in CETV	Employer contribution to partnership pension account £000
Director Gordon Rintoul	30-35	0-2.5	565	507	19	-
Director of Estates & FM Fiona Stewart	0-5	0-2.5	33	16	10	-
Director of Collections Jane Carmichael	50-55	0-2.5	970	942	16	-
Director of External Relations Catherine Holden	15-20 ⁽³⁾ plus lump sum 55-60	0-2.5 ⁽³⁾ plus lump sum 0-2.5	321	294	5	-
Director of Public Programmes Ruth Gill	0-5	0-2.5	16	1	9	-
Director of Finance & Planning David Spilsbury	0-5	0-2.5	23	5	12	-
Director of Visitor Operations ⁽⁴⁾ Peter Williamson	n/a	n/a	n/a	n/a	n/a	n/a
Head of Human Resources Sheilagh Stewart	30-35 ⁽³⁾ plus lump sum 60-65	0-2.5 ⁽³⁾ plus lump sum 0-2.5	722	666	13	-

Notes

- 1) Pension figures above are provided by the Department for Work & Pensions.
- 2) The increase in accrued pension is discounted for the effect of inflation.
- 3) Lump sum is payable to two PCS Classic pension scheme members, Catherine Holden and Sheilagh Stewart.
- 4) Peter Williamson is employed by NMSE Limited, and contracted on a part time basis to National Museums Scotland as Director of Visitor Operations. He is a member of the NMSE Group Personal Pension Plan, a defined contribution scheme. The figures above reflect payments made to NMSE to cover the cost for this service.
- 5) The details included in this table are subject to audit.

Employee contributions are salary-related and range between 1.5% and 6.25% of pensionable earnings for **classic** and 3.5% and 8.25% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2014. Benefits in **classic** accrue at the rate of 1/80th

of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice.gov.uk/pensions>

The Cash Equivalent Transfer Value (CETV)


A Cash Equivalent Transfer Value (CETV) 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 benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out 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 reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

DIRECTOR.....



Date

17 September 2014

ACCOUNTS

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 (FReM). The FReM is updated each year and section 1.4.1 of the 2013/14 FReM requires that as a charity we "*should comply with, respectively, the Companies Act 2006 or regulations issued under charities legislation and, where applicable, the Statement of Recommended Practice (SORP) Accounting by Charities issued by the Charity Commission (and, if they are both registered companies and charities, with both the Companies Act 2006 and the Charities SORP)... should also follow the principles in this Manual and provide the additional disclosures required by the Manual (for example, on notional costs and salary and pension entitlements) where these go beyond the Companies Act 2006 or the SORP.*"

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 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.

ACCOUNTS

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 account of best 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 of Trustees of the National Museums of Scotland 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.
- During 2013/14 the Board had 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. 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 of National Museums Scotland 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 2014 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 at March and September each year 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 also 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 and forward reviews, are reviewed and discussed with appropriate action taken forward.

For 2013/14 internal audit has concluded that based on the planned work undertaken as part of the internal audit plan, but subject to the matters outlined below, they are of the opinion that National Museums Scotland's systems provide a reasonable basis for maintaining control and that the control framework provides reasonable assurance regarding the effective and efficient achievement of strategic objectives.

In 2012 a fraud by a small number of staff was discovered. This serious failure of internal control has been fully investigated by Internal Audit and reported to the Scottish Government, Audit & Risk Committee and the police. The matter remains under investigation by Police Scotland. Appropriate corrective action has been taken to strengthen internal controls over cash handling, access to the bank, reconciliation and journal entries. Further audit review was undertaken in 2013/14 to check that the revised controls are being properly and consistently applied. The sums involved are not material to the presentation of the financial statements and do not imply a fundamental weakness in the system of internal controls. However, we acknowledge that continued vigilance is required to ensure that cash handling controls are effective.

CHAIRMAN		DIRECTOR	
Date	17 September 2014	Date	17 September 2014

INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of National Museums Scotland for the year ended 31 March 2014 under Paragraph 9 (3) of Schedule 1 to the National Heritage (Scotland) Act 1985. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Tax Payers Equity 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) of Schedule 1 to 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 2014 and of its net operating cost 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 Paragraph 9 (3) of Schedule 1 to the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers.

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 Report to be audited has been properly prepared in accordance with Paragraph 9 (3) of Schedule 1 to 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 to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration 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, Senior Statutory Auditor for and on behalf of PricewaterhouseCoopers

