

Annual Report

Background and Directors' Report

Accounts Direction

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

History and statutory background

Historic Scotland is an agency of the Scottish Executive Education Department. It was last reviewed in February 2004 and this confirmed Historic Scotland's status as an executive agency. The agency is headed by the chief executive who is directly accountable to the Scottish Ministers.

Principal activities

The agency's principal activities are to protect, present and promote Scotland's historic environment, which includes ancient monuments and archaeological sites; historic buildings, parks and gardens; and designed landscapes. There were no significant changes in areas of activity during 2005-06.

The directors

The directors and senior management of the agency at the end of 2005-06 were:

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

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.

Sheila Terry is a director of Falkirk and District Town Centre Management Co Ltd and Falkirk Environment Trust, positions which could potentially conflict with her management responsibilities in respect of Historic Scotland. None of the other directors held any company directorships or other significant interests which may have conflicted with their management responsibilities during the year.

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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 6 to the Accounts and the Remuneration Report.

Charitable donations

There were no charitable donations exceeding £200 in aggregate.

Supplier payment policy

The agency complies with the Confederation of British Industry's Prompt Payers Code. Unless otherwise stated in the contract, payment is made within 30 days of receipt of invoices for goods and services completed to the satisfaction of the agency. 99.33% of invoices for goods and services from suppliers were paid within the 30 day credit period in 2005-06.

Important events occurring after the year end

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

Auditors

The accounts are audited by Audit Scotland who are appointed by the Auditor General for Scotland. Further details on audit remuneration can be found in Note 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 2004-05 and 2005-06 are as follows: -

Pay Band	Number of Posts		Male		Female	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
Up to £14,097	52	43	27	22	25	21
£15,500 - £18,000	10	21	2	12	8	9
£18,050 - £25,257	14	18	4	8	10	10
£25,622 - £31,131	4	11	2	5	2	6
£31,168 - £37,880	2	0	1	0	1	0
Over £38,267	3	1	3	0	0	1
TOTAL	85	94	39	47	46	47
%	100%	100%	46%	50%	54%	50%

There were no successful disabled candidates and no successful ethnic minority candidates.

Employees with disabilities

The Historic Scotland policy on the employment of people with disabilities follows that of the core Scottish Executive. Applications from people with disabilities for employment or promotion are given full and fair consideration provided the vacancies are suitable for their particular aptitudes and abilities. Where an employee becomes disabled during the period of employment, Historic Scotland would re-train and re-deploy wherever applicable.

Equal opportunities

Historic Scotland is committed to equality of opportunity in employment and service delivery.

Historic Scotland is dedicated to treating every member of staff and every customer with dignity and respect. It is the agency's policy to ensure that all staff have equality of opportunity in their terms and conditions of employment and are able to work in an environment free from discrimination, harassment and bullying.

Historic Scotland is entirely comfortable with the legal requirement to promote race equality as set out in the Race Relations Act (as amended). As an agency of the Scottish Executive, it fully subscribes to the Executive's Race Equality Scheme and continues to develop structures and systems to ensure that equality becomes an integral part of our thinking and behaviour.

Employee consultation

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

Disclosure of relevant audit information

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

Management Commentary

Review of the business

Approximately two thirds of the Historic Scotland budget comes from the Scottish Executive with one third generated from commercial income. The agency received an additional £2.2 million funding in 2005-06 as a result of the Spending Review 2002. Visitor numbers were disappointing in 2005-06, due in part to the events in London on 9 July 2005 as well as the effects of the G8 summit. Unusually, the financial year 2005-06 does not include Easter which fell in March 2005. Easter is one of the major events of any tourism year and this also resulted in lower visitor numbers. Income was inevitably affected but with some strong performances from the Tourism and Membership team, income exceeded 2004-05 by 1%.

Responding to the lower income, Historic Scotland adjusted its expenditure plans and fully spent its budget for 2005-06.

