

# **Annual Report & Accounts**

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**Authorised for issue on ??**

## 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 Government. 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.

The main acts under which the agency operates are the Ancient Monuments Act (1979), the Planning (Listed Buildings and Conservation Areas) (Scotland) Act 1997, the Environmental Assessment (Scotland) Act 2005 and the Environmental Impact Assessment (Scotland) Regulations 1999.

#### 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 2007-08.

#### The directors

The directors and senior management of the agency at the end of 2007-08 were:

|                     |  |
|---------------------|--|
| John Graham         | chief executive  |
| Peter Bromley       | director, properties in care                             |
| Lucy Blackburn      | director, policy (from 03/01/08)                         |
| Donald Carmichael   | director, policy (to 31/01/08)                           |
| 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                                   |
| John Lennon         | non-executive director (from 01/04/07)                   |
| Raymond Young       | non-executive director (from 01/04/07)                   |
| Anne-Marie Stannard | non-executive director (from 01/04/07)                   |

Donald Carmichael was on secondment from the Scottish Government and provided cover while Lucy Blackburn was on maternity leave.

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.
- Raymond Young is a director of Rural Housing Service and Architecture and Design Scotland. He is also a Member of the Iona Community and Editor Dunningite (the Magazine of the Dunning Parish Historical Society).
- Professor John Lennon is a professor and director of the Moffat Centre for Travel and Tourism Business Development, Glasgow Caledonian University and chair of Tourism Knowledge Scotland. He is also a specialist policy advisor to VisitScotland.

None of the other directors held any company directorships or other significant interests which may have conflicted with their management responsibilities during the year.

### **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 98% of invoices for goods and services from suppliers were paid within the 30 day credit period in 2007-08

### 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 Lorna Meahan, Audit Scotland, who is appointed by the Auditor General for Scotland. Further details on audit remuneration can be found in Note 30 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 2006-07 and 2007-08 are as follows:

| Pay Band          | Number of Posts |             | Male       |            | Female     |            |
|-------------------|-----------------|-------------|------------|------------|------------|------------|
|                   | 2006-07         | 2007-08     | 2006-07    | 2007-08    | 2006-07    | 2007-08    |
| Up to £14,667     | 89              | 59          | 42         | 34         | 47         | 25         |
| £16,126 - £18,727 | 18              | 7           | 11         | 3          | 7          | 4          |
| £19,148 - £26,278 | 15              | 12          | 3          | 5          | 12         | 7          |
| £26,658 - £32,388 | 7               | 10          | 2          | 4          | 5          | 6          |
| £32,428 - £39,140 | 3               | 1           | 3          | 0          | 0          | 1          |
| Over £39,813      | 2               | 2           | 2          | 2          | 0          | 0          |
| <b>Total</b>      | <b>134</b>      | <b>91</b>   | <b>63</b>  | <b>48</b>  | <b>71</b>  | <b>43</b>  |
| <b>%</b>          | <b>100%</b>     | <b>100%</b> | <b>47%</b> | <b>53%</b> | <b>53%</b> | <b>47%</b> |

### 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 Government, Historic Scotland fully subscribes to the Executive's Race Equality Scheme, Disability Scheme and the Gender Equality Scheme. 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.

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## Management Commentary

### Review of the business

Approximately two thirds of the Historic Scotland budget comes from the Scottish Government with one third generated from commercial income. The agency received an additional £3.3 million funding from the Scottish Government in 2007-08 as a result of the Spending Review 2004.

2007-08 was a very successful year with visitor numbers up 2 % on 2006-07. Commercial income also performed well at 8 % ahead of 2006-07

### 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 £52.107 million. Against this, the agency achieved a final outturn of £52.238 million. The overspend of £0.131 million resulted from heavy pressure on the grants budget and from two significant write-downs following the valuation of buildings at Edinburgh Castle and Stanley Mills.

### Indication of likely future developments

In the Spending Review 2007 Historic Scotland was allocated budget of £51.729 million, £49.279 million and £50.279 million for the years 2008-09, 2009-10 and 2010-11. The uplift in 2008-09 relates to one-off capital funding for accommodation for the Historic Scotland Conservation Centre.

In line with the Scottish Government an efficiency target of 2% of non-grant expenditure was applied to the agency budget.

The business case for the Stirling Palace Royal Apartments project was approved in 2007 and work will commence on the project in 2008. The project is expected to complete in 2011.

A new casework system will be developed in 2008-09 to improve management information and streamline process in the Inspectorate.

### 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 Government 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. A review of business continuity planning in 2007 identified the need to update and refresh plans. Work is underway on this but the risk has been recognised in the agency's register.

### **Performance against key performance targets**

The agency met or exceeded all of the Key Performance Targets agreed for 2007-08. 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 agency participates in the Green Tourism Business Scheme under which it holds 46 gold, 18 silver and 1 bronze awards.

As part of a wider commitment to sustainability, Historic Scotland's policy is to:

- continually improve environmental performance
- reduce the environmental impact of its operations
- promote resource efficiency
- promote best practice for the sustainable management of the historic environment across Scotland.

Future priorities include development of an environmental management plan for Edinburgh Castle, and possibly Stirling Castle, with particular emphasis on reducing carbon emissions.