Glasgow

17 September 2014

NATIONAL MUSEUMS SCOTLAND

CHARITY ACCOUNTING STATEMENTS

**Consolidated Group Statement of Financial Activities
for the Year Ended 31 March 2014**

		2014 Unrestricted Funds £000	2014 Restricted Funds £000	2014 Total £000	2013 Total (Restated) £000
Incoming resources	Notes				
Incoming resources from generated funds					
Voluntary income	3	26,799	361	27,160	23,783
Activities for generating funds	19	2,792	-	2,792	2,519
Investment income		17	-	17	18
Incoming resources from charitable activities	3	1,975	409	2,384	1,580
Total incoming resources		31,583	770	32,353	27,900
Resources expended					
Cost of generating funds					
Costs of generating voluntary income	5	546	-	546	476
Fundraising trading: cost of goods sold and other costs	19	2,112	-	2,112	1,971
Charitable activities	5	23,297	4,422	27,719	29,698
Governance costs	5	251	-	251	241
Total resources expended		26,206	4,422	30,628	32,386
Net incoming/(outgoing) resources before transfers		5,377	(3,652)	1,725	(4,486)
Gross transfers between funds	15	(7,202)	7,202	-	-
Net incoming/(outgoing) resources before other recognised gains and losses		(1,825)	3,550	1,725	(4,486)
Other recognised gains and losses					
Losses on revaluation of fixed assets for charity's own use	15	-	(10,428)	(10,428)	(1,790)
Net movement in funds		(1,825)	(6,878)	(8,703)	(6,276)
Reconciliation of funds					
Total funds brought forward at 1 April		3,341	156,413	159,754	166,030
Total funds carried forward at 31 March		1,516	149,535	151,051	159,754

	2014 Unrestricted Funds £000	2014 Restricted Funds £000	2014 Total £000	2013 Total £000
Total fund balances comprise:				
Fixed assets	1,683	148,796	150,479	157,665
Net current assets	277	739	1,016	2,823
Provisions for liabilities and charges	(444)	-	(444)	(734)
	1,516	149,535	151,051	159,754

NATIONAL MUSEUMS SCOTLAND

CHARITY ACCOUNTING STATEMENTS

**Consolidated Statement of Financial Activities (Continued)
for the Year Ended 31 March 2014**

Costs of generating funds are defined as the salaries, operating costs and attributable overheads of the Development department and of NMS Enterprises Limited. Depreciation has been allocated to activities in proportion to the staff numbers involved. Administrative costs are defined as staff and operational costs of the Directorate and the Finance & Planning departments.

All activities included in the above statement are continuing, and all recognised gains and losses have been included.

**Consolidated Group Balance Sheet
for the Year Ended 31 March 2014**

		2014 £000	2013 £000 Restated
Fixed Assets			
Tangible assets	6	143,515	151,082
Heritage assets	7	6,963	6,582
Intangible assets	8	-	-
Investments	9	1	1
Total Fixed Assets		150,479	157,665
Current Assets			
Stocks	10	606	598
Debtors	11	1,935	1,501
Cash at bank and in hand	12	4,337	4,557
Total Current Assets		6,878	6,656
Current Liabilities			
Creditors: amounts falling due within one year	13	(5,862)	(3,833)
Net current assets		1,016	2,823
Total assets less current liabilities		151,495	160,488
Provision for liabilities and charges	14	(444)	(734)
Net assets		151,051	159,754
Financed by:			
Restricted funds:	15	149,535	156,413
Unrestricted Funds:	15	1,516	3,341
Total Funds		151,051	159,754

The Accountable Officer authorised these financial statements for issue on


Director

Date: 17 September 2014

The notes on Pages 25 to 41 form part of these accounts.

NATIONAL MUSEUMS SCOTLAND

CHARITY ACCOUNTING STATEMENTS

**Consolidated Group Cash Flow Statement
for the Year Ended 31 March 2014**

		2014	2013
		£000	Restated £000
	<i>Notes</i>		
Net cash inflow from operating activities	16	1,419	139
Returns on investments and servicing of finance			
Interest Received		17	18
Taxation:			
Corporation Tax	23	-	-
Capital expenditure and financial investment:			
Payments from Heritage Asset Fund		(381)	(693)
Payments from Other Restricted Funds		(227)	(220)
Payments from NFA Fund	22	(112)	(204)
Payments to acquire tangible fixed assets	6	(7,556)	(2,338)
Total capital expenditure and financial investment		<u>(8,276)</u>	<u>(3,455)</u>
Cash outflow before financing		<u>(6,840)</u>	<u>(3,298)</u>
Financing:			
Government capital grants received	2	5,700	1,800
Other capital grants received		409	-
NFA Fund received	22	150	150
Heritage Asset Fund		345	533
Other Restricted Funds		16	19
		<u>6,620</u>	<u>2,502</u>
Decrease in cash in the year	16	<u>(220)</u>	<u>(796)</u>

The notes on Pages 25 to 41 form part of these accounts.

