

Annual Report & Accounts

Authorised for issue on [Date audit opinion signed]

Annual Report

Background and Directors' Report

Accounts Direction

The Accounts have been prepared in accordance with a Direction given by the Scottish Ministers in pursuance of the Public Finance and Accountability (Scotland) Act 2000.

History and statutory background

Historic Scotland is an agency of the Scottish Executive. An independent review of its functions and structure in 2003/04 confirmed Historic Scotland's status as an executive agency. The agency is headed by the chief executive who is directly accountable to the Scottish Ministers.

Principal activities

The agency's principal activities are to protect, present and promote Scotland's historic environment, which includes ancient monuments and archaeological sites; historic buildings, parks and gardens; and designed landscapes. There were no significant changes in areas of activity during 2006/07.

The directors

The directors and senior management of the agency at the end of 2006/07 were:

John Graham	chief executive
Peter Bromley	director, properties in care
Donald Carmichael	director, policy
Malcolm Cooper	chief inspector
Ingval Maxwell	director, technical conservation, research and education
Brian O'Neil	director, human resources
Laura Petrie	director, finance
David McGibbon	non-executive director
Sheila Terry	non-executive director
Marc Ellington	non-executive director

Lucy Blackburn, who is currently on maternity leave, was also a member of the senior management team during the year. She held the post of director, policy, which is being covered by Donald Carmichael during her absence.

The directors of properties in care, policy and the chief inspector are members of the Senior Civil Service, and their remuneration is determined under the terms of Section 5.3.6 of the Civil Service Management Code. The other board members have their remuneration determined under Historic Scotland's own arrangements which are negotiated separately and which are consistent with the agency's own business needs and Government policy on Civil Service pay.

Additional information on salary and pension entitlements can be found in the Remuneration Report.

The following appointments or other significant interests are held by directors and senior management of the Agency:

- David McGibbon is a non-executive director of Caledonian Macbrayne Ltd and chairs their audit committee.
- Sheila Terry is a director of Falkirk and District Town Centre Management Co Ltd and Falkirk Environment Trust.
- Marc Ellington is a member of the Board of Management of Banff and Buchan College of Further Education, a trustee of the National Galleries of Scotland, serves on the Council of the National Trust for Scotland and is the Project Director of the Scottish Traditional Skills Training Centre. He is also employed on a professional basis as a consultant to a wide range of companies and organisations involved in built heritage conservation, restoration and management.

Three new non-executive directors, Professor John Lennon, Ann Marie Stannard and Raymond Young, have been appointed to bring additional skills, expertise and experience to the board. Their appointments last for three years and will commence from 1st April 2007.

Pensions

As civil servants, employees of Historic Scotland are members of the Principal Civil Service Pension Scheme. Details of the scheme can be found in Note 5 to the Accounts and the Remuneration Report.

Charitable donations

There were no charitable donations exceeding £200 in aggregate.

Supplier payment policy

The agency complies with the Confederation of British Industry's Prompt Payers Code. Unless otherwise stated in the contract, payment is made within 30 days of receipt of invoices for goods and services completed to the satisfaction of the agency. 99.62% of invoices for goods and services from suppliers were paid within the 30 day credit period in 2006/07.

Important events occurring after the year end

There were no material events occurring after the year end which had a bearing on the accounts.

Auditors

The accounts are audited by Audit Scotland who are appointed by the Auditor General for Scotland. Further details on audit remuneration can be found in Note 29 to the Accounts.

Employment recruitment

Recruitment campaigns undertaken by Historic Scotland were carried out on the basis of fair and open competition, selection on merit and in accordance with the guidance laid down by the Civil Service Commissioners. The agency's recruitment/selection records are subject to regular scrutiny by internal auditors and the auditors of the Civil Service Commissioners. Details of recruitment in 2005/06 and 2006/07 are as follows:

Pay Band	Number of Posts		Male		Female	
	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07
Up to £14,097	43	89	22	42	21	47
£15,500 - £18,000	21	18	12	11	9	7
£18,050 - £25,257	18	15	8	3	10	12
£25,622 - £31,131	11	7	5	2	6	5
£31,168 - £37,880	0	3	0	3	0	0
Over £38,267	1	2	0	2	1	0
TOTAL	94	134	47	63	47	71
%	100%	100%	50%	47%	50%	53%

Employees with disabilities

Historic Scotland is committed to equality of opportunity for all its employees. We recognise that people with disabilities have the same range of skills and qualities as non-disabled people. It is important that full advantage is taken of these skills so that every person is given the opportunity to make the fullest contribution in line with their abilities. Applications from people with disabilities for employment or promotion are given full and fair consideration. Where an employee becomes disabled, Historic Scotland will re-train and re-deploy wherever applicable. The average number of disabled people employed in the year was 3 (2005/06: 3).

Equal opportunities and diversity

Historic Scotland is committed to equality of opportunity for all its employees and customers, and to treating every member of staff and every customer with dignity and respect. It is the agency's policy to ensure that all staff are able to work in an environment free from discrimination, harassment and bullying.

As an agency of the Scottish Executive, Historic Scotland fully subscribes to the Executive's Race Equality Scheme and Disability Scheme and will fully subscribe to the Gender Equality Scheme when it is launched. As an organisation, we continue to develop structures and systems to ensure that equal opportunities becomes an integral part of our thinking and behaviour.

Employee consultation

The agency is committed to effective employee communications, which it maintains through all staff notices, the staff newsletter and briefing sessions. The Partnership Board provides the means for representatives of staff and management to discuss matters of concern or mutual interest. It has delegated detailed consideration of partnership issues to an Industrial and Employee Relations Group.

Disclosure of relevant audit information

As Accountable Officer, I am not aware of any relevant audit information of which our auditors are unaware. I have taken all necessary steps to ensure that I myself am aware of any relevant audit information and to establish that the auditors are also aware of this information.