Through the Conservation Area Regeneration Scheme (CARS), 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.

Historic Scotland's extensive education programme attracts over 70,000 educational visits to its sites with 97% quality satisfaction measured through survey feedback in 2007-08. The schools outreach programme focuses on areas of multiple deprivation or rural isolation.

Steady progress continues to be made with the programme of work to address the access issues identified in line with the Disability Access Audit 1995.

### **Significant changes in fixed assets**

The Edinburgh Castle Visitor Reception was completed in January 2008 providing advanced ticketing and visitor orientation facilities. The increase in fixed assets amounted to £579,000. The Stanley Mills visitor and education centre was completed on . Fixed assets of £ 789,000 were capitalised.

### **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 2008 were:

|                    |                        |
|--------------------|------------------------|
| David McGibbon     | chairman               |
| Rosalyn Marshall   |                        |
| David Reid         | (retired 25 June 2007) |
| Ann-Marie Stannard | (from 25 June 2007)    |
| Sheila Terry       | (from 25 June 2007)    |

### **JOHN GRAHAM**

chief executive

Date

## Historic Scotland remuneration report

### Part 1: Unaudited Information

#### 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](http://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.

Further information about the work of the Civil Service Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk)

## Part 2: Audited Information

### Salaries

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

| Name and title   | 2007-08                               | 2006-07                               |
|--|---------------------------------------|---------------------------------------|
|  | Salary<br>£000                        | Salary<br>£000                        |
| <b>John Graham</b><br>chief executive  | 95-100                                | 90-95                                 |
| <b>Lucy Blackburn</b><br>director, policy(From 03/01/08)                             | 10-15<br>(40-45 Full year equivalent) | 40-45<br>(65-70 full year equivalent) |
| <b>Donald Carmichael</b><br>director, policy(To 31/01/08)                            | 50-55<br>(60-65 Full year equivalent) | 20-25<br>(60-65 full year equivalent) |
| <b>Peter Bromley</b><br>director, properties in care                                 | 70-75                                 | 65-70                                 |
| <b>Malcolm Cooper</b><br>chief inspector   | 75-80                                 | 65-70                                 |
| <b>Ingval Maxwell</b><br>director, technical conservation,<br>research and education | 65-70                                 | 60-65                                 |
| <b>Brian O'Neil</b><br>director, human resources                                     | 55-60                                 | 55-60                                 |
| <b>Laura Petrie</b><br>director, finance   | 60-65                                 | 55-60                                 |
| <b><u>non-executive directors</u></b>  |                                       |                                       |
| <b>David McGibbon *</b>  | 0-5                                   | 0-5                                   |
| <b>Marc Ellington *</b>  | 0-5                                   | 0-5                                   |
| <b>Sheila Terry *</b>  | 0-5                                   | 0-5                                   |
| <b>Jason Lennon *</b>  | 0-5                                   | -                                     |
| <b>Ann-Marie Stannard *</b>  | 0-5                                   | -                                     |
| <b>Raymond Young *</b>   | 0-5                                   | -                                     |

\* David McGibbon and Marc Ellington were re-appointed on a three year contract commencing on 01 February 2008.

Sheila Terry was re-appointed on a one year contract commencing on 01 February 2008.

Professor John Lennon, Ann Marie Stannard and Raymond Young were appointed on three year contracts commencing 1 April 2007.

### Salary

'Salary' includes gross salary; performance pay or 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 2007/08 this value was £360 (2006/07 £1,300).

## Pension Benefits

| Name and title  | Accrued Pension at pension age as at 31/03/08 and related lump sum | Real increase in pension and related lump sum at pension age | CETV at 31/03/08 | CETV at 31/03/07 | Real Increase in CETV | Employer Contribution to Partnership pension account |
|---|--|--|------------------|------------------|-----------------------|--|
|   | £000   | £000   | £000             | £000             | £000                  | Nearest £100   |
| <b>John Graham</b><br>chief executive   | 40-45<br>Plus 130-135<br>lump sum                                  | No increase  | 1,052            | 982              | No increase           | Nil  |
| <b>Lucy Blackburn</b><br>director, policy<br>(From 03/01/08)                            | 10-15<br>Plus 40-45<br>Lump sum                                    | 0-2.5<br>Plus 0-25<br>Lump sum                               | 216              | 177              | 6                     | Nil  |
| <b>Donald Carmichael</b><br>director, policy<br>(To 31/01/08)                           | 15-20<br>Plus 55-60<br>Lump sum                                    | 0-2.5<br>Plus 0-2.5<br>Lump sum                              | 363              | 306              | 9                     | Nil  |
| <b>Peter Bromley *</b><br>director, properties in care                                  | 20-25  | 0-2.5  | 430              | 363              | 13                    | Nil  |
| <b>Malcolm Cooper</b><br>chief inspector  | 15-20<br>Plus 55-60<br>Lump sum                                    | 0-2.5<br>Plus 0-2.5<br>Lump sum                              | 343              | 285              | 11                    | Nil  |
| <b>Ingval Maxwell</b><br>director, technical<br>conservation,<br>research and education | 35-40<br>Plus 105-110<br>Lump sum                                  | 0-2.5<br>Plus 0-2.5<br>Lump sum                              | 874              | 823              | No increase           | Nil  |
| <b>Brian O'Neil</b><br>director, human resources  | 25-30<br>Plus 85-90<br>Lump sum                                    | No increase<br>0-2.5<br>Lump sum                             | 679              | 608              | No increase           | Nil  |
| <b>Laura Petrie</b><br>director, finance  | 5-10<br>Plus 20-25<br>Lump sum                                     | 0-2.5<br>Plus 0-2.5<br>Lump sum                              | 110              | 84               | 11                    | Nil  |

\* Opted for Premium.