NATIONAL MUSEUMS SCOTLAND

GOVERNMENT ACCOUNTING STATEMENTS

National Museums Scotland Group

**Consolidated Income and Expenditure (I&E) Account
for the Year Ended 31 March 2014**

		Continuing Activities	
		2014	2013
			Restated
All operations are continuing		£000	£000
	<i>Notes</i>		
Income	3	5,342	4,705
Expenditure			
Staff costs	4	13,873	13,860
Other operating charges	5	10,333	10,386
Depreciation and permanent diminution in value	6	4,695	5,694
		28,901	29,940
Excess of expenditure over income before interest		23,559	25,235
Interest receivable		17	18
Excess of expenditure over income after interest		23,542	25,217
Taxation	23	-	-
Excess of expenditure over income for the year after taxation before exceptional items		23,542	25,217
Exceptional Items - Donations to NMS Charitable Trust		1,500	2,026
Excess of expenditure over income for the year		25,042	27,243

Funded by:			
Revenue Grant in Aid for the year	2	(20,324)	(20,625)
Contribution to Capital Expenditure from Revenue Grant		-	504
Depreciation charged to Capital Reserves	15	(4,661)	(5,662)
Board Reserve Contribution	15	(43)	(1,464)
NMS Enterprises Limited profit/(loss) net of gift aid	19	(14)	4
		(25,042)	(27,243)

**Consolidated Statement of Total Recognised Gains and Losses
for the Year Ended 31 March 2014**

		2014	2013
		£000	£000
			(restated)
	<i>Notes</i>		
Consolidated loss for the year		(25,042)	(27,243)
Scottish Government Grant-in-aid	2	26,224	22,625
Loss on revaluation of fixed assets	15	(10,428)	(1,790)
Restricted Funds: net capital grants received		543	132
Total recognised gains and losses during the year		(8,703)	(6,276)

The notes on Pages 25 to 41 form part of these accounts.

NATIONAL MUSEUMS SCOTLAND

GOVERNMENT ACCOUNTING STATEMENTS

National Museums Scotland – statutory body

Income and Expenditure (I&E) Account
for the Year Ended 31 March 2014

		2014	2013
			Restated
		£000	£000
	<i>Notes</i>		
Income	3	3,245	2,730
Expenditure			
Staff costs	4	13,079	13,087
Other operating charges	5	9,049	9,219
Depreciation and permanent diminution in value	6	4,661	5,663
		26,789	27,969
Excess of expenditure over income before interest		23,544	25,239
Interest receivable		16	18
Excess of expenditure over income after interest		23,528	25,221
Taxation	23	-	-
Excess of expenditure over income after taxation before exceptional items		23,528	25,221
Exceptional Items - Donations to NMS Charitable Trust		1,500	2,026
Excess of expenditure over income for the year		25,028	27,247

Funded by:		
Revenue Grant in Aid for the year	(20,324)	(20,625)
Contribution to Capital Expenditure from Revenue Grant	-	504
Depreciation charged to Capital Reserves	(4,661)	(5,662)
Board Reserve Contribution	(43)	(1,464)
	(25,028)	(27,247)

The notes on Pages 25 to 41 form part of these accounts.

NATIONAL MUSEUMS SCOTLAND

GOVERNMENT ACCOUNTING STATEMENTS

National Museums Scotland – statutory body

Balance Sheet as at 31 March 2014

		2014	2013
		£000	Restated £000
	<i>Notes</i>		
Fixed Assets			
Tangible Assets	6	143,427	150,974
Heritage Assets	7	6,963	6,582
Intangible Assets	8	-	-
Investment in Subsidiary	9	500	500
Total Fixed Assets		150,890	158,056
Current Assets			
Debtors receivable within 12 months	11	2,561	2,078
Cash at Bank and in Hand	12	3,958	4,270
Total Current Assets		6,519	6,348
Current Liabilities			
Creditors: Amounts falling due within one year	13	(5,688)	(3,704)
Net current assets		831	2,644
Total assets less current liabilities		151,721	160,700
Provision for liabilities and charges	14	(444)	(734)
Total net assets		151,277	159,966
<i>Financed by:</i>			
Restricted funds:	15	149,535	156,413
Unrestricted Funds:	15	1,742	3,553
Total Funds		151,277	159,966



 Director

Date: 17 September 2014

The notes on Pages 25 to 41 form part of these accounts.

**NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014**

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 2005, the Statement of Recommended Practice on the preparation of accounts of charitable organisations, 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 with the exception of the following two changes, accounting policies have been consistently applied from year to year.

Two changes in accounting policies have been made in 2013/14 with the comparative figures for 2012/13 restated in accordance with the change. The changes are:

- 1) In compliance with the Charities SORP income received to finance fixed assets is recorded as income in the year of receipt and is no longer released from reserves on an annual basis to match depreciation.
- 2) The restricted and unrestricted status of funds has been changed to align more closely with the definition of restricted used in the Charities SORP. This reclassification does not alter the total value of Funds.

b) Basis of Consolidation

The accounts consolidate those of the 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) Tangible Fixed Assets and Depreciation

Land and buildings are valued every five years by a professional valuer. Buildings, galleries and equipment 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.

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

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:

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

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 at Note 6.

d) Intangible Assets

Intangible assets are re-valued annually using appropriate indices less accumulated amortisation. Amortisation is calculated to write off the assets in equal annual instalments over their useful economic lives.