Management Commentary

Review of the business

Approximately two thirds of the Historic Scotland budget comes from the Scottish Executive with one third generated from commercial income. The agency received an additional £1.85 million funding from the Scottish Executive in 2006/07 as a result of the Spending Review 2004.

Visitor numbers for 2006/07 were strong, exceeding 3 million for the first time ever and representing a 7% growth against last year. Commercial income overall also grew 6% compared to 2005/06, with particularly good growth in the Tourism and Membership area.

Position at end of year

The Historic Scotland budget is approved by the Scottish Parliament and covers both revenue and capital expenditure. Our total expenditure budget for the year was £45.2 million. Against this, the agency achieved a final net underspend of £1.1 million. This underspend relates entirely to our impairment budget, since with no major developments completed during 2006/07, only a small proportion of this budget was required.

Indication of likely future developments

Historic Scotland will receive a further £3.3 million funding from the Scottish Executive in 2007/08 as a result of the Spending Review 2004.

As a result of the additional funding, an extra £1 million will be allocated towards grants expenditure in 2007/08.

Income targets for 2007/08 represent a 6% increase on 2006/07 results, in line with growth against the previous year. These are demanding targets given the generally flat trend of visitor numbers at paid attractions in Scotland.

The Edinburgh Castle Visitor Reception project will be completed and will open during the first quarter of 2008. Work on the Stanley Mills Visitor and Education Centre will also be completed during 2007/08.

Historic Scotland is a key partner in the e-planning programme which will move the planning system in Scotland from paper to electronic based processes. The agency also has plans, subject to business case, to introduce an electronic records and document management system in collaboration with the Scottish Executive. Work will continue on the project to roll out an electronic procurement system to all areas of the agency.

Research and development activities

The Technical Conservation, Research and Education group continues to provide guidance on key conservation issues through information, advice, publications and training as well as continuing research into various conservation topics.

Risks and uncertainties

Historic Scotland has developed its risk management process and identified the key risks which it faces. Historic Scotland is funded in part by the Scottish Executive and in part from commercially-generated income. The risks of a reduction in income have been identified as a possible risk to the long term position of the agency.

Performance against key performance targets

The agency met or exceeded all but one of the Key Performance Targets agreed for 2006/07. Full details of the targets can be found in the Annual Review.

Environmental matters and social and community issues

Historic Scotland's core work of protecting and enhancing the historic environment makes a significant contribution to sustainable development and regeneration. The Corporate Plan commits the agency to continued participation in the Green Tourism Business Scheme under which it holds 33 gold, 27 silver and 5 bronze awards.

A cross-agency action group have been set up in response to the environmental management audit carried out by the agency. This group is working together to ensure that all business areas are properly considered when adopting more environmentally friendly and sustainable practices. Actions have included installing Ultra Violet filters on windows to reduce solar gain and minimise the use of energy.

Our Historic Environment Grants Scheme has two sections specifically targeted to be the catalyst in the fulsome regeneration of our historic towns and villages. Through the Conservation Area Regeneration Scheme (CARS) and the Historic Environment Regeneration Scheme (HERFS) this funding is put towards the conservation needs of the historic environment and through the appropriate repair and maintenance of the historic buildings and adaptive re-use. These schemes are delivering community benefits by broadening access to the historic environment, reinforcing local identity and a sense of place. The schemes also promote sustainable economic and rural development.

Historic Scotland's extensive education programme continues to grow and this year numbers increased significantly with over 70,000 educational visits to our sites. The scheme also includes taking education work into the schools when travel to a site is prohibitive. The agency continues to fund the subsidise travel for education groups unable to meet those costs.

The Access Audit conducted last year by Historic Scotland has informed a programme of work to address the access issues identified in line with the Disability Access Audit 1995. This programme is on going but has seen good progress being made this year. The agency also produced a research report with the Disability Rights Commission on *Access Improvement Applications to Listed Buildings and the Role of Local Authorities*.

Significant changes in fixed assets

There were no significant changes in fixed assets during the year.

Audit Committee

Historic Scotland's audit committee supports the accountable officer in monitoring and reviewing corporate governance, risk and control systems within the agency. Membership of the audit committee comprises non-executive and independent external members, helping to ensure the objectivity of the committee. The chairman of the audit committee is also a member of the Historic Scotland board. Members during the year to 31 March 2007 were:

David McGibbon chairman

Rosalyn Marshall

David Reid

JOHN GRAHAM

chief executive

Date

Historic Scotland remuneration report

Remuneration policy

Historic Scotland's chief executive and the directors of properties in care, policy and the chief inspector are members of the Senior Civil Service.

The remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com.

The remuneration of Historic Scotland's non-executive directors is set by Scottish Ministers taking into account their roles and responsibilities and remuneration levels in comparable organisations.

Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

David McGibbon, Marc Ellington and Sheila Terry were appointed on a three year contract commencing on 28 January 2005.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk

Salaries

Salary and pension entitlements of the Historic Scotland Management Board members were as follows:

Name and title	Salary		Real increase in pension and related lump sum at age 60 £000	Total accrued pension at age 60 and related lump sum at 31/03/07 £000	CETV at 31/03/06 (nearest £K) £000	CETV at 31/03/07 (nearest £K) £000	Real Increase in CETV after adjustment for inflation and changes in market investment factors (nearest £K) £000
	2006/07 £000	2005/06 £000					
John Graham chief executive	90-95	90-95	No increase No increase	45-50 Plus 135-140 lump sum	1,085	983	No increase
Sheenagh Adams director of policy (To 30/04/2006)	60-65 (60-65 Full year equivalent)	60-65	0-2.5 Plus 0-2.5 lump sum	20-25 Plus 60-65 lump sum	363	357	1
Lucy Blackburn director, policy (From 18/04/06 to 16/11/06)	40-45 (65-70 Full year equivalent)	-	0-2.5 Plus 2-5.5 lump sum	10-15 Plus 35-40 lump sum	158	174	17
Donald Carmichael director, policy (From 16/11/2006)	20-25 (60-65 Full year equivalent)	-	0-2.5 Plus 0-2.5 lump sum	15-20 Plus 50-55 lump sum	292	306	9
Peter Bromley * director, properties in care	65-70	60-65	0-2.5 Plus 2-5.5 lump sum	15-20 Plus 55-60 lump sum	341	363	16
Malcolm Cooper chief inspector	65-70	65-70	0-2.5 Plus 0-2.5 lump sum	15-20 Plus 50-55 lump sum	275	285	8
Ingval Maxwell director, technical conservation, research and education	60-65	60-65	0-2.5 Plus 0-2.5 lump sum	30-35 Plus 100-105 lump sum	780	770	3
Brian O'Neil director, human resources	55-60	55-60	No increase No increase	25-30 Plus 80-85 lump sum	599	609	No increase
Laura Petrie director, finance	55-60	55-60	0-2.5 Plus 0-2.5 lump sum	5-10 Plus 15-20 lump sum	74	84	9
<u>non-executive directors</u>							
David McGibbon	0-5						
Marc Ellington	0-5						
Sheila Terry	0-5						

* Opted for Premium.

Details of pensions and Cash Equivalent Transfer Values are disclosed based on information supplied by the Department for Work and Pensions.

Salaries in the above table are the amount earned in the financial year and include performance bonuses and overtime. Amounts relate to Historic Scotland employment only and do not include any other earnings from positions elsewhere in the civil service.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. In 2006/07 this value was £1,300 (2005/06: nil).

Pensions

Pension benefits are provided through the Civil Service Pension (CSP) arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (**classic**, **premium**, and **classic plus**). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of **premium** or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (**partnership pension account**).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of the pensionable salary for each year of service. In addition, a lump sum equivalent to three years' 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

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. 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 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

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 the disclosure applies. The CETV figures and, from 2003/04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangement and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real Increase in CETV

This reflects the increase in CETV effectively 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.

JOHN GRAHAM

chief executive

Date

Statement of agency's and chief executive's responsibilities

Under section 19 of the Public Finance and Accountability (Scotland) Act 2000 the Scottish Ministers have directed Historic Scotland to prepare a statement of accounts for each financial year in conformity with the accounts direction on page 39 of these financial statements, detailing the resources acquired, held, or disposed of during the year and the use of resources by the agency during the year.

The accounts are prepared on an accruals basis and must give a true and fair view of the agency's state of affairs at the year end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

The principal accountable officer of the Scottish Executive appointed the chief executive of Historic Scotland as the accountable officer for the agency. As accountable officer, the chief executive is responsible to the Scottish Ministers.

In preparing the accounts the accountable officer is required to comply with the *Government Financial Reporting Manual*, and in particular to:

- observe the accounts direction issued by 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 financial statements;
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the agency will continue in operation.

The responsibilities of the 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 the agency's assets, are set out in the Memorandum to accountable officers from the principal accountable officer.

Statement on Internal Control for the year ended 31 March 2007

Scope of responsibility

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

As accountable officer, I am personally answerable to the Scottish Parliament in accordance with section 15 of the Public Finance and Accountability (Scotland) Act 2000. I am responsible for the propriety and regularity of financial transactions under my control and for the economical, efficient and effective use of resources provided to the agency, for ensuring that arrangements have been made to secure best value and for signing the agency's annual accounts. I am also responsible for providing the necessary assurances to the principal accountable officer to enable them to sign the Statement on Internal Control contained within the Scottish Executive consolidated accounts. I have responsibility for ensuring that effective management systems are in place within the agency and that all risks are identified, assessed and managed appropriately.

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

Purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the agency'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 ongoing process designed to identify the principal risks to the achievement of the agency's policies, aims and objectives; to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The process within Historic Scotland accords with the SPFM and has been in place for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts 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.

An agency risk register has been compiled which details the most significant risks for the agency as a whole. This register is reviewed annually. In addition, each group within the agency has compiled a register of risks specific to their area which is regularly reviewed by the group. The results of each review are presented quarterly to the Historic Scotland board.

Historic Scotland's audit committee receive reports from the director of finance, Internal Audit and Audit Scotland concerning internal control issues and recommendations and are notified of actions to be taken to address any issues or weaknesses identified. The audit committee also consider the adequacy of arrangements for the assessment and management of risk and the adequacy of arrangements for corporate governance.

Historic Scotland is continuing to develop the risk management process and embed it in the organisation.

More generally, Historic Scotland is committed to best value and a process of continuous development and improvement; including developing systems in response to any reviews and developments in best practice in this area. In the period covering the year to 31 March and up to the signing of the accounts the agency has:

- set stretching performance targets which cover the main areas of agency activity and are regularly monitored;
- carried out a best value self assessment, with key areas for action feeding into the agency's 'Continuous Improvement Programme'; and
- begun to roll out an electronic procurement system which will improve efficiency and strengthen controls in the areas of purchase ordering and invoice payment throughout the agency.

In addition, the agency is on target to meet the corporate plan target of nine best value reviews over the period 2005-08.

Review of effectiveness

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

- the managers within the agency who have responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors, who submit to the agency's audit committee regular reports which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the agency's systems of internal control together with recommendations for improvement;
- the audit committee which oversees the work of the internal auditors; and
- comments made by the external auditors in their management letter and other reports.

Appropriate action is in place to address any weaknesses identified and to ensure the continuous improvement of the system.