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

## Civil Service Pensions

Pension benefits are provided through the Civil Service Pension (CSP) 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 changes in the Retail Price Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension 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, classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80<sup>th</sup> of final pensionable earnings 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 1/60<sup>th</sup> 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 in respect of service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 calculated 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 RPI. In all cases members may opt to give up (commute) pension for 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 [www.civilservice-pensions.gov.uk](http://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 disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries 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 drawn. Due to certain factors being incorrect in last years CETV calculator there may be a slight difference between the final period CETV for 2006/07 and the start of period CETV for 2007/08.

**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.

**Compensation for loss of office**

No employees left under Compulsory Early Retirement in the year 2007-08.

**JOHN GRAHAM**  
chief executive  
Date?

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## 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 40 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 Government 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 2008**

### **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 Government 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 Government and other relevant bodies on the proper handling of public funds. It is mainly designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety, and secure effective accountability and good systems of internal control.

### **Purpose of the system of internal control**

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the 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 2008 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.

As a result of reviewing risk within the agency the need to develop and refresh the business continuity plans has been identified. This will be taken forward as a special project in 2008-09. Progress will be reported to the Historic Scotland Audit Committee.

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.

The roll-out of the electronic procurement system has progressed well within 2007-08 and is now well advanced. It will complete in 2008-09 and deliver improved efficiency and strengthened 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 2008 under the Public Finance and Accountability (Scotland) Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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, Chief Executive and Auditor**

The Agency and Chief Executive are responsible for preparing the Annual Report, which includes the Remuneration 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 and the part of the Remuneration Report to be audited 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 to you 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 report to you whether in my opinion, the information which comprises the Directors Report included in the Annual Report, is consistent with the financial statements. 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.

In addition, I report to you, if in my opinion, 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 Government guidance and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risks and controls or 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 Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Background, 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 2008 and of the deficit, recognised gains and losses and cash flows for the year then ended;
- 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; and
- information which comprises only the Directors Report included in the Annual Report is consistent with the financial statements.

*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, 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  
Audit Scotland  
Osborne House  
1/5 Osborne Terrace  
Edinburgh  
EH12 5HG

Date

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**Income and expenditure account  
For the year ended 31 March 2008**

|  | Note      | 2007/08<br>£000 | 2006/07<br>£000 |
|--|-----------|-----------------|-----------------|
| <b>Income</b>  |           |                 |                 |
| Income from properties in care   | <b>2</b>  | 24,887          | 22,984          |
| Other income   | <b>3</b>  | 1,284           | 1,782           |
|  |           | <u>26,171</u>   | <u>24,766</u>   |
| <b>Expenditure</b>   |           |                 |                 |
| Protection – external built heritage                                     | <b>6</b>  | 28,287          | 22,701          |
| Protection – properties in care  | <b>7</b>  | 17,470          | 17,025          |
| Presentation of properties   | <b>8</b>  | 20,815          | 19,517          |
| Central services   | <b>9</b>  | 6,867           | 6,443           |
| Depreciation and impairment charges                                      | <b>11</b> | 2,523           | 1,459           |
|  |           | <u>75,962</u>   | <u>67,145</u>   |
| <b>Operating deficit</b>   |           | (49,791)        | (42,379)        |
| Interest on capital  | <b>30</b> | (730)           | (720)           |
| <b>Deficit for the financial year before Scottish Government funding</b> |           | <u>(50,521)</u> | <u>(43,099)</u> |

**Statement of recognised gains and losses for the year ended 31 March 2008**

|   | 2007/08<br>£000     | 2006/07<br>£000     |
|---|---------------------|---------------------|
| Net gain on revaluation of tangible fixed assets                | 1,269               | 1,956               |
| <b>Total recognised gains and losses for the financial year</b> | <u><u>1,269</u></u> | <u><u>1,956</u></u> |

The notes on pages 22 to 40 form part of these accounts.