Intangible Assets	3 to 7 years
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**NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014**

e) Government Grants

Government grants are accounted for in the year that they are received. Revenue grant-in-aid is credited to the general fund. Grant-in-aid relating to the acquisition of tangible fixed assets, intangible fixed assets or investments is credited to the Government Capital Reserve, which is written down over the expected useful lives of the assets acquired. Grant-in-aid received for collections purchases is credited to the Heritage Assets Fund.

f) 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.

g) 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. These funds are available for use at the Board's discretion.

h) Revaluation Capital Reserve

The revaluation reserve was created following the revaluation of the land and buildings occupied. A full revaluation is undertaken every five years, most recently as at 31 March 2014, with indexation applied each intervening year.

i) Income

Operating income is recognised on an accruals basis. Amounts applied to the acquisition of fixed assets are credited to income with the relevant element of surplus or deficit carried to the appropriate capital reserve.

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.

Receipts from outside bodies in relation to specific projects received prior to any project spend being incurred, may where it is regarded as material to the financial report be deferred to the year in which the spend takes place. These funds are held as deferred income creditors.

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

j) Subsidiary companies

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

k) Investments

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

l) Foreign Exchange Gains and Losses

Amounts held in foreign currency are translated to the Sterling equivalent at the Balance Sheet date. Gains and losses on translation are taken to the Income and Expenditure Account.

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) 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.

o) 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 data not being available to cover that period. Objects purchased since 1 April 2001 are included in the balance sheet at cost. Depreciation is not charged and the objects are not revalued.

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

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014

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

p) Pension Contributions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is a defined benefit scheme and is unfunded and largely non-contributory. 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 4.

q) Grants to Outside Bodies

National Museums Scotland makes limited sums available to outside bodies whose objectives coincide with ours, or if the work will result in additions to our collections. These are recognised on payment.

r) Statement of Financial Activities

Within the Statement of Financial Activities the expenditure categories development, and the work of NMS Enterprises, have been separated from the other categories as they are deemed to be activities for generating funds. Staff and operating costs incurred in relation to governance are shown separately. The other categories of expenditure are deemed to be activities in the furtherance of our objectives. Indirect costs between expenditure categories are allocated on the basis of staff numbers in each category. (see Note 4).

Costs of generating funds are defined as the salaries, operating costs and attributable overheads of the Development department and

of NMS Enterprises Limited. Depreciation has been allocated to activities in proportion to the staff numbers involved. Administrative costs are defined as staff and operational costs of the Directorate and the Finance and Planning departments.

s) 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.

t) Government Funding

Government funding is accounted for in accordance with guidance contained in the Financial Reporting Manual (FRM). Government funding for revenue purposes is regarded as contributions from controlling parties and is credited directly to the General Fund. Government funding for capital purposes is credited to the Government Capital Reserve. There is no indication that government funding is likely to be withdrawn therefore the accounts are prepared on a going concern basis.

u) 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.

v) 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.

w) Third Party Assets

National Museums Scotland administers on behalf of Scottish Ministers the National Fund for Acquisitions (NFA). Funds held by National Museums Scotland for the NFA are included in the Balance Sheet under both Cash at Bank and Sundry Creditors, but have no impact on the other financial statements.

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014

2. Government Grant-In-Aid
(See Notes 1(e) & 15)

In Charity Accounting, government grant-in aid is accounted for as income.

In Government Accounting, grant-in-aid from the Scottish Government is accounted for as a financing contribution from a controlling party and credited to the General Fund or Government Capital Reserve. Such grants are therefore not accounted for as income. Government funding used for purchasing objects to add to the collection are credited to the Heritage Assets Fund, which is a restricted fund.

	GROUP AND NMS	
	2014	2013
	£000	£000
Grant-in-aid received:		
Revenue	20,324	20,625
Capital	5,700	1,800
	26,024	22,425
Purchase Grant	200	200
Total received during year	26,224	22,625

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.

	Outturn	Offer
	£000	Letter
		£000
Cash Items		
Running Costs	20,324	20,324
Purchase Grant	200	200
Capital Grant	5,700	5,700
	26,224	26,224
National Fund for Acquisitions (Note 22)	150	150
	26,374	26,374
Non-cash Items (Notional)		
Depreciation incl. permanent diminution in value	3,121	4,192
	29,495	30,566

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).

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014

3. Income

Statement of Financial Activities	2014	2013
Unrestricted Funds	£000	£000
		(Restated)
Incoming resources from generated funds		
Members and sponsors	433	497
Government grant in aid	26,224	22,625
Donations	142	109
Voluntary income	26,799	23,231
Activities for generating funds	2,792	2,519
Investment income	17	18
	29,608	25,768
Incoming resources from charitable activities		
Provision of services	214	146
Revenue earning activities	1,147	958
Grant funded activities	524	344
Other income	90	132
	1,975	1,580
Total Incoming Resources	31,583	27,348

Reconciliation to Income & Expenditure Accounts	2014	2013
	£000	£000
Total incoming resources	31,583	27,348
Less: Government grant in aid	(26,224)	(22,625)
Less: Interest	(17)	(18)
Total income - Consolidated I&E Account	5,342	4,705
Add: Donation from subsidiary company	695	544
Less: Activities for Generating Funds	(2,792)	(2,519)
Total income - NMS I&E Account	3,245	2,730

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.

**NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014**

4. Employees

No remuneration was paid to members of the Board of Trustees during 2013/14 (2012/13 - nil). During 2013/14 National Museums Scotland paid a total of £1,335 in reimbursement of travel expenses to 7 Trustees for attending meetings at National Museums Scotland, while in 2012/13, a total of £3,106 was reimbursed to 6 Trustees. No benefit in kind accrued to Trustees during the year (2012/13 – nil).

Staff Costs during the Year:

	GROUP		NMS	
	2014	2013	2014	2013
		Restated		
	£000	£000	£000	£000
Salaries	11,169	11,055	10,469	10,377
Social Security Costs	784	773	733	721
Pension Costs	1,865	1,852	1,822	1,809
Early Retirement	55	180	55	180
Total	13,873	13,860	13,079	13,087

During 2013/14, in addition to those disclosed in the remuneration report, there were three employees whose emoluments were in the £60-70k band (2012/13 – two employees over £60k).

Staff numbers are disclosed as the average FTE number of staff employed at the start and end of the reported year. Vacant posts are not included, so any fall in vacancy levels, and in particular the filling of previously vacant posts has a significant effect on staff numbers reported.

Average full-time equivalent number of employees by Directorate:

	GROUP		NMS	
	2014	2013	2014	2013
Directorate (including Human Resources dept.)	20	18	20	18
Finance and Planning	11	12	11	12
Estates and Facilities Management	82	85	82	85
Collections	108	104	108	104
Public Programmes (including Visitor Services)	149	159	149	159
Marketing and Development	19	18	19	18
NMS Enterprises Limited	12	12	-	-
Total	401	408	389	396

Average full-time equivalent number of employees by contract type:

	GROUP		NMS	
	2014	2013	2014	2013
Permanent Contract	374	381	362	369
Temporary Contract	27	27	27	27
Total	401	408	389	396

Pension Costs

The Principal Civil Service Pension Scheme is an unfunded multi-employer defined benefit scheme. National Museums Scotland is unable to identify its share of the underlying assets and liabilities. The FRM requires formal valuations every four years, but the Scheme Actuary (Hewitt Associates Limited) last valued the scheme as at 31 March 2007. This is because formal actuarial valuations

**NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014**

have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public services pensions and while future scheme terms are developed as part of the reforms to public service pension provision. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2013/14, employers' contributions of £1,810k were payable to the PCSPS (2012/13 £1,797k) at one of four rates in the range of 16.7% to 24.3% per cent of pensionable pay, based on salary bands (the rates in 2012/13 were between 16.7% and 24.3%). The contribution rates are set to meet the cost of the benefits accruing during 2013/14 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Senior management and all other staff can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £12k (2012/13 £12k) 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. Retirement benefits accrued under the defined benefit schemes to 432 staff during 2013/14 (2012/13 = 404 staff), while benefits accrued under defined contribution schemes to 7 staff during 2013/14 (2012/13 = 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 2013/14, employers' contributions of £43k were payable (2012/13 £43k).

Civil Service and other compensation schemes – exit packages

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme (CSCS), a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirement, the additional costs are met by the National Museums Scotland and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table. There were no voluntary exit schemes run in 2013/14.

GROUP and NMS Exit package cost band	No of Compulsory Redundancies		No of Other Departures Agreed		Total number of exit packages by cost band	
	2014	2013	2014	2013	2014	2013
< £10,000	-	-	-	2	-	2
£10,000 - £25,000	-	-	-	1	-	1
£25,000 - £50,000	-	-	-	-	-	-
£50,000 - £100,000	-	-	-	3	-	3
£100,000 - £150,000	-	-	-	-	-	-
£150,000 - £200,000	-	-	-	-	-	-
Total number of exit packages	-	-	-	6	-	6
Total resource cost (£000)	-	-	-	227	-	227

There were no compulsory redundancies in 2013/14 (2012/13 Nil)

**NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014**

5. Expenditure

Statement of Financial Activities	2014	2014	2014	2014	2013
Resources Expended - Unrestricted Funds	Staff	Operating Costs	Depreciation	Total	Total Restated
	£000	£000	£000	£000	£000
Development	377	159	10	546	476
Costs of generating voluntary income	377	159	10	546	476
Fundraising trading: cost of goods sold and other costs	794	1,284	34	2,112	1,971
Curatorial	3,704	979	102	4,785	4,460
Conservation & Collections	1,373	425	45	1,843	1,892
Exhibitions	4,475	2,377	193	7,045	7,019
Security and Support Services	1,714	322	31	2,067	2,085
Marketing	445	598	15	1,058	1,125
Estates and Buildings	790	4,139	70	4,999	5,573
Donations to NMS Charitable Trust	-	1,500	-	1,500	2,026
Charitable Activities	12,501	10,340	456	23,297	24,180
Trustee Expenditure	-	7	-	7	8
Staff costs	201	-	-	201	198
Internal audit	-	19	-	19	12
External audit	-	24	-	24	23
Governance costs	201	50	-	251	241
Total	13,873	11,833	500	26,206	26,868