JOHN GRAHAM
chief executive
Date

Independent auditor's report to Historic Scotland, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of Historic Scotland for the year ended 31 March 2007 under the Public Finance and Accountability (Scotland) Act 2000. These comprise the Operating Cost Statement, Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Agency, the Chief Executive and auditor

The agency and Chief Executive are responsible for preparing the annual report and the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. The Chief Executive is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Agency Chief Executive's Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. I also report whether in all material respects

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the agency's compliance with Scottish Executive's guidance. I report if, in my opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risks and controls. Neither am I required to form an opinion

on the effectiveness of the agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the annual accounts and consider whether it is consistent with the audited financial statements. This other information comprises only the Background, Directors Report, Management Commentary and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

Financial statements

In my opinion

- the financial statements give a true and fair view, in accordance with Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, of the state of affairs of Historic Scotland as at 31 March 2007 and of the net operating cost, recognised gains and losses and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Regularity

In my opinion in all material respects

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers,

HISTORIC SCOTLAND

ANNUAL ACCOUNTS 2006-2007

the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and

- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Signature

Lorna Meahan CA
Assistant Director
Audit Scotland
1-5 Osborne Terrace
Edinburgh EH12 5HG

Date

**Income and expenditure account
For the year ended 31 March 2007**

	Note	2006/07 £000	2005/06 £000 (Restated)
Income			
Income from properties in care	2	22,984	21,606
Other income	3	1,782	1,011
		<u>24,766</u>	<u>22,617</u>
Expenditure			
Protection – external built heritage	6	22,701	22,538
Protection – properties in care	7	17,025	16,897
Presentation of properties	8	19,517	16,153
Central services	9	6,443	5,762
Depreciation and impairment charges	11	1,459	434
		<u>67,145</u>	<u>61,784</u>
Operating deficit		(42,379)	(39,167)
Interest on capital	29	(720)	(789)
Deficit for the financial year before Scottish Executive funding		<u>(43,099)</u>	<u>(39,956)</u>

Statement of recognised gains and losses for the year ended 31 March 2007

	2006/07 £000	2005/06 £000
Net gain on revaluation of tangible fixed assets	1,956	1,495
Total recognised gains and losses for the financial year	<u><u>1,956</u></u>	<u><u>1,495</u></u>

Prior year figures have been restated to show expenditure by corporate activity rather than expense type. This is to reflect better the purpose and nature of expenditure incurred by the agency.

The notes on pages 20 to 38 form part of these accounts.

Balance sheet as at 31 March 2007

	Note	2006/07 £000	2005/06 £000
Fixed assets			
Tangible fixed assets	11	27,203	25,427
Intangible fixed assets	12	70	150
		<u>27,273</u>	<u>25,577</u>
Current assets			
Stocks	13	1,729	1,702
Debtors	14	2,485	1,457
Cash at bank and in hand	15	3,071	4,778
		<u>7,285</u>	<u>7,937</u>
Creditors			
Amounts falling due within one year	16	8,838	9,570
Net current assets/(liabilities)		<u>(1,553)</u>	<u>(1,633)</u>
Total assets less current liabilities		25,720	23,944
Creditors			
Amounts falling due after more than one year	17	155	214
Provisions for liabilities and charges	18	568	412
		<u>723</u>	<u>626</u>
Total net assets		<u><u>24,997</u></u>	<u><u>23,318</u></u>
Reserves			
General fund	20	14,362	14,480
Revaluation reserve	21	10,634	8,835
Donated asset reserve	22	1	3
		<u>24,997</u>	<u>23,318</u>

JOHN GRAHAM
chief executive
Date

The notes on pages 20 to 38 form part of these accounts.

Cash flow statement for the year ended 31 March 2007

	Note	2006/07 £000	2005/06 £000
Net cash outflow from operating activities	23 i	(42,007)	(37,655)
Capital expenditure	23 ii	(1,322)	(1,085)
		<hr/>	<hr/>
		(43,329)	(38,740)
Financing – Scottish Executive funding 2006/07	23 iv	41,622	38,587
Increase/(decrease) in cash	23 iii	<hr/>	<hr/>
		(1,707)	(153)

The notes on pages 20 to 38 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the *Financial Reporting Manual* issued by HM Treasury. The accounting policies contained in the manual follow generally accepted accounting practices (GAAP) to the extent that it is meaningful and appropriate in the public sector context. The accounting policies adopted are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

(a) Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

(b) Income and expenditure

Income includes receipts from visitor admission charges, retail sales and subscriptions from the Friends of Historic Scotland. The Friends subscriptions are accounted for on a cash basis net of Value Added Tax. Expenditure is shown net of Value Added Tax where it is recoverable.

(c) Grants payable

Grants are paid to individuals and bodies by the agency in accordance with its statutory powers and duties. They are accounted for in the period in which the underlying activity, to which the grant relates, is carried out. Any element of a grant where the offer has been made but the underlying activity falls outwith the accounting period is quantified in capital commitments.

(d) Tangible fixed assets

All of the feuhold property comprising the non-monument estate is the subject of a 5 year rolling programme of professional valuations in accordance with Financial Reporting Standard 15. Approximately 20% of the estate is valued each year by District Valuers (DV) of the Valuation Office acting in the capacity of External Valuers. For this report valuations have been prepared by DVs as at 31 March 2007 on the undernoted basis in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. These valuations are updated annually by Historic Scotland using appropriate indices and, following valuation, the remaining life may be restated.

Plant and machinery, which would normally be regarded as an integral part of the properties and essential for their effective use, have been included in the valuations.

With four exceptions all of the non-monument properties are regarded by Historic Scotland as operational and have been valued on the basis of Existing Use Value. Three assets have been defined as specialised properties and have been valued on the basis of Depreciated Replacement Cost. One asset is leased to a third party and has been valued on the basis of Open Market Value.

Residential properties have been valued on the assumption that they are subject to assured tenancies in terms of the Housing (Scotland) Act 1988.

The sources of information and assumptions made in producing the various valuations are set out in the Valuation Certificate which is not published in the Annual Report and Accounts.

The valuation figures incorporated in the Annual Report and Accounts are the aggregate of separate valuations of parts of the portfolio, not a valuation or apportioned valuation of the portfolio valued as a whole.