**Balance sheet as at 31 March 2008**

|  | Note         | 2007/08<br>£000      | 2006/07<br>£000      |
|--|--------------|----------------------|----------------------|
| <b>Fixed assets</b>                          |              |                      |                      |
| Tangible fixed assets                        | <b>11</b>    | 27,766               | 27,203               |
| Intangible fixed assets                      | <b>12</b>    | 104                  | 70                   |
|  |              | <u>27,870</u>        | <u>27,273</u>        |
| <b>Current assets</b>                        |              |                      |                      |
| Stocks                                       | <b>13</b>    | 1,594                | 1,729                |
| Debtors                                      | <b>14/15</b> | 3,183                | 2,485                |
| Cash at bank and in hand                     | <b>16</b>    | 5,606                | 3,071                |
|  |              | <u>10,383</u>        | <u>7,285</u>         |
| <b>Creditors</b>                             |              |                      |                      |
| Amounts falling due within one year          | <b>17</b>    | 11,956               | 8,838                |
| Net current assets/(liabilities)             |              | <u>(1,573)</u>       | <u>(1,553)</u>       |
| <b>Total assets less current liabilities</b> |              | 26,297               | 25,720               |
| <b>Creditors</b>                             |              |                      |                      |
| Amounts falling due after more than one year | <b>18</b>    | 133                  | 155                  |
| Provisions for liabilities and charges       | <b>19</b>    | 543                  | 568                  |
|  |              | <u>676</u>           | <u>723</u>           |
| <b>Total net assets</b>                      |              | <u><u>25,621</u></u> | <u><u>24,997</u></u> |
| <b>Reserves</b>                              |              |                      |                      |
| General fund                                 | <b>21</b>    | 13,508               | 14,362               |
| Revaluation reserve                          | <b>22</b>    | 11,820               | 10,634               |
| Donated asset reserve                        | <b>23</b>    | 293                  | 1                    |
|  |              | <u>25,621</u>        | <u>24,997</u>        |

**JOHN GRAHAM**

chief executive

Date?

The notes on pages 22 to 40 form part of these accounts.

**Cash flow statement for the year ended 31 March 2008**

|   | <b>Note</b>   | 2007/08<br>£000 | 2006/07<br>£000 |
|---|---------------|-----------------|-----------------|
| Net cash outflow from operating activities      | <b>24 i</b>   | (44,058)        | (42,007)        |
| Capital expenditure                             | <b>24 ii</b>  | (1,907)         | (1,322)         |
|   |               | <hr/>           | <hr/>           |
|   |               | (45,965)        | (43,329)        |
| Financing – Scottish Government funding 2007/08 | <b>24 iv</b>  | 48,500          | 41,622          |
| Increase/(decrease) in cash                     | <b>24 iii</b> | 2,535           | (1,707)         |
|   |               | <hr/>           | <hr/>           |

The notes on pages 22 to 40 form part of these accounts.

DRAFT 2

## 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 2008 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.

Depreciated historic cost has been used as a proxy for the current value of motor vehicles and plant and machinery. All of the assets in these categories have

1. low values and short useful economic lives which realistically reflect the life of the asset and;
2. A depreciation charge which provides a realistic reflection of Consumption.

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<br>(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<br>(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 (2006/07: 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 valuation policy on motor vehicles and plant and machinery has been amended to reflect a Depreciated historic cost as a proxy for the current value of furniture and fittings, transport and plant and machinery.

**(o) Changes in estimation techniques**

There have been no material changes in estimation techniques which were introduced in 2007/08.

## 2. Income from properties in care

|                              | 2007/08<br>£000 | 2006/07<br>£000 |
|------------------------------|-----------------|-----------------|
| Admissions                   | 16,203          | 14,881          |
| Turnover from retail sales   | 6,099           | 5,718           |
| Functions                    | 1,512           | 1,375           |
| Fees from hire of facilities | 1,073           | 1,010           |
|                              | <b>24,887</b>   | <b>22,984</b>   |

## 3. Other income

|  | 2007/08<br>£000 | 2006/07<br>£000 |
|--|-----------------|-----------------|
| Conservation work                                | 22              | 14              |
| General services provided                        | 7               | 36              |
| Funding from the Heritage Lottery Fund           | 928             | 1,079           |
| Gain/(loss) on disposal of tangible fixed assets | (7)             | (145)           |
| Other (includes grant recoveries)                | 334             | 798             |
|  | <b>1,284</b>    | <b>1,782</b>    |

#### 4. Commercial trading account

|   | 2007/08<br>£000 | 2006/07<br>£000 |
|---|-----------------|-----------------|
| <b>Income from properties in care (note 2)</b>          | <b>24,887</b>   | <b>22,984</b>   |
| <b>Less Direct Costs</b>                                |                 |                 |
| Cost of goods sold                                      | 3,030           | 2,781           |
| Visitor services  | 8,124           | 7,474           |
| Marketing   | 2,292           | 2,072           |
| Purchasing  | 1,196           | 1,084           |
| Functions and events                                    | 416             | 438             |
| Membership  | 428             | 448             |
| Interpretation  | 60              | 101             |
| Education   | 149             | 142             |
| Banking charges   | 255             | 229             |
| <b>Direct expenditure on presentation of properties</b> | <b>15,950</b>   | <b>14,769</b>   |
| Accommodation   | 3,284           | 2,928           |
| Central services  | 2,187           | 1,913           |
| Depreciation  | 643             | 678             |
| Notional charges  | 458             | 447             |
| <b>Total expenditure on presentation of properties</b>  | <b>22,522</b>   | <b>20,735</b>   |
| <b>Net profit</b>                                       | <b>2,365</b>    | <b>2,249</b>    |

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.