Position at end of year

The Historic Scotland budget is approved by the Scottish Parliament. Historic Scotland achieved a £1.3 million underspend on the impairment budget which was not required in 2005-06 as no major development was completed. The agency budget covers both revenue and capital expenditure.

The income and expenditure account shows an operating deficit of £39,956,000 for the year ending 31 March 2006. This includes both revenue expenditure and notional charges, which

are shown in note 30. Capital expenditure is shown as fixed asset additions and is shown in notes 11 and 12.

Indication of likely future developments

Historic Scotland will receive a further £1.85 million funding in 2006-07 as a result of the spending review 2004. The income targets for 2006-07 are challenging, representing a 9% increase on the 2005-06 performance.

The agency will continue to invest in all its properties in care. In particular, work on the Edinburgh Castle Visitor Reception project, on the Stanley Mills Visitor and Education Centre and on planning the refurbishment of the Royal Apartments in Stirling Castle will be carried out in 2006-07.

Research and development activities

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

Risks and uncertainties

Historic Scotland has developed its risk management process and identified the key risks which it faces. Historic Scotland is funded in part by the Scottish Executive and in part from commercially generated income. The risks of a reduction in income or Scottish Executive funding, following a spending review in 2006-07, have been identified as possible risks to the long term position of the agency.

Performance against key performance indicator

The agency achieved **??????** of the Key Performance Targets agreed for 2005-06. 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 big contribution to sustainable development. The corporate plan commits the agency to continued participation in the Green Tourism Business Scheme under which it has achieved 34 gold, 32 silver and 8 bronze awards. The agency has also conducted an environmental management audit and this will lead to new policies and procedures aimed at improved environmental performance in the agency's operations.

The Historic Environment Grants, in addition to meeting conservation needs, deliver benefits for communities by helping to regenerate and promote the ongoing use of the historic environment, broadening access to it, promoting sustainable economic and rural development and reinforcing local identity and sense of place.

Historic Scotland has an active education programme offering over 60,000 free school visits in 2005-06, including a subsidised transport scheme to help schools and groups for whom transport costs may be a barrier to visiting the properties in care.

Historic Scotland completed an access audit of its properties in line with the requirements of the Disability Discrimination Act 1995. The implementation strategy and programme of works will be taken forward in 2006-07.

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Significant changes in fixed assets

The major change in fixed assets during the year was an increase in the valuation of Urquhart Castle visitor centre of £1.4 million. A major addition to the fixed assets was the purchase of a collection of paintings currently on display at Trinity House.

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 was reviewed during 2004-05 and comprises of 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 2006 were:

David McGibbon chairman
Rosalyn Marshall
David Reid

JOHN GRAHAM

chief executive

Date

Historic Scotland remuneration report

Remuneration policy

Historic Scotland's chief executive and the directors of Properties in Care, Heritage Policy and the chief inspector are members of the Senior Civil Service.

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

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

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

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

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

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

Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. These principals, as set out by the Committee on Standards in Public Life (The Nolan Committee) are also applied when appointments are made to non-executive director posts. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended until they reach the normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