The feuhold property comprising the monument estate is not included in the rolling programme of valuations as it would be impossible to obtain a reliable valuation for these, and Historic Scotland has included these at nil value.

Expenditure of a capital nature incurred in pursuance of the agency's commercial activities on works integral to the fabric of the historic sites is initially identified as assets under construction within the fixed asset note. Thereafter it is transferred to the relevant asset category. Similar works of a non-commercial nature are written off in the year of expenditure.

Land related to operational assets is capitalised where it can be clearly separated from the heritage asset.

Plant, equipment and vehicles are valued at the lower of replacement cost and recoverable amount using the Producer Price Indices (MM2), published by the Office of National Statistics. Computer equipment is stated at cost.

Works of art which are new works and have only recently been completed have been included at cost. Once the assets reach more than five years of age, they will be subject to professional valuation and their value will be amended accordingly.

Additions to collections purchased during the year, which are defined as non-operational heritage assets, have been capitalised at purchase price.

The capitalisation thresholds for the principal categories of assets are: -

Land	£10,000
Buildings and dwellings	£10,000
Plant and motor vehicles	£5,000
Office equipment	£5,000
Computer equipment	£1,000
Development costs	£5,000
Antiques and works of art (non-heritage)	£5,000

(e) Depreciation

Depreciation is provided on tangible fixed assets, excluding historical assets and archives, on a straight line basis at rates sufficient to write down their cost over their estimated useful lives. The depreciation periods for the principal categories of assets are: -

Land	Not depreciated
Buildings and dwellings	On an individual basis not exceeding 60 years
Plant and motor vehicles	5 years

Office equipment	5 years
Computer equipment	3 years
Development costs	On an individual basis not exceeding 7 years
Antiques and works of art (non-heritage)	Up to 60 years

Assets in the course of construction are not depreciated until the asset is brought into use. Archives, which comprise maps, plans, photographs and books, are not depreciated, as the annual costs incurred in their maintenance and updating are sufficient to maintain their value.

Additions to historic collections are not depreciated as the length of their anticipated useful economic life is such that depreciation is not considered to be material.

(f) Donated assets

Donated tangible fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve. Subsequent revaluations are also taken to this reserve. Each year an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the income and expenditure account.

(g) Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £1,000 or more is incurred. Software licences are amortised over the shorter of the term of the licence and the useful economic life. Intangible assets are stated at cost.

(h) Realised element on depreciation of revaluation reserve

Depreciation is charged to the income and expenditure account on the revalued amount of the relevant assets. An element of the depreciation arises from the increase in valuation and is in excess of the depreciation that would be charged on the historic cost of the relevant assets. The amount relating to this excess is the realised gain on revaluation and is transferred from the revaluation reserve to the general fund.

(i) Stocks

All stocks held are stated at the lower of cost and net realisable value.

(j) Capital charge

A charge, reflecting the cost of capital utilised by the agency, is included in the operating costs. The charge is calculated at the government's standard rate of 3.5 per cent (2005/06: 3.5 per cent) on the average carrying amount of all assets less liabilities, except for donated assets, where the charge is nil.

(k) Pension costs

Past and present employees of Historic Scotland are covered by the provisions of the Principal Civil Service Pension Scheme which are described in the remuneration report. Full superannuation costs are an expense of Historic Scotland at rates determined by HM Treasury.

(l) Early departure costs

Historic Scotland is required to meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The agency provides in full for these costs when the early retirement has been agreed.

(m) Operating leases

Rentals applicable to operating leases are charged to the income and expenditure account as incurred.

(n) Changes in accounting policy

The format of the income and expenditure account and associated notes have been amended to show expenditure by corporate activity rather than by expense type. This is to reflect better the purpose and nature of expenditure incurred by the agency. Prior year figures have also been restated.

(o) Changes in estimation techniques

There have been no material changes in estimation techniques introduced for the 2006/07 accounts.

2. Income from properties in care

	2006/07 £000	2005/06 £000
Admissions	14,881	13,592
Turnover from retail sales	5,718	5,575
Functions	1,375	1,480
Fees from hire of facilities	1,010	959
	22,984	21,606

3. Other income

	2006/07 £000	2005/06 £000 (Restated)
Conservation work	14	48
General services provided	36	8
Funding from the Heritage Lottery Fund	1,079	277
Gain/(Loss) on disposal of tangible fixed assets	(145)	223
Other (includes grant recoveries)	798	455
	1,782	1,011

The figures for 2005/06 have been restated to combine income previously classified as sale of publications into other.

4. Commercial trading account

	2006/07 £000	2005/06 £000 (Restated)
Income from properties in care (note 2)	22,984	21,606
Less Direct Costs		
Cost of goods sold	2,781	2,716
Visitor services	7,474	6,848
Marketing	2,072	1,873
Purchasing	1,084	919
Functions and events	438	427
Membership	448	367
Interpretation	101	116
Education	142	146
Banking charges	229	211
Direct expenditure on presentation of properties	14,769	13,623
Accommodation	2,928	2,149
Central services	1,913	1,721
Depreciation	678	705
Notional charges	447	484
Total expenditure on presentation of properties	20,735	18,682
Net profit	2,249	2,924

This note complies with guidance in the Scottish Public Finance Manual which requires disclosure of the income and expenditure relating to commercial activities.

Historic Scotland charges for admission and operates other commercial activities at its properties in care. Commercial activities are required to make a contribution which supports the costs of conservation and maintenance of these properties.

Direct expenditure on presentation of properties includes an apportionment of relevant overheads.

Prior year figures have been restated to reflect better the purpose and nature of expenditure incurred by the agency.