## 5. Staff numbers and related costs

### (i) Staff costs

Staff costs consist of:

|  | 2007/08<br>£000 | 2006/07<br>£000 |
|--|-----------------|-----------------|
| Salaries and wages                                 | 21,864          | 20,723          |
| Social security costs                              | 1,593           | 1,428           |
| Superannuation                                     | 3,642           | 3,258           |
| Early departure costs                              | 7               | 12              |
| Agency/temporary staff costs                       | 340             | 239             |
| <b>Total staff costs</b>                           | <b>27,446</b>   | <b>25,660</b>   |
| Less: Recoveries in respect of outward secondments | -               | (4)             |
| <b>Total net employment costs</b>                  | <b>27,446</b>   | <b>25,656</b>   |

The PCSPS is an unfunded multi-employer defined benefit scheme but Historic Scotland is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2007-08, employers' contributions of £ 3,642,229 were payable to the PCSPS (2006/07 £3,257,917) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008/09, the salary bands will be revised but the rates will remain the same. (The rates will be changing with effect from April 2009)

The contribution rates are set to meet the cost of the benefits accruing during 2007/08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £ 44,958 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% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £3,275 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, at the balance sheet date were £ nil. Contributions prepaid at that date were £4,745

One person retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £6,094

**(ii) Average number of employees**

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

|  | 2007/08<br>Number of<br>Employees | 2006/07<br>Number of<br>Employees |
|--|-----------------------------------|-----------------------------------|
| Senior management                          | 7                                 | 7                                 |
| Protection – external built heritage staff | 163                               | 150                               |
| Protection – properties in care staff      | 337                               | 330                               |
| Presentation of properties staff           | 408                               | 405                               |
| Central services staff                     | 94                                | 86                                |
| Agency/temporary staff                     | 20                                | 13                                |
|  | <b>1,029</b>                      | <b>991</b>                        |

**6. Protection – external built heritage**

|                      | 2007/08<br>£000 | 2006/07<br>£000 |
|----------------------|-----------------|-----------------|
| Statutory protection | 3,009           | 2,711           |
| Grants               | 17,935          | 12,943          |
| Archaeology          | 3,193           | 3,127           |
| Policy               | 1,321           | 1,466           |
| Research             | 2,829           | 2,454           |
|                      | <b>28,287</b>   | <b>22,701</b>   |

## 7. Protection - properties in care

|   | 2007/08<br>£000 | 2006/07<br>£000 |
|---|-----------------|-----------------|
| Major conservation                      | 833             | 796             |
| Conservation and routine maintenance    | 13,536          | 13,470          |
| Health and safety and disability access | 1,301           | 969             |
| Utilities and factoring                 | 1,800           | 1,790           |
|   | <b>17,470</b>   | <b>17,025</b>   |

## 8. Presentation of properties

|                          | 2007/08<br>£000 | 2006/07<br>£000 |
|--------------------------|-----------------|-----------------|
| Visitor services         | 11,105          | 10,612          |
| Commercial operations    | 7,571           | 6,938           |
| Access and understanding | 2,139           | 1,967           |
|                          | <b>20,815</b>   | <b>19,517</b>   |

## 9. Central services

|                             | 2007/08<br>£000 | 2006/07<br>£000 |
|-----------------------------|-----------------|-----------------|
| Communications              | 946             | 935             |
| Information systems         | 1,157           | 1,220           |
| Human resources             | 1,498           | 1,357           |
| Training                    | 358             | 287             |
| Finance                     | 927             | 713             |
| Central and office services | 1,981           | 1,931           |
|                             | <b>6,867</b>    | <b>6,443</b>    |

The above costs include notional charges for departmental overhead and auditor's remuneration (see note 30).

### 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:

|   | 2007/08<br>£000     | 2006/07<br>£000     |
|---|---------------------|---------------------|
| Employment costs  | 1,244               | 1,348               |
| Conservation and maintenance  | 270                 | 309                 |
| Accommodation cost  | 96                  | 97                  |
| Capital expenditure   | 10                  | 10                  |
| <b>Total expenditure incurred in support of the Palace of Holyroodhouse</b> | <b><u>1,620</u></b> | <b><u>1,764</u></b> |

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:

|  | 2007/08<br>£000     | 2006/07<br>£000     |
|--|---------------------|---------------------|
| Protection – properties in care (note 7) | 1,620               | 1,764               |
| Other income (note 3)                    | -                   | -                   |
|  | <b><u>1,620</u></b> | <b><u>1,764</u></b> |