Income & Expenditure Account		
Reconciliation to Other Operating Charges	2014	2013
	£000	£000
SOFA Resources Expended - Operating Costs	11,833	12,412
Less: Exceptional Item - Donation	(1,500)	(2,026)
Consolidated I&E - Other Operating Charges	10,333	10,386
Less: Subsidiary company costs	(1,284)	(1,167)
NMS I&E - Other Operating Charges	9,049	9,219
Analysed as:		
Board Expenses	1	3
Expenses - Staff	220	185
Administration Expenses	1,522	1,508
Internal Audit	19	12
Other External Charges	905	923
Advertising	179	200
Fuel and Utilities	1,310	1,517
Rents and Rates	449	453
Furniture and Furnishings	155	71
Repairs and Renewals	4,265	4,324
External audit	24	23
Total	9,049	9,219

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014

6. Tangible Assets (See note 1[c])

GROUP						
Cost or valuation £000	Land & Buildings	Under Constrctn	Leasehold Imprvmnts	Permanent Galleries	Plant & Equipment	Total
1 April 2013	161,586	678	2,479	37,226	4,394	206,363
Additions	384	6,898	28	101	145	7,556
Transfers	(103)	21	82	-	-	-
Disposals	(2,062)	-	-	-	(276)	(2,338)
Revaluations	(6,788)	-	155	(2,879)	-	(9,512)
31 March 2014	153,017	7,597	2,744	34,448	4,263	202,069
Accumulated Depreciation						
1 April 2013	26,694	-	627	25,603	2,357	55,281
Charge for year	3,007	-	54	1,134	500	4,695
Disposals	(459)	-	-	-	(276)	(735)
Revaluations	1,254	-	39	(1,980)	-	(687)
31 March 2014	30,496	-	720	24,757	2,581	58,554
Net Book Value						
31 March 2014	122,521	7,597	2,024	9,691	1,682	143,515
1 April 2013	134,892	678	1,852	11,623	2,037	151,082

NATIONAL MUSEUMS SCOTLAND						
Cost or valuation £000	Land & Buildings	Under Constrctn	Leasehold Imprvmnts	Permanent Galleries	Plant & Equipment	Total
1 April 2013	161,586	678	2,479	37,226	4,113	206,082
Additions	384	6,898	28	101	131	7,542
Transfers	(103)	21	82	-	-	-
Disposals	(2,062)	-	-	-	(276)	(2,338)
Revaluations	(6,788)	-	155	(2,879)	-	(9,512)
31 March 2014	153,017	7,597	2,744	34,448	3,968	201,774
Accumulated Depreciation						
1 April 2013	26,694	-	627	25,603	2,184	55,108
Charge for year	3,007	-	54	1,134	466	4,661
Disposals	(459)	-	-	-	(276)	(735)
Revaluations	1,254	-	39	(1,980)	-	(687)
31 March 2014	30,496	-	720	24,757	2,374	58,347
Net Book Value						
31 March 2014	122,521	7,597	2,024	9,691	1,594	143,427
1 April 2013	134,892	678	1,852	11,623	1,929	150,974

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 2014. All the properties have been 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

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014

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.

The charge for depreciation and diminution in value comprises:

Group and NMS	2014	2013
	£000	£000
Tangible assets depreciation	4,661	5,663
NMS Enterprises tangible assets depreciation	34	31
	4,695	5,694

7. Heritage Assets
(See Note 1[o])

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. National Museums Scotland is 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. National Museums Scotland considers that valuation of the 4 million objects in the collections would be impracticable.

Group and NMS	2014	2013
	£000	£000
1 April	6,582	5,889
Purchase Fund Utilised in Year	105	359
NMS Charitable Trust	114	60
Art Fund	52	125
National Heritage Memorial Fund	110	125
Others	-	24
31 March	6,963	6,582

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014

8. Intangible Assets

Intangible assets held by National Museums Scotland consist solely of software licenses. No licenses/ trademarks, patents or goodwill are held.

Group and NMS	2014	2013
	£000	£000
1 April	238	306
Additions	-	-
Disposals	(93)	(71)
Revaluation	-	3
31 March	145	238
Accumulated Amortisation:		
1 April	238	306
Charge for the Year	-	-
Disposals	(93)	(71)
Revaluation	-	3
31 March	145	238
Net Book Value:		
31 March	-	-

9. Investments

	GROUP		NMS	
	2014	2013	2014	2013
	£000	£000	£000	£000
Opening & Closing Balance	1	1	500	500

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.