5. Staff numbers and related costs

(i) Staff costs

Staff costs consist of:

	2006/07 £000	2005/06 £000
Salaries and wages	20,723	19,241
Social security costs	1,428	1,383
Superannuation	3,258	3,007
Early departure costs	12	56
Agency/temporary staff costs	239	343
Total staff costs	25,660	24,030
Less: Recoveries in respect of outward secondments	(4)	(159)
Total net employment costs	25,656	23,871

These costs are included in the expenditure categories listed on the income and expenditure account according to the function of the staff employed.

The staff of the agency are Civil Servants and the pension benefits accrue under the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme but the agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For this financial year, employers' contributions of £3,257,917 were payable to the PCSPS (2005/06: £3,007,189) at rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands (2005/06: 16.2% to 24.6%). The scheme's actuary reviews employer contributions every four years following a full scheme valuation. From 2007/08, the salary bands will be revised but the rates will remain the same.

The contribution rates are set to meet the cost of the benefits accruing during 2006/07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees joining after 1 October 2002 could opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £37,869 were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer **partnership** contributions are age related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2,802, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers, and the associated contributions due to the PCSPS, at the balance sheet date were £3,412. Contributions prepaid at that date were £nil.

One person retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £4,762.

(ii) Average number of employees

The average number of whole-time equivalent persons employed during the year by occupational group was:

	2006/07 Number of Employees	2005/06 Number of Employees (Restated)
Senior management	7	7
Protection – external built heritage staff	150	150
Protection – properties in care staff	330	340
Presentation of properties staff	405	372
Central services staff	86	83
Agency/temporary staff	13	19
	991	971

Prior year figures have been restated to reflect better the purpose and nature of employees' functions within the agency.

6. Protection – external built heritage

	2006/07 £000	2005/06 £000 (Restated)
Statutory protection	2,711	1,774
Grants	12,943	13,816
Archaeology	3,127	3,766
Policy	1,466	1,008
Research	2,454	2,174
	22,701	22,538

Prior year figures have been restated to reflect better the purpose and nature of expenditure incurred by the agency.

7. Protection - properties in care

	2006/07 £000	2005/06 £000 (Restated)
Major conservation	796	1,662
Conservation and routine maintenance	13,470	12,818
Health and safety and disability access	969	777
Utilities and factoring	1,790	1,640
	<u>17,025</u>	<u>16,897</u>

Prior year figures have been restated to reflect better the purpose and nature of expenditure incurred by the agency.

8. Presentation of properties

	2006/07 £000	2005/06 £000 (Restated)
Visitor services	10,612	8,168
Commercial operations	6,938	6,605
Access and understanding	1,967	1,380
	<u>19,517</u>	<u>16,153</u>

Prior year figures have been restated to reflect better the purpose and nature of expenditure incurred by the agency.

9. Central services

	2006/07 £000	2005/06 £000 (Restated)
Communications	935	678
Information systems	1,220	811
Human resources	1,357	1,357
Training	287	278
Finance	713	658
Central and office services	1,931	1,980
	<u>6,443</u>	<u>5,762</u>

Prior year figures have been restated to reflect better the purpose and nature of expenditure incurred by the agency.

The above costs include notional charges for departmental overhead and auditor's remuneration (see note 29).

10. Palace of Holyroodhouse costs

Historic Scotland is responsible for the upkeep and maintenance of the Palace of Holyroodhouse. The costs involved are detailed below:

	2006/07 £000	2005/06 £000
Employment costs	1,348	1,466
Conservation and maintenance	309	789
Accommodation cost	97	69
Capital expenditure	10	27
Total expenditure incurred in support of the Palace of Holyroodhouse	1,764	2,351

Employment costs include both Historic Scotland staff and staff employed by the Royal Household and recharged to Historic Scotland.

These costs are disclosed within the agency's accounts as follows:

	2006/07 £000	2005/06 £000
Protection – properties in care (note 7)	1,764	2,353
Other income (note 3)	-	(2)
	1,764	2,351

11. Tangible fixed assets

(i)	Land & buildings (Exc dwellings) £000	Dwellings £000	Motor vehicles (note a) £000	Office equipment £000	Computer equipment £000	Plant & equipment £000	Antiques & works of art (note b) £000	Assets under construction £000	Total £000
Cost									
Opening balance	22,075	3,439	1,767	2,174	3,019	6,069	662	484	39,689
Additions during year	25	-	194	-	396	55	-	699	1,369
Transfer from AuC	-	-	-	-	-	18	-	(18)	-
Transfers	89	(89)	-	-	-	-	-	-	-
Indexation	989	128	17	-	-	282	-	-	1,416
Disposals during year	(93)	(142)	(169)	(44)	(126)	(103)	-	-	(677)
Revaluation	274	569	-	-	-	-	-	-	843
Closing balance	23,359	3,905	1,809	2,130	3,289	6,321	662	1,165	42,640
Accumulated depreciation									
Opening balance	(4,235)	(138)	(1,002)	(2,174)	(2,190)	(4,510)	(13)	-	(14,262)
Charge for the year	(348)	(49)	(297)	-	(377)	(244)	(6)	-	(1,321)
Backlog depreciation	(212)	(4)	(11)	-	-	(245)	-	-	(472)
Transfers	(6)	6	-	-	-	-	-	-	-
Eliminated on disposal	34	43	157	44	123	90	-	-	491
Revaluation	119	50	-	-	-	-	-	-	169
Impairments	(42)	-	-	-	-	-	-	-	(42)
Closing balance	(4,690)	(92)	(1,153)	(2,130)	(2,444)	(4,909)	(19)	-	(15,437)
Net book value at 31 March 2007	18,669	3,813	656	-	845	1,412	643	1,165	27,203
Net book value at 31 March 2006	17,840	3,301	765	-	829	1,559	649	484	25,427

Notes:

- a. A motor vehicle valued at £11,223 was donated to the agency on 23/01/2002 by the Royal Bank of Scotland. The net book value of the asset at 31 March 2007 was £968
- b. Includes 6 non-operational heritage assets (note 30)

(ii) Revaluations

The Valuation Office prepared valuations at 31 March 2007 where certain buildings were valued either above or below the estimates used in the 2005/06 annual accounts. The useful remaining life has also been re-assessed.