## 11. Tangible fixed assets

| (i)                             | Land & buildings<br>(Exc dwellings) | Dwellings    | Motor vehicles<br>(note a) | Office equipment | Computer equipment | Plant & Equipment | Antiques & works of art<br>(note b) | Assets under construction<br>(note c) | Total         |
|---------------------------------|-------------------------------------|--------------|----------------------------|------------------|--------------------|-------------------|-------------------------------------|---------------------------------------|---------------|
|                                 | £000                                | £000         | £000                       | £000             | £000               | £000              | £000                                | £000                                  | £000          |
| <b>Cost</b>                     |                                     |              |                            |                  |                    |                   |                                     |                                       |               |
| Opening balance                 | 23,359                              | 3,905        | 1,809                      | 2,130            | 3,289              | 6,321             | 662                                 | 1,165                                 | 42,640        |
| Additions during year           | 30                                  | -            | 235                        | -                | 391                | 55                | -                                   | 1,342                                 | 2,053         |
| Transfer from AuC               | 1,493                               | -            | -                          | -                | -                  | -                 | 350                                 | (1,843)                               | -             |
| Indexation                      | 835                                 | 137          | -                          | -                | -                  | -                 | -                                   | -                                     | 972           |
| Disposals during year           | (415)                               | (11)         | (72)                       | (266)            | (84)               | (211)             | -                                   | -                                     | (1,059)       |
| Revaluation                     | 219                                 | 154          | -                          | -                | -                  | -                 | -                                   | -                                     | 373           |
| Closing balance                 | 25,521                              | 4,185        | 1,972                      | 1,864            | 3,596              | 6,165             | 1,012                               | 664                                   | 44,979        |
| <b>Accumulated depreciation</b> |                                     |              |                            |                  |                    |                   |                                     |                                       |               |
| Opening balance                 | (4,690)                             | (92)         | (1,153)                    | (2,130)          | (2,444)            | (4,909)           | (19)                                | -                                     | (15,437)      |
| Charge for the year             | (372)                               | (56)         | (246)                      | -                | (394)              | (221)             | (10)                                | -                                     | (1,299)       |
| Backlog depreciation            | (183)                               | (4)          | -                          | -                | -                  | -                 | -                                   | -                                     | (187)         |
| Eliminated on disposal          | 140                                 | -            | 73                         | 266              | 82                 | 211               | -                                   | -                                     | 772           |
| Revaluation                     | 83                                  | 28           | -                          | -                | -                  | -                 | -                                   | -                                     | 111           |
| Impairments                     | (1,173)                             | -            | -                          | -                | -                  | -                 | -                                   | -                                     | (1,173)       |
| Closing balance                 | (6,195)                             | (124)        | (1,326)                    | (1,864)          | (2,756)            | (4,919)           | (29)                                | -                                     | (17,213)      |
| <b>Net book value</b>           |                                     |              |                            |                  |                    |                   |                                     |                                       |               |
| at 31 March 2008                | <b>19,326</b>                       | <b>4,061</b> | <b>646</b>                 | <b>-</b>         | <b>840</b>         | <b>1,246</b>      | <b>983</b>                          | <b>664</b>                            | <b>27,766</b> |
| <b>Net book value</b>           |                                     |              |                            |                  |                    |                   |                                     |                                       |               |
| at 31 March 2007                | <b>18,669</b>                       | <b>3,813</b> | <b>656</b>                 | <b>-</b>         | <b>845</b>         | <b>1,412</b>      | <b>643</b>                          | <b>1,165</b>                          | <b>27,203</b> |

Notes:

- 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 2008 was £nil
- The Stirling Tapestry "The Unicorn is killed and brought to the Castle" was partially donated by the Historic Scotland Foundation. The net book value of the donated asset at 31 March 2008 was £ 127,936. Also, Includes 6 non-operational heritage assets (note 30)
- £ 164,945 was donated by the Historic Scotland Foundation for Stirling Tapestries under construction.

### (ii) Revaluations

The Valuation Office prepared valuations at 31 March 2008 where certain buildings were valued either above or below the estimates used in the 2007/08 annual accounts. The useful remaining life has also been re-assessed.

The total value of revalued assets is £1,871,100. The combined effect of the revaluations is an increase in the net book value of these properties of £483,585. This figure is also reflected in the revaluation reserve. Due to impairment there will be an amount of £1,173,278 written back to the income and expenditure account.

**(iii) Depreciation and impairment charge**

|   | 2007/08<br>£000 | 2006/07<br>£000 |
|---|-----------------|-----------------|
| Depreciation charge for the year              | 1,299           | 1,321           |
| Amortisation charge for the year (note 12)    | 53              | 98              |
| Impairment charge                             | 1,173           | 42              |
| Released from donated asset reserve (note 23) | (2)             | (2)             |
| <b>Total charge for the year</b>              | <b>2,523</b>    | <b>1,459</b>    |

**12. Intangible fixed assets**

|  | Computer<br>software<br>licences<br>£000 |
|--|--|
| <b>Cost</b>                                |  |
| Opening balance 1 April 2007               | 513                                      |
| Additions during year                      | 87                                       |
| Disposals during year                      | (5)                                      |
| Closing balance 31 March 2008              | <u>595</u>                               |
| <b>Accumulated depreciation</b>            |  |
| Opening balance 1 April 2007               | (443)                                    |
| Charge for the year                        | (53)                                     |
| Eliminated on disposal                     | 5  |
| Closing balance 31 March 2008              | <u>(491)</u>                             |
| <b>Net book value<br/>at 31 March 2008</b> | <b><u>104</u></b>                        |
| <b>Net book value<br/>at 31 March 2007</b> | <b><u>70</u></b>                         |

**13. Stocks**

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

|                               | 2007/08<br>£000 | 2006/07<br>£000 |
|-------------------------------|-----------------|-----------------|
| Retail                        | 1,349           | 1,522           |
| Raw materials and consumables | 245             | 207             |
|                               | <b>1,594</b>    | <b>1,729</b>    |

## 14. Debtors - Amounts falling due within one year

### 14(a) Analysis by type

|                                      | 2007/08<br>£000 | 2006/07<br>£000 |
|--------------------------------------|-----------------|-----------------|
| Trade debtors                        | 469             | 454             |
| Other debtors                        | 57              | 61              |
| Balance with the Scottish Government | 787             | 304             |
| Prepayments and accrued income       | 1,314           | 1,133           |
| Recoverable VAT                      | 538             | 533             |
|                                      | <b>3,165</b>    | <b>2,485</b>    |