10. Stocks
(See Note 1[f])

	GROUP		NMS	
	2014	2013	2014	2013
	£000	Restated £000	£000	£000
Stocks Held for Resale	606	598	-	-

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

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014

11. Debtors

Receivable Within 1Year:	GROUP		NMS	
	2014	2013	2014	2013
	£000	Restated £000	£000	£000
Trade Debtors	272	284	115	138
Less: Provision for Amounts not recoverable	(3)	(3)	-	-
Sundry Debtors	443	270	443	270
Subsidiary Company	-	-	760	687
VAT Recoverable	775	267	834	332
Prepayments	448	683	409	651
	1,935	1,501	2,561	2,078

Intra Governmental Balances	Restated			
	£000	£000	£000	£000
Central Government	983	331	1,041	395
Local Government	8	3	8	3
NHS Trusts	-	-	-	-
Public Corporations	-	-	-	-
Bodies External to Government	944	1,167	1,512	1,680
	1,935	1,501	2,561	2,078

12. Cash at Bank and in Hand

	GROUP		NMS	
	2014	2013	2014	2013
	£000	£000	£000	£000
Cash and commercial accounts	4,267	4,525	3,888	4,238
Funds held for third parties	70	32	70	32
	4,337	4,557	3,958	4,270

13. Creditors

Amounts falling due within one year:	GROUP		NMS	
	2014	2013	2014	2013
	£000	Restated £000	£000	£000
Trade Creditors	(111)	(66)	(53)	(20)
Other Creditors	(119)	(64)	(119)	(64)
Accruals	(5,250)	(3,344)	(5,173)	(3,289)
Deferred Income	(382)	(359)	(343)	(331)
	(5,862)	(3,833)	(5,688)	(3,704)

Intra Governmental Balances	Restated			
	£000	£000	£000	£000
Central Government	(55)	(131)	(55)	(131)
Local Government	(1)	(41)	(1)	(41)
Bodies External to Government	(5,806)	(3,661)	(5,632)	(3,532)
	(5,862)	(3,833)	(5,688)	(3,704)

**NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014**

14. Provision for liabilities and charges

GROUP AND NMS					
	£000	£000	£000	2014 £000	2013 £000
	Early Retirement	Injury Benefit	Voluntary Exit Scheme	Total	Total
Opening Balance 1 April	(170)	(158)	(406)	(734)	(1,088)
Add: Provisions During Year	(9)	(3)	(43)	(55)	(180)
Less: Paid During Year	41	17	287	345	534
Closing Balance 31 March	(138)	(144)	(162)	(444)	(734)

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 one individual for life. Provisions have been made based on the current rates payable. Voluntary exit schemes were last run in 2012/13. Costs associated with voluntary exits confirmed at 31 March have been provided based on the estimated actual cost of exit. Provisions of £153k (2012/13 £295k) are payable within 12 months of the year end.

15. Reserves – Restricted and Unrestricted

Reserves are retained for a range of purposes as shown below:

	Opening Balance Restated £000	Asset revaluation £000	Transfers between funds £000	Surplus/ (Deficit) for year £000	Closing Balance £000
Restricted					
Board Capital Reserve	27,648	-	1,299	(665)	28,282
Government Capital Reserve	80,367	(1,603)	5,703	(3,121)	81,346
Revaluation Capital Reserve	41,466	(8,825)	-	-	32,641
Heritage Assets Fund	6,718	-	200	345	7,263
Other Restricted Funds	214	-	-	(211)	3
Total	156,413	(10,428)	7,202	(3,652)	149,535
Unrestricted					
<i>Designated</i>					
Board Capital Reserve	1,929	-	131	(466)	1,594
Board Reserve	1,621	-	(1,430)	(43)	148
General Fund	3	-	(5,903)	5,900	-
Total - NMS	3,553	-	(7,202)	5,391	1,742
NMS Enterprises Limited	(212)	-	-	(14)	(226)
Total - Group	3,341	-	(7,202)	5,377	1,516
Total Reserves	159,754	(10,428)	-	1,725	151,051

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.

**NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014**

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. The significant downwards revaluation this year arises in part from the basis used including a revised and more consistently applied method of calculation, which does not indicate any change in the economic value of the property in use.

b) Acquisitions for the collection

The Heritage Asset 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.

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 also 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 available to support the future delivery of charitable activities are the General Fund, which is now held at zero, and the Board Reserve, which holds surpluses earned 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 losses of the subsidiary company to be met through future trading activity.

During 2013/14, £1.43m capitalised expenditure was financed from self-generated income in the year, and this is reflected in the transfer of funds from the Board Reserve to the Board Capital Reserves. In the same year an exceptional donation of £1.5m was made to the National Museums of Scotland Charitable Trust which was funded from the accumulated past surpluses of self-generated income represented by the opening balance on the Board Reserve.