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

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Salaries

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

Name and title	Salary		Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 and related lump sum at 31/03/06	CETV at 31/03/05 (nearest £K) (Restated)	CETV at 31/03/06 (nearest £K)	Real Increase in CETV after adjustment for inflation and changes in market investment factors (nearest £K)
	2005-06 £000	2004-05 £000					
John Graham chief executive	90-95	40-45 (85-90 Full year equivalent)	0-2.5 Plus 2.5-5 lump sum	50-55 Plus 155-160 lump sum	893	1140	34
Sheenagh Adams director, heritage policy	60-65	60-65	0-2.5 Plus 2.5-5 lump sum	20-25 Plus 60-65 lump sum	264	363	19
Peter Bromley * director, properties in care	60-65	35-40 (60-65 Full year equivalent)	0-2.5 Plus 5-7.5 Lump sum	15-20 Plus 55-60 Lump sum	241	341	39
Malcolm Cooper chief inspector	65-70	0-5 (60-65 Full year equivalent)	0-2.5 Plus 0-2.5 lump sum	15-20 Plus 45-50 lump Sum	195	272	12
Ingval Maxwell director, technical conservation, research and education	60-65	60-65	0-2.5 Plus 0-2.5 lump sum	30-35 Plus 95-100 lump sum	691	781	16
Brian O'Neil director, human resources	55-60	50-55	0-2.5 Plus 0-2.5 lump sum	25-30 Plus 80-85 lump sum	476	604	13
Laura Petrie director, finance	55-60	50-55	0-2.5 Plus 2.5-5 lump sum	5-10 Plus 15-20 lump sum	45	74	12
<u>non-executive directors</u>							
David McGibbon	0-5	0-5					
Marc Ellington	0-5	0-5					
Sheila Terry	0-5	0-5					

* Opted for Premium.

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

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the inland revenue as a taxable emolument. In 2005-06 this value was £nil. (2004-05: £nil)

Pensions

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

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of the pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

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

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangement and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETV's are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Scheme Actuary (Hewitt Bacon Woodrow). The CETV figure for 31 March

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2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real Increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

JOHN GRAHAM

chief executive

Date

Statement of agency's and chief executive's responsibilities

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

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

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

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

- observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the *Government Financial Reporting Manual*, have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the agency will continue in operation.

The responsibilities of the accountable officer, including responsibility for the propriety and regularity of the public finances for which the accountable officer is answerable, for keeping proper records and for safeguarding the agency's assets, are set out in the Memorandum to accountable officers from the principal accountable officer.

**Statement on Internal Control
for the year ended 31 March 2006**

Scope of responsibility

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

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

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

Purpose of the system of internal control

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

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

The process within Historic Scotland accords with the SPFM and has been in place for the year ended 31 March 2006 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.

The agency's risk management systems underwent a major review in 2005-06. As a result of this, the agency risk register was revised and group risk registers were introduced for each business area. The reporting mechanism has also been revised to ensure that risk management is regularly reviewed throughout the year and significant issues reported to the

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board. The new procedures introduced did not operate throughout the whole of financial year 2005-06. They will operate for the whole of 2006-07.

Historic Scotland's audit committee receive reports from the board, 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.

More generally, Historic Scotland is committed to best value and a process of continuous improvement. In the period covering the year to 31 March and up to the signing of the accounts the organisation has:

- set stretching performance targets which cover the main areas of agency activity and are regularly monitored;
- commenced a project to implement an electronic procurement system which will increase compliance with purchasing and finance procedures and increase controls in these areas. This system will be rolled out to different areas within the agency beginning in 2006; and
- undertaken a number of best value reviews, eg motor vehicles review, to ensure that the Historic Scotland fleet is managed and used effectively and efficiently.

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.

The new income and stock reporting system was introduced in June 2005 and was highlighted in last year's statement on internal control. This has delivered improved data for these key areas and is continuing to be monitored and reviewed. Income reconciliations and stock counts remain in place and also provide assurance for the annual accounts.

As a result of the wider review of compliance undertaken in 2004-05 and commented on in the statement on internal control, further training and guidance was given as part of the annual procurement visits which continue to provide a check on the level of compliance in the agency.

JOHN GRAHAM

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 2006 under the Public Finance and Accountability (Scotland) Act 2000. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and the Statement of Recognised Gains and Losses and related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Agency, Chief Executive and auditor

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

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

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

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

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

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

I read the other information contained in the Annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Background, Director's Report, Management Commentary, and the Remuneration Report except the section on Remuneration and Pensions. 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 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 the Public Finance and Accountability (Scotland) Act 2000 and the directions made thereunder by the Scottish Ministers, of the state of affairs of the Historic Scotland Agency as at 31 March 2006 and the net cost of operations, recognised gains and losses and cash flows for the year then ended; and

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- 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.