The total value of revalued assets is £2,834,000. The combined effect of the revaluations is an increase in the net book value of these properties of £1,012,000. This figure is also reflected in the revaluation reserve. Due to impairment there will be an amount of £42,000 written back to the income and expenditure account.

(iii) Depreciation and impairment charge

	2006/07 £000	2005/06 £000
Depreciation charge for the year	1,321	1,238
Amortisation charge for the year (note 12)	98	118
Impairment charge	42	108
Reversal of previous impairment	-	(1,027)
Released from donated asset reserve (note 22)	(2)	(3)
Total charge for the year	<u>1,459</u>	<u>434</u>

12. Intangible fixed assets

	Computer software licences £000
Cost	
Opening balance 1 April 2006	495
Additions during year	18
Disposals during year	-
Closing balance 31 March 2007	<u>513</u>
Accumulated depreciation	
Opening balance 1 April 2006	(345)
Charge for the year	(98)
Eliminated on disposal	-
Closing balance 31 March 2007	<u>(443)</u>
Net book value at 31 March 2007	<u>70</u>
Net book value at 31 March 2006	<u>150</u>

13. Stocks

The main categories of stocks are retail stocks held in monument shops and raw materials and consumables held for building maintenance purposes.

	2006/07 £000	2005/06 £000
Retail	1,522	1,502
Raw materials and consumables	207	200
	<u>1,729</u>	<u>1,702</u>

14. Debtors

14(a) Analysis by type

	2006/07 £000	2005/06 £000
Trade debtors	454	476
Other debtors	61	74
Balance with the Scottish Executive	304	10
Prepayments and accrued income	1,133	608
Recoverable VAT	533	289
	2,485	1,457

14(b) Intra Governmental balances

	Debtors: amounts falling due within one year 2006/07 £000	Debtors: amounts falling due after more than one year 2006/07 £000	Debtors: amounts falling due within one year 2005/06 £000	Debtors: amounts falling due after more than one year 2005/06 £000
Balances with other central government bodies	1,092	-	432	-
Balances with local authorities	11	-	10	-
Balances with NHS trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	1,382	-	1,015	-
At 31 March 2007	2,485	-	1,457	-

15. Cash at bank and in hand

	2006/07 £000	2005/06 £000
Paymaster account at the Bank of England	2,519	4,318
Other bank accounts	316	327
Cash in transit and money held at monuments	236	133
	3,071	4,778

16. Creditors – Amounts falling due within one year

16(a) Analysis by type

	2006/07 £000	2005/06 £000
Trade creditors	2,040	2,418
Other creditors	898	905
Accruals and deferred income	5,900	6,247
	8,838	9,570

16(b) Intra Governmental balances

	Creditors: amounts falling due within one year 2006/07 £000	Creditors: amounts falling due after more than one year 2006/07 £000	Creditors: amounts falling due within one year 2005/06 £000	Creditors: amounts falling due after more than one year 2005/06 £000
Balances with other central government bodies	855	-	790	-
Balances with local authorities	49	-	211	-
Balances with NHS trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	7,934	155	8,569	214
At 31 March 2007	<u>8,838</u>	<u>155</u>	<u>9,570</u>	<u>214</u>

17. Creditors – Amounts falling due after more than one year

	2006/07 £000	2005/06 £000
Accruals and deferred income	<u>155</u>	<u>214</u>

18. Provisions for liabilities and charges

	Pension costs £000	Compensation payments £000	Other provisions £000	Total £000
Opening balance at 1 April 2006	164	128	120	412
Less net amount released during current year	(46)	(11)	-	(57)
Less provisions not required written back	-	(114)	-	(114)
Charge to current year income and expenditure	8	39	280	327
Closing balance at 31 March 2007	<u>126</u>	<u>42</u>	<u>400</u>	<u>568</u>

The provision for pension costs relates to the compensation element of the former Early Retirement Package payable to officers who were over the age of 50 but below the age of 60. On attaining the age of 60 the compensation element ceases.

Compensation payments relate to claims for accidents to staff of Historic Scotland and visitors to the monuments. It is expected that final settlement of these claims will be made within 2007/08.

Other provisions relate to a dispute with a supplier. The assessment of costs due to be paid by Historic Scotland is £400k.

19. Leasing commitments

Operating leases

Annual commitments as at 31 March 2007 under non-cancellable operating leases are as follows:

	2006/07 £000	2005/06 £000
Operating leases which expire within one year	70	42
In the second to fifth year inclusive	86	101
In over five years	880	866
	<u>1,036</u>	<u>1,009</u>

The majority of the operating leases are for properties.

Finance leases

There are no finance leases in operation.

20. Movement in general fund

	2006/07 £000	2005/06 £000
Opening balance at 1 April 2006	14,480	12,819
Deficit for the financial year	(43,099)	(39,956)
Scottish Executive funding	41,622	39,804
Cash spent in excess of drawdown, but not funded from Scottish Executive in 2006/07	294	10
Realised element of the revaluation reserve	157	96
Adjustment of fixed asset balance	24	371
Reversal of previous impairment – released from revaluation reserve	-	319
Notional charges	884	1,017
Closing balance at 31 March 2007	<u>14,362</u>	<u>14,480</u>

21. Revaluation reserve

	2006/07 £000	2005/06 £000
Opening balance at 1 April 2006	8,835	7,755
Indexation	1,416	583
Revaluation of cost	1,012	1,154
Backlog depreciation	(472)	(242)
Reversal of previous impairment – released to general fund	-	(319)
Transfer to the general fund of the realised element of the revaluation reserve	(157)	(96)
Closing balance at 31 March 2007	<u>10,634</u>	<u>8,835</u>

22. Donated asset reserve

	2006/07 £000	2005/06 £000
Opening balance at 1 April 2006	3	6
Annual depreciation released to the income and expenditure account	(2)	(3)
Closing balance at 31 March 2007	<u>1</u>	<u>3</u>

The donated asset reserve reflects the net book value of assets donated to the agency.