16. Reconciliation of Net Incoming Resources before transfers to Net Cash Inflow from Operating Activities

	GROUP	
	2014	2013
		Restated
	£000	£000
Net (outgoing)/incoming resources	1,725	(4,486)
Grant-in-Aid – Capital	(5,700)	(1,800)
Other Capital Grants	(409)	-
Interest Received	(17)	(18)
Depreciation charge for the year	4,695	5,694
(Surplus)/Deficit in Heritage Assets & Other Restricted Funds	(134)	(332)
(Surplus)/Deficit in NFA Fund	(38)	54
(Increase)/Decrease in stocks	(8)	(12)
(Increase)/Decrease in Debtors	(434)	36
Increase/(Decrease) in Creditors	2,029	1,357
Increase/(Decrease) in Provisions for Liabilities and Charges	(290)	(354)
Net Cash Inflow/(outflow) from Operating Activities	1,419	139

NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014

Analysis of changes in net funds in the year

National Museums Scotland has no current asset investment and no net borrowing or finance lease obligation, and accordingly the Group net funds are equal to its cash balance. The movement in the cash balance during the year was as follows:

	GROUP	
	2014	2013
	£000	£000
Opening Cash Balance	4,557	5,353
Change in Year	(220)	(796)
Closing Cash Balance	4,337	4,557

17. Commitments

	GROUP	
	2014	2013
	£000	£000
Committed but not provided for in the Accounts		
Capital expenditure:		
New storage & research building (Collections Centre)	3,594	-
Museum renewal (National Museum of Scotland)	920	-
Other capital projects	159	296
	<u>4,673</u>	<u>296</u>
Operational expenditure	742	559
Total Commitments	5,415	855

18. Related Party Transactions

National Museums Scotland is a Non-Departmental Public Body (NDPB) sponsored by the Scottish Government which is regarded as a related party. During the year National Museums Scotland has had various material transactions with the Scottish Government. National Museums Scotland has taken the exemption per the FReM to not disclose detail of related party transactions with other public sector bodies. None of the Trustees, members of key management staff or other related parties has entered into any material transaction with National Museums Scotland during the year. In addition, National Museums Scotland has had a small number of material transactions with other government departments, central government bodies, local government, non-departmental public bodies and similar organisations.

The National Museums 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 Iain Watt, Trustees of National Museums Scotland, were also Trustees of NMSCT. National Museums Scotland received £207k in grants and donations from NMSCT during the year (2012/13 £10k). National Museums Scotland also donated £1.500m to NMSCT (2012/13 £2.026m) which is classified as an Exceptional Item in the Consolidated Income and Expenditure Account.

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

**NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014**

19. Subsidiary Company

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

	2014	2013
	£000	Restated £000
Turnover	2,792	2,519
Cost of goods sold	(1,042)	(927)
Administrative costs	(1,071)	(1,044)
Trading profits from continuing operations	679	548
Gift aid to National Museums Scotland	(694)	(544)
Profit/(Loss) after gift aid	(15)	4
Interest Income	1	-
Profit/(Loss) reported in Consolidated I&E Account	(14)	4
Reserves at 1 April	(212)	(216)
Transferred from Income and Expenditure Account	(14)	4
Reserves at 31 March	(226)	(212)

20. Leases

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 2012/13). Future rental commitments at 31 March were as follows:

	GROUP AND NMS	
Land & Buildings	2014	2013
	£000	£000
Not later than one year	23	23
Later than one year and not later than five years	90	92
Later than five years	1,825	1,848

21. Contingent Liabilities

There are no contingent liabilities as at the 31 March 2014.

22. National Fund for Acquisitions

(See Notes 1(w))

	GROUP AND NMS	
	2014	2013
	£000	£000
Balance at 1 April	32	86
Grant Received	150	150
Disbursements	(112)	(204)
Balance at 31 March	70	32

National Museums Scotland administers, on behalf of Scottish Ministers, the National Fund for Acquisitions (NFA). The allocation for financial year 2013/14 was £150k. During the year 63 (2012/13 81) payments totalling £112k (2012/13 £204k) were made to 26 (2012/13 33) organisations, supporting acquisitions worth £367k (2012/13 £479k).

**NATIONAL MUSEUMS SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014**

23. Net Assets held in Reserves

GROUP AND NMS	Restricted Funds	Designated Capital Reserves	Board Reserve	Total	NMS Enterprises Limited	Group Total
	£000	£000	£000	£000	£000	£000
Tangible assets	141,833	1,594	-	143,427	88	143,515
Heritage assets	6,963	-	-	6,963	-	6,963
Investments	-	-	500	500	(499)	1
Current Assets	739	-	5,780	6,519	359	6,878
Current Liabilities	-	-	(5,688)	(5,688)	(174)	(5,862)
Long-term liabilities	-	-	(444)	(444)	-	(444)
Balance at 31 March	149,535	1,594	148	151,277	(226)	151,051

24. Taxation

National Museums Scotland has been granted charitable status by the Inland Revenue, 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 2013/14 NMS Enterprises Limited will pay £694k (2012/13 £544k) by Gift Aid to National Museums Scotland. Payment of gift aid eliminates any liability of the subsidiary to Corporation Tax in that year.

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 Events

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

27. Financial Instruments

As the cash requirements of National Museums Scotland are met through grant in aid, provided by Scottish Government, financial instruments play a 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 further disclosure is deemed unnecessary.

**NATIONAL MUSEUMS SCOTLAND
APPENDIX TO THE ACCOUNTS FOR THE YEAR ENDED 31 March 2014**

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 'Linda Sten', is written over a horizontal line.

Signed by the authority of the Scottish Ministers

Dated 31 March 2006