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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.

Peter Tait (CPFA)
Assistant Director
Audit Scotland
Osborne House
1/5 Osborne Tce
Edinburgh
EH12 5HG

Date:

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**Income and expenditure account
for the year ended 31 March 2006**

	Note	2005-06 £000	2004-05 £000
Income			
Income from properties in care	2	21,606	21,565
Other income	3	1,011	678
		<u>22,617</u>	<u>22,243</u>
Expenditure			
Cost of goods sold	4	2,716	2,979
Grants	5	13,469	11,489
Archaeology		1,985	1,990
Staff costs	6	24,030	21,403
Conservation and maintenance	7	7,454	6,905
Presentation	8	4,605	4,015
Other costs	9	7,091	7,303
Depreciation and impairment charges	11	434	1,800
		<u>61,784</u>	<u>57,884</u>
Operating deficit		(39,167)	(35,641)
Interest on capital	30	(789)	(710)
Deficit for the financial year		<u>(39,956)</u>	<u>(36,351)</u>

**Statement of recognised gains and losses for the year
ended 31 March 2006**

	2005-06 £000	2004-05 £000
Net gain on revaluation of tangible fixed assets	1,495	2,111
Receipt of donated assets	-	8
Total recognised gains and losses for the financial year	<u>1,495</u>	<u>2,119</u>

The notes on pages 19 to 37 form part of these accounts.

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Balance Sheet as at 31 March 2006

	Note	2005-06 £000	2004-05 £000
Fixed assets			
Tangible fixed assets	11	25,427	22,622
Intangible fixed assets	12	150	218
		<u>25,577</u>	<u>22,840</u>
Current assets			
Stocks	13	1,702	1,671
Debtors	14	1,457	1,398
Cash at bank and in hand	15	4,778	4,931
		<u>7,937</u>	<u>8,000</u>
Creditors			
Amounts falling due within one year	16	<u>9,570</u>	<u>9,321</u>
Net current assets/(liabilities)		<u>(1,633)</u>	<u>(1,321)</u>
Total assets less current liabilities		<u>23,944</u>	<u>21,519</u>
Creditors			
Amounts falling due after more than one year	17	214	234
Provisions for liabilities and charges	19	412	705
		<u>626</u>	<u>939</u>
Total net assets		<u><u>23,318</u></u>	<u><u>20,580</u></u>
Reserves			
General fund	21	14,480	12,819
Revaluation reserve	22	8,835	7,755
Donated asset reserve	23	3	6
		<u>23,318</u>	<u>20,580</u>

JOHN GRAHAM

chief executive

Date

The notes on pages 19 to 37 form part of these accounts.

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Cash flow statement for the year ended 31 March 2006

	Note	2005-06 £000	2004-05 £000
Net cash outflow from operating activities	24 i	(37,655)	(31,428)
Capital expenditure	24 ii	(1,085)	(1,321)
		<u>(38,740)</u>	<u>(32,749)</u>
Financing – Scottish Executive funding 2005-06	24 iv	38,587	36,072
Increase/(decrease) in cash	24 iii	<u>(153)</u>	<u>3,323</u>

The notes on pages 19 to 37 form part of these accounts.

Notes to the Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2005-06 *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 2006 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

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Replacement Cost. One asset is leased to a third party and has been valued on the basis of Open Market Value.

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

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

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

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

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

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

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

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

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

(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	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

Goods held for resale 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 (2004-05: 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

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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

There have been no material changes in accounting policy introduced for the 2005-06 accounts.

(o) Changes in estimation techniques

There have been no material changes in estimation techniques introduced for the 2005-06 accounts.