23. Notes to the cash flow statement

i. Reconciliation of deficit for the financial year to net cash flow from operating activities

	2006/07 £000	2005/06 £000
Deficit for the financial year	(43,099)	(39,956)
Notional charges	884	1,017
Depreciation on tangible and intangible fixed assets	1,459	434
(Gain)/loss on disposal of tangible fixed assets	145	(223)
(Increase)/decrease in stock	(27)	(31)
(Increase)/decrease in debtors	(734)	(49)
Increase/(decrease) in creditors and provisions	(635)	1,153
Net cash outflow from operating activities	<u>(42,007)</u>	<u>(37,655)</u>

ii. Capital expenditure

Additions to fixed assets	682	1,697
Increase/(decrease) in assets under construction	681	(23)
Less receipts from sale of tangible fixed assets	(41)	(589)
Net capital expenditure for year	<u>1,322</u>	<u>1,085</u>

iii. Analysis of changes in cash during the year

Opening balance at 1 April 2006	4,778	4,931
Net cash inflow/(outflow) during year	(1,707)	(153)
Closing balance at 31 March 2007	<u>3,071</u>	<u>4,778</u>

iv. Financing

Scottish Executive funding for year	41,916	39,814
Movement on Scottish Executive (debtor)/creditor	(294)	(1,227)
Scottish Executive cash funding for year	<u>41,622</u>	<u>38,587</u>

24. Contingent liabilities

There were no material contingent liabilities at 31 March 2007. (31 March 2006: nil).

25. Capital commitments

Historic Scotland is committed to expenditure resulting from works contracts and contractual agreements offered and entered into under the Historic Buildings Repair Grants Scheme prior to 31 March 2007. As at that date, these commitments totalled:

	2006/07 £000	2005/06 £000
Capital commitments due within one year	5,980	5,720
Due within two to five years inclusive	1,477	1,118
Due after five years	-	-
	7,457	6,838

Historic Scotland has also given indicative authorisations to grant applicants. While these do not represent a firm offer of grant they reflect future potential offers and are an indication of the pressure on grants which Historic Scotland faces. As at 31 March 2007, indicative authorisations totalled:

	2006/07 £000	2005/06 £000
Indicative authorisations	20,898	5,409

In addition to commitments under the Historic Buildings Repair Grants Scheme, the agency has capital commitments in respect of building works on properties in its care. As at 31 March 2007, these commitments totalled:

	2006/07 £000	2005/06 £000
Capital commitments due within one year	4,179	4,313
Due within two to five years inclusive	-	12,587
Due after five years	-	-
	4,179	16,900

26. Post balance sheet events

There are no material post balance sheet events that require to be adjusted in the accounts or to be disclosed.

27. Related party transactions

Historic Scotland is an executive agency of the Scottish Executive. During the year Historic Scotland had a number of transactions with other government departments and agencies.

The Historic Scotland Foundation is a charitable trust whose objectives are to promote and advance the work of Historic Scotland. The trustees are independent of Historic Scotland.

The Historic Scotland Foundation is working with Historic Scotland on the Stirling Tapestries Project. Historic Scotland received £190,708 from Historic Scotland Foundation during 2006/07.

None of the board members, key managerial staff or other related parties has undertaken any material transactions with Historic Scotland during the year.

28. Losses statement

Losses and special payments for the year total £81,000 (2005/06: £35,000).

There were no individual losses or special payments in excess of £250,000 which would require separate disclosure.

29. Notional charges

The following notional expenditure charges have been included in the accounts:-

	2006/07 £000	2005/06 £000
Interest charges	720	789
Departmental overhead	94	158
Auditor's remuneration	70	70
	884	1,017

A notional departmental overhead has been based on the usage of certain central services of the Scottish Executive.

Auditor's remuneration is a notional charge, as notified to us by our auditor Audit Scotland, in respect of audit work carried out during 2006/07. No other services were supplied by Audit Scotland during the period ended 31 March 2007.

30. Non-operational heritage assets

Historic Scotland is responsible for over 300 monuments. The majority of these are treated as non-operational heritage assets in that they are held primarily for the maintenance of the nation's heritage. Non-operational assets are not valued and are therefore not included in the accounts. Excluded from these are those elements of buildings which are used for business purposes such as visitor facilities, maintenance depots and occupied accommodation. Assets treated as non-operational fall within the following categories:

There are thirty five Crown properties of which eight are buildings in good condition with the structure essentially complete. These are:

Edinburgh Castle, Stirling Castle, Argyll's Lodging, Blackness Castle, Dumbarton Castle, Abbey Strand, Dunblane Cathedral and Glasgow Cathedral.

The remaining properties are archaeological sites, burial mounds, ruins, monuments or statues. Significant sites within this category include:

Arbroath Abbey, Beaulieu Priory, Castle Semple Collegiate Church, Dunfermline Abbey (Nave) and Palace, Holyrood Abbey, Linlithgow Palace, St Andrews Castle and Cathedral.

Crown property also includes artefacts, paintings and furnishings. Among these are the Honours of Scotland and several paintings on display throughout the estate.

In addition to the above, many monuments which are cared for by Historic Scotland are not owned by the agency but held under a guardianship arrangement. Title to the property remains with the original owner.

A full list of properties can be found at Historic Scotland's website –

www.historic-scotland.gov.uk



HISTORIC SCOTLAND

DIRECTION BY THE SCOTTISH MINISTERS

in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000

1. 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.
2. The accounts shall be prepared so as to give a true and fair view of the income and expenditure, recognised gains and losses, and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
3. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 29 March 2001 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 17 January 2006