### 14(b) Intra Governmental balances

|   | Debtors: amounts<br>falling due within one<br>year<br>2007/08<br>£000 | Debtors: amounts<br>falling due after more<br>than one year<br>2007/08<br>£000 | Debtors: amounts<br>falling due within<br>one year<br>2006/07<br>£000 | Debtors: amounts<br>falling due after<br>more than one year<br>2006/07<br>£000 |
|---|---|--|---|--|
| Balances with other<br>central government bodies          | 1,453   | -  | 1,092   | -  |
| Balances with local<br>authorities                        | 25  | -  | 11  | -  |
| Balances with NHS trusts                                  | -   | -  | -   | -  |
| Balances with public<br>corporations and trading<br>funds | 3   | -  | -   | -  |
| Balances with bodies<br>external to government            | 1,684   | 18   | 1,382   | -  |
| At 31 March 2008  | <b>3,165</b>  | <b>18</b>  | <b>2,485</b>  | <b>-</b>   |

## 15. Debtors – Amounts falling due after more than one year

|                                | 2007/08<br>£000 | 2006/07<br>£000 |
|--------------------------------|-----------------|-----------------|
| Prepayments and accrued income | <b>18</b>       | -               |

## 16. Cash at bank and in hand

|   | 2007/08<br>£000 | 2006/07<br>£000 |
|---|-----------------|-----------------|
| Paymaster account at the Bank of England    | 4,994           | 2,519           |
| Other bank accounts                         | 318             | 316             |
| Cash in transit and money held at monuments | 294             | 236             |
|   | <b>5,606</b>    | <b>3,071</b>    |

## 17. Creditors – Amounts falling due within one year

### 17(a) Analysis by type

|                                    | 2007/08<br>£000 | 2006/07<br>£000 |
|------------------------------------|-----------------|-----------------|
| Trade creditors                    | 2,876           | 2,040           |
| Other taxation and social security | 490             | 413             |
| Other creditors                    | 104             | 485             |
| Accruals and deferred income       | 8,486           | 5,900           |
|                                    | <b>11,956</b>   | <b>8,838</b>    |

### 17(b) Intra Governmental balances

|   | Creditors: amounts<br>falling due within<br>one year<br>2007/08<br>£000 | Creditors: amounts<br>falling due after<br>more than one year<br>2007/08<br>£000 | Creditors: amounts<br>falling due within<br>one year<br>2006/07<br>£000 | Creditors:<br>amounts falling<br>due after more<br>than one year<br>2006/07<br>£000 |
|---|---|--|---|---|
| Balances with other<br>central government bodies          | 609   | -  | 855   | -   |
| Balances with local<br>authorities                        | 203   | -  | 49  | -   |
| Balances with NHS trusts                                  | -   | -  | -   | -   |
| Balances with public<br>corporations and trading<br>funds | 14  | -  | -   | -   |
| Balances with bodies<br>external to government            | 11,130  | 133  | 7,934   | 155   |
| At 31 March 2008  | <b>11,956</b>   | <b>133</b>   | <b>8,838</b>  | <b>155</b>  |

## 18. Creditors – Amounts falling due after more than one year

|                              | 2007/08<br>£000 | 2006/07<br>£000 |
|------------------------------|-----------------|-----------------|
| Accruals and deferred income | <b>133</b>      | <b>155</b>      |

## 19. Provisions for liabilities and charges

|   | Pension<br>costs<br>£000 | Compensation<br>payments<br>£000 | Other<br>provisions<br>£000 | Total<br>£000 |
|---|--------------------------|----------------------------------|-----------------------------|---------------|
| Opening balance at 1 April 2007               | 126                      | 42                               | 400                         | 568           |
| Less net amount released during current year  | (52)                     | (4)                              |                             | (56)          |
| Charge to current year income and expenditure | 3                        | 28                               |                             | 31            |
| Closing balance at 31 March 2008              | <b>77</b>                | <b>66</b>                        | <b>400</b>                  | <b>543</b>    |

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 2008/09.

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

## 20. Leasing commitments

### Operating leases

Annual commitments as at 31 March 2008 under non-cancellable operating leases are as follows:

|   | 2007/08<br>£000 | 2006/07<br>£000 |
|---|-----------------|-----------------|
| Operating leases which expire within one year | 63              | 70              |
| In the second to fifth year inclusive         | 162             | 86              |
| In over five years                            | 815             | 880             |
|   | <b>1,040</b>    | <b>1,036</b>    |

The majority of the operating leases are for properties.

### Finance leases

There are no finance leases in operation.