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2. Income from properties in care

	2005-06 £000	2004-05 £000
Admissions	13,592	13,398
Turnover from retail sales (note 4)	5,575	5,966
Functions	1,480	1,358
Fees from hire of facilities	959	843
	21,606	21,565

3. Other income

	2005-06 £000	2004-05 £000
Conservation work	48	179
General services provided	8	75
Sale of publications	24	22
Funding from the Heritage Lottery Fund	277	236
Gain/(loss) on disposal of tangible fixed assets	223	7
Other (includes grant recoveries)	431	159
	1,011	678

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4. Commercial trading account

	2005-06 £000	2004-05 £000
Admissions	13,592	13,398
Retail sales	5,575	5,966
Other commercial activities	2,439	2,201
Income from properties in care (note 2)	<u>21,606</u>	<u>21,565</u>
Less		
Cost of goods sold	2,716	2,979
Marketing	2,706	2,672
Presentation costs	1,240	1,059
Administration and purchasing	8,471	8,097
Accommodation	2,149	1,868
Banking charges	211	201
Depreciation	705	940
Notional charges	484	428
	<u>18,682</u>	<u>18,244</u>
Net profit	<u>2,924</u>	<u>3,321</u>

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.

5. Grants

	2005-06 £000	2004-05 £000
Historic Buildings Repair Grants	12,585	10,677
Grants to owners of scheduled monuments	375	368
Other grants	509	444
	<u>13,469</u>	<u>11,489</u>

6. Staff numbers and related costs

(i) Staff costs

Staff costs consist of:

	2005-06 £000	2004-05 £000
Salaries and wages	19,241	17,656
Social security costs	1,383	1,245
Superannuation	3,007	2,046
Early departure costs	56	158
Agency/temporary staff costs	343	298
Total staff costs	<u>24,030</u>	<u>21,403</u>
Less: Recoveries in respect of outward secondments	(159)	(105)
Total net employment costs	<u>23,871</u>	<u>21,298</u>

The staff of the agency are Civil Servants and the pension benefits accrue under the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme but the agency is unable to identify its share of the underlying assets and liabilities. The scheme actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £3,007,189 were payable to the PCSPS (2004-05: £2,046,258) at rates in the range 16.2% to 24.6% of pensionable pay, based on salary bands (the rates in 2004-05 were between 12% to 18.5%). The scheme's actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in the range between 17% and 25.5%.

The contribution rates are set to meet the cost of the benefits accruing during 2005-06 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 £33,121 were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer contributions are age related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £2,292, 0.8 per cent of pensionable pay, were payable to the **PCSPS** to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the **partnership** pension providers, and the associated contributions due to the PCSPS, at the balance sheet date were £2,948. Contributions prepaid at that date were £nil.

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Four people retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £3,460

(ii) Average number of employees

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

	2005-06	2004-05
	Number of	Number of
	Employees	Employees
Senior management	7	8
Building professionals, conservators and technical staff	125	118
Craft and industrial staff	264	262
Stewards, park constables and keykeepers	308	302
Administrative and professional staff	248	235
Agency/temporary staff	19	14
	971	939

The figure for stewards, park constables and keykeepers includes seasonal staff.

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7. Conservation and maintenance

	2005-06 £000	2004-05 £000
Equipment	414	265
New works on heritage assets	1,911	1,777
Maintenance	3,990	3,952
Other conservation	948	781
Utility costs	191	130
	7,454	6,905

8. Presentation

	2005-06 £000	2004-05 £000
Publicity and promotion	1,770	1,697
Utilities	630	408
Visitor services	2,205	1,910
	4,605	4,015

9. Other costs

	2005-06 £000	2004-05 £000
Staff travel, subsistence and training	993	1,285
Palace of Holyroodhouse costs	575	563
Accommodation expenses	2,130	2,321
Office expenses	677	604
Telecommunications	508	484
Transport	343	301
Professional fees	998	1,020
Administration costs	721	641
Education costs	146	84
	7,091	7,303

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

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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:

	2005-06 £000	2004-05 £000
Employment costs	1,466	1,373
Conservation and maintenance	789	862
Accommodation cost	69	82
Capital expenditure	27	11
Total expenditure incurred in support of the Palace of Holyroodhouse	2,351	2,328

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:

	2005-06 £000	2004-05 £000
Employment costs (note 6)	891	808
Conservation and maintenance (note 7)	768	897
Other costs – Palace of Holyroodhouse (note 9)	575	563
Other costs – accommodation costs (note 9)	69	27
Other costs – transport (note 9)	8	7
Other costs – telecommunications (note 9)	15	17
Capital expenditure (note 11)	27	11
Other income (note 3)	(2)	(2)
	2,351	2,328

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11. Tangible fixed assets

(i)	Land & Buildings (Exc Dwellings) £000	Dwellings £000	Motor Vehicles (note a) £000	Office Equipment £000	Computer Equipment £000	Plant & Equipment £000	Antiques & Works of Art (note b) £000	Assets under Construction £000	Total £000
Cost									
Opening balance	20,455	2,995	1,606	2,253	3,068	5,740	301	507	36,925
Additions during year	371	-	323	-	337	221	361	378	1,991
Transfer from AuC	134	-	47	-	220	-	-	(401)	-
Indexation	361	51	18	-	-	153	-	-	583
Disposals during year	(310)	-	(227)	(79)	(606)	(161)	-	-	(1,383)
Reversal of previous impairment	424	-	-	-	-	116	-	-	540
Revaluation	640	393	-	-	-	-	-	-	1,033
Closing balance	22,075	3,439	1,767	2,174	3,019	6,069	662	484	39,689
Accumulated depreciation									
Opening balance	(4,187)	(125)	(887)	(2,253)	(2,461)	(4,383)	(7)	-	(14,303)
Charge for the year	(322)	(48)	(290)	-	(333)	(239)	(6)	-	(1,238)
Backlog depreciation	(96)	(3)	(10)	-	-	(133)	-	-	(242)
Eliminated on disposal	-	-	185	79	604	153	-	-	1,021
Revaluation	83	38	-	-	-	-	-	-	121
Reversal of previous impairment	395	-	-	-	-	92	-	-	487
Impairments	(108)	-	-	-	-	-	-	-	(108)
Closing balance	(4,235)	(138)	(1,002)	(2,174)	(2,190)	(4,510)	(13)	-	(14,262)
Net book value									
at 31 March 2006	17,840	3,301	765	-	829	1,559	649	484	25,427
Net book value									
at 31 March 2005	16,268	2,870	719	-	607	1,357	294	507	22,622

Notes:

a. A motor vehicle valued at £11,223 was donated to the agency on 23/01/2002 by the Royal Bank of Scotland. The net book value of the asset at 31 March 2006 was £ 3,260

b. Includes 7 non-operational heritage assets (Note 31)

(ii) Revaluations

The Valuation Office prepared valuations at 31 March 2006 where certain buildings were valued either above or below the estimates used in the 2004-05 annual accounts. The useful remaining life has also been re-assessed.

The total value of revalued assets is £8,146,000. The combined effect of the revaluations is an increase in the net book value of these properties of £1,154,000. This figure is also reflected in the revaluation reserve. Due to impairment there will be an amount of £108,000 written back to the Income & expenditure account.

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(iii) Depreciation and impairment charge

	2005-06 £000	2004-05 £000
Depreciation charge for the year	1,238	1,674
Amortisation charge for the year (note 12)	118	117
Impairment charge	108	-
Indexation decrease	-	11
Reversal of previous impairment	(1,027)	-
Released from donated asset reserve	(3)	(2)
Total charge for the year	434	1,800

Included in the depreciation and impairment charge above is a credit of £1,027,000 which relates to the partial reversal of a previous impairment (£1,483,000 in 2001-02). This arose from the revaluation of land and buildings by the District Valuer office.

12. Intangible fixed assets

	Computer Software Licences £000
Cost	
Opening balance	456
Additions during year	54
Disposals during year	(15)
Closing balance	495
Accumulated depreciation	
Opening balance	(238)
Charge for the year	(118)
Eliminated on disposal	11
Closing balance	(345)
Net book value at 31 March 2006	150
Net book value at 31 March 2005	218

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13. Stocks

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

	2005-06 £000	2004-05 £000
Retail	1,502	1,410
Raw materials and consumables	200	261
	1,702	1,671

14. Debtors

	2005-06 £000	2004-05 £000
Trade debtors	476	554
Other debtors	74	54
Balance with the Scottish Executive	10	-
Prepayments and accrued income	608	514
Recoverable VAT	289	276
	1,457	1,398

15. Cash at bank and in hand

	2005-06 £000	2004-05 £000
Paymaster account at the Bank of England	4,318	4,520
Other bank accounts	327	170
Cash in transit and money held at monuments	133	241
	4,778	4,931

16. Creditors – Amounts falling due within one year

	2005-06 £000	2004-05 £000
Trade creditors	2,418	2,190
Other creditors	905	626
Scottish Executive funding	-	1,217
Accruals and deferred income	6,247	5,288
	9,570	9,321

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

	2005-06 £000	2004-05 £000
Accruals and deferred income	214	234

18. Intra Governmental Balances

	Debtors: amounts falling due within one year £000	Debtors: amounts falling due after more than one year £000	Creditors: amounts falling due within one year £000	Creditors: amounts falling due after more than one year £000
Balances with other central government bodies	432	-	790	-
Balances with local authorities	10	-	211	-
Balances with NHS trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	1,015	-	8,569	214
At 31 March 2006	1,457	-	9,570	214
-				
Balances with other central government bodies	331	-	1,859	-
Balances with local authorities	3	-	80	-
Balances with NHS trusts	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-
Balances with bodies external to government	1,064	-	7,382	234
At 31 March 2005	1,398	-	9,321	234

19. Provisions for liabilities and charges

	Pension costs £000	Compensation payments £000	Other provisions £000	Total £000
Opening balance at 1 April 2005	165	420	120	705
Less net amount released during current year	(42)	(49)	-	(91)
Less provisions not required written back	-	(350)	-	(350)
Charge to current year income and expenditure	41	107	-	148
Closing balance at 31 March 2006	164	128	120	412

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.

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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 2006-07.

Other provisions relate to a dispute with a supplier. The assessment of costs due to be paid by Historic Scotland is £120k.

20. Leasing commitments

Operating leases

Annual commitments as at 31 March 2006 under non-cancellable operating leases are as follows:

	2005-06 £000	2004-05 £000
Operating leases which expire within one year	42	22
In the second to fifth year inclusive	101	99
In over five years	866	866
	1,009	987

The majority of the operating leases are for properties.

Finance leases

There are no finance leases in operation.

21. Movement in general fund

	2005-06 £000
Opening balance at 1 April 2005	12,819
Deficit for the financial year	(39,956)
Scottish Executive funding	39,804
Cash spent in excess of drawdown from Scottish Executive	10
Realised element of the revaluation reserve	96
Adjustment of fixed asset balance	371
Reversal of previous impairment – released from revaluation reserve	319
Notional charges	1,017
Closing balance at 31 March 2006	14,480