## 21. Movement in general fund

|  | 2007/08<br>£000 | 2006/07<br>£000 |
|--|-----------------|-----------------|
| Opening balance at 1 April 2007  | 14,362          | 14,480          |
| Deficit for the financial year   | (50,521)        | (43,099)        |
| Scottish Government funding  | 48,500          | 41,622          |
| Cash spent in excess of drawdown, but not funded from Scottish Government in 2007/08 | 483             | 294             |
| Realised element of the revaluation reserve  | 83              | 157             |
| Adjustment of fixed asset balance  | (240)           | 24              |
| Transfer to Donated Asset Reserve  | (101)           | -               |
| Notional charges   | 942             | 884             |
| Closing balance at 31 March 2008   | <b>13,508</b>   | <b>14,362</b>   |

## 22. Revaluation reserve

|   | 2007/08<br>£000 | 2006/07<br>£000 |
|---|-----------------|-----------------|
| Opening balance at 1 April 2007   | 10,634          | 8,835           |
| Indexation  | 972             | 1,416           |
| Revaluation of cost   | 484             | 1,012           |
| Backlog depreciation  | (187)           | (472)           |
| Transfer to the general fund of the realised element of the revaluation reserve | (83)            | (157)           |
| Closing balance at 31 March 2008  | <b>11,820</b>   | <b>10,634</b>   |

## 23. Donated asset reserve

|  | 2007/08<br>£000 | 2006/07<br>£000 |
|--|-----------------|-----------------|
| Opening balance at 1 April 2007                                    | 1               | 3               |
| Additions  | 193             | -               |
| Transfer from General Fund   | 101             | -               |
| Annual depreciation released to the income and expenditure account | (2)             | (2)             |
| Closing balance at 31 March 2008                                   | <b>293</b>      | <b>1</b>        |

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

## 24. Notes to the cash flow statement

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

|  | 2007/08<br>£000 | 2006/07<br>£000 |
|--|-----------------|-----------------|
| Deficit for the financial year                       | (50,521)        | (43,099)        |
| Notional charges                                     | 942             | 884             |
| Depreciation on tangible and intangible fixed assets | 2,523           | 1,459           |
| (Gain)/loss on disposal of tangible fixed assets     | 7               | 145             |
| (Increase)/decrease in stock                         | 135             | (27)            |
| (Increase)/decrease in debtors                       | (215)           | (734)           |
| Increase/(decrease) in creditors and provisions      | 3,071           | (635)           |
| <b>Net cash outflow from operating activities</b>    | <b>(44,058)</b> | <b>(42,007)</b> |

### ii. Capital expenditure

|  |              |              |
|--|--------------|--------------|
| Additions to fixed assets                        | 2,582        | 682          |
| Increase/(decrease) in assets under construction | (666)        | 681          |
| Less receipts from sale of tangible fixed assets | (9)          | (41)         |
| <b>Net capital expenditure for year</b>          | <b>1,907</b> | <b>1,322</b> |

### iii. Analysis of changes in cash during the year

|                                       |              |              |
|---------------------------------------|--------------|--------------|
| Opening balance at 1 April 2007       | 3,071        | 4,778        |
| Net cash inflow/(outflow) during year | 2,535        | (1,707)      |
| Closing balance at 31 March 2008      | <u>5,606</u> | <u>3,071</u> |

### iv. Financing

|   |               |               |
|---|---------------|---------------|
| Scottish Government funding for year              | 48,983        | 41,916        |
| Movement on Scottish Government (debtor)/creditor | (483)         | (294)         |
| Scottish Government cash funding for year         | <u>48,500</u> | <u>41,622</u> |

## 25. Contingent liabilities

There were no material contingent liabilities at 31 March 2008. (31 March 2007: nil).

## 26. 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 2008. As at that date, these commitments totalled:

|   | 2007/08<br>£000 | 2006/07<br>£000 |
|---|-----------------|-----------------|
| Capital commitments due within one year | 11,048          | 5,980           |
| Due within two to five years inclusive  | 4,433           | 1,477           |
| Due after five years                    | -               | -               |
|   | <u>15,481</u>   | <u>7,457</u>    |

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 2008, indicative authorisations totalled:

|                           | 2007/08<br>£000 | 2006/07<br>£000 |
|---------------------------|-----------------|-----------------|
| Indicative authorisations | <u>20,727</u>   | <u>20,898</u>   |

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 2008, these commitments totalled:

|   | 2007/08<br>£000 | 2006/07<br>£000 |
|---|-----------------|-----------------|
| Capital commitments due within one year | 3,244           | 4,179           |
| Due within two to five years inclusive  | -               | -               |
| Due after five years                    | -               | -               |
|   | <u>3,244</u>    | <u>4,179</u>    |

## 27. Post balance sheet events

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

## 28. Related party transactions

Historic Scotland is an executive agency of the Scottish Government. 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 £193,009 from Historic Scotland Foundation during 2007/08.

During the year Historic Scotland entered into the following material transaction with Ann Marie Stannard, non-executive director. She acted as an independent consultant on an options appraisal review. The value of these transactions within 2007/08 was £9,792.

## 29. Losses statement

Losses and special payments for the year total £43,000 (2006/07: £81,000).

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

## 30. Notional charges

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

|                        | 2007/08<br>£000 | 2006/07<br>£000 |
|------------------------|-----------------|-----------------|
| Interest charges       | 730             | 720             |
| Departmental overhead  | 140             | 94              |
| Auditor's remuneration | 72              | 70              |
|                        | <u>942</u>      | <u>884</u>      |

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

Auditor's remuneration is a notional charge, as notified to us by our auditor Audit Scotland, in respect of audit work carried out during 2007/08. No other services were supplied by Audit Scotland during the period ended 31 March 2008.

### **31. 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](http://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