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22. Revaluation reserve

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

23. Donated asset reserve

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

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	2005-06 £000	2004-05 £000
Deficit for the financial year	(39,956)	(36,351)
Notional charges	1,017	1,020
Depreciation on tangible and intangible fixed assets	434	1,800
(Gain)/loss on disposal of tangible fixed assets	(223)	(7)
(Increase)/decrease in stock	(31)	(23)
(Increase)/decrease in debtors	(49)	37
Increase/(decrease) in creditors and provisions	1,153	2,096
Net cash outflow from operating activities	<u>(37,655)</u>	<u>(31,428)</u>

ii. Capital expenditure

Additions to fixed assets	1,697	1,238
Increase/(decrease) in Assets under construction	(23)	143
Less:- receipts from sale of tangible fixed assets	(589)	(60)
Net capital expenditure for year	<u>1,085</u>	<u>1,321</u>

iii. Analysis of changes in cash during the year

Opening balance at 1 April 2005	4,931	1,608
Net cash inflow/(outflow) during year	<u>(153)</u>	<u>3,323</u>

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Closing balance at 31 March 2006	4,778	4,931
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iv. Financing

Scottish Executive funding for year	39,814	34,855
Movement on Scottish Executive creditor	(1,227)	1,740
Write off of cash spent in excess of drawdown 2004-05	-	(523)
Scottish Executive cash funding for year (note 21)	<u>38,587</u>	<u>36,072</u>

25. Contingent liabilities

There were no material contingent liabilities at 31 March 2006. (31 March 2005: 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 2006. As at that date, these commitments totalled:

	£000
Capital commitments due within one year	5,720
Due within two to five years inclusive	1,118
Due after five years	-
	<u>6,838</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 2006, indicative authorisations totalled:

	£000
Indicative authorisations	<u>5,409</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 2006, these commitments totalled:

	£000
Capital commitments due within one year	4,313
Due within two to five years inclusive	12,587
Due after five years	-
	<u>16,900</u>

27. Post balance sheet events

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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 Executive. During the year Historic Scotland had a number of transactions with other government departments and agencies.

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

The Historic Scotland Foundation is working with Historic Scotland on the Stirling Tapestries Project. There were no material transactions with Historic Scotland Foundation during 2005-06.

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

29. Losses statement

Losses and special payments for the year total £35,000 (2004-05: £28,000).

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:-

	2005-06 £000	2004-05 £000
Interest charges	789	710
Departmental overhead	158	244
Auditor's remuneration	70	66
	<u>1,017</u>	<u>1,020</u>

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

Auditor's remuneration is a notional charge, as notified to us by our auditor Audit Scotland, in respect of audit work carried out during 2005-06. No other services were supplied by Audit Scotland during the period ended 31 March 2006.

31. Non-operational heritage assets

Historic Scotland is responsible for 345 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 seven paintings on display at Trinity House. Total expenditure of £360,750 was incurred on these paintings and the amount was included in the fixed asset register.

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 web-site –

www.historic-scotland.gov.uk

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Financial summary

	2006	2005	2004	2003	2002
	£000	£000	£000	£000	£000
Income and expenditure					
Income	62,421	58,315	54,402	53,195	53,431
Grants and archaeology	(20,250)	(17,513)	(17,867)	(16,819)	(14,085)
Presentation	(16,035)	(14,829)	(12,885)	(12,358)	(12,129)
Conservation and maintenance	(19,652)	(18,460)	(16,417)	(15,331)	(16,097)
Operating expenses	(5,413)	(5,282)	(4,927)	(6,375)	(4,366)
Cost of capital and depreciation	(1,223)	(2,510)	(2,980)	(3,453)	(3,370)
Surplus/(deficit) for the year	(152)	(279)	(674)	(1,141)	3,384

Balance sheet

Fixed assets	25,577	22,840	21,022	18,205	17,774
Net current assets/(liabilities)	(1,633)	(1,321)	(1,346)	(1,502)	(1,723)
Long term creditors	(214)	(234)	(111)	(148)	(172)
Provisions for liabilities and charges	(412)	(705)	(276)	(217)	(26)
	23,318	20,580	19,289	16,338	15,853

Financed by

General fund	14,480	12,819	13,583	11,987	12,145
Revaluation reserve	8,835	7,755	5,706	4,351	3,708
Donated asset reserve	3	6	-	-	-
	23,318	20,580	19,289	16,338	15,853



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