



## **The Report of the Board of Trustees and Financial Statements** **for the Year Ended 28 February 2017**

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## **CHAIRMAN'S FOREWORD**

I am delighted to report that our financial performance continues to be strong with growth in membership, visitor numbers and sales in our shops and, as always, safety and security are paramount in everything we do.

It is a rare thing to be able to say the organisation that finished the year is in a different shape from how it started.

In 2015, we began to talk about 'transforming the Trust' and throughout 2016 and into 2017 we actually did it. It has not been easy for our people, as we had to reform structures and practices that had been years in the making. However, I can genuinely reflect on the fact that the National Trust for Scotland is now in a much better place.

We are fit and ready to take on the challenges of continuing to grow our membership, investing in our properties and offering visitors a wonderful experience as they connect with the heritage in our care. Not least, we are giving our volunteers and staff the tools they need to do the jobs they love.

None of this would have been possible without the vision, determination and steadfastness of my fellow Trustees. They recognised the need for change and then saw it through.

Our executive team, led by Chief Executive Simon Skinner, have done an excellent job, showing strong leadership whilst at the same time recognising the individual personal impact some of these changes have had.

As always, my thanks go to our volunteers and staff who carried on and continued to welcome visitors to our fabulous places. The fact that we are beginning to see rises in paying visitors, as well as reaching the highest membership figure yet, is testament to how talented and devoted they are.

**Sir Moir Lockhead OBE, Chairman, June 2017**

## CHIEF EXECUTIVE'S REPORT

This year has been a turning point for the Trust. We have been through a process designed to set out the need for change, propose the means to achieve it, go through rigorous consultation and then begin to enact what amounts to fundamental transformation of our charity.

Looking back, an enormous amount of hard work, patience and understanding has been required. These have brought us to the stage where we have a new operating model and are able to put levels of investment into our properties that have hitherto been impossible.

We have re-focused the Trust on its properties and, specifically, on what is needed to ensure we can attract more members and visitors to them. This means improving the facilities that underpin the visitor experience and introducing new interpretation that is more engaging and accessible.

During the consultation process I spoke of the changes drawing a 'virtuous circle.' More paying visitors and members mean more income. More income means more opportunities for investment in conservation.

Even as the financial year was closing, our investment was bringing about the first phase of physical improvements at our 'priority properties' – the initial tranche of which comprises of Culzean Castle and Country Park (£2.5 million), Brodick Castle, Garden and Country Park (£2.7 million), Brodie Castle (£2.8 million) and Newhailes (£2.4 million). There is much more to come, including Project Reveal which will see us cataloguing our collections, and much more to do; the prospects for enriched visitor experiences at these and other properties are genuinely exciting.

As the Chairman touched on in his foreword, change has a cost that is more than financial. A new business model means different ways of conducting operations and as a result we have lost some functions while gaining others. Some old friends have left us but new ones have joined, with 73 new posts created as part of the restructuring.

These new posts include fresh leadership appointed at a regional level, drawing in talented people from a range of backgrounds who will ensure maximum efficiency and effectiveness throughout our estate. This brings accountability, initiative and decision-making back to where it belongs – at our properties.

We have also concentrated the expertise of our specialist staff in teams providing care to landscapes, buildings and collections within regional and national Consultancy Services, as well as building a new Customer & Cause function to ensure that what we do and what we say is being heard, understood and supported.

Despite change, some things remain the same; the steadfast support of our members for one – it was especially pleasing to see the level of backing our proposals attracted.

Our thousands of volunteers continued to give their time freely, guiding visitors, weeding gardens, repairing footpaths and doing the countless other things that keep the Trust and its properties viable.

Our staff, despite the unavoidable distractions, continued to welcome visitors day after day, making their day out a safe and unforgettable one and ensuring that one and all come away knowing something about their heritage that they didn't know before their visit.

This dedication is the foundation of our future successes.

Set out below are just a few of the highlights from the past year.

## Year in Trust: Highlights of 2016/2017

### 2016

#### March

- We opened the polls to find the '**Great Scot**' – to be chosen from one of the historical heroes associated with Trust properties with a profound impact on history, architecture or landscape. The poll caught the imagination of many people, who duly delivered the answer that Robert Burns is their Great Scot.
- We kicked off a year's worth of events to mark the 150<sup>th</sup> anniversary of **Robert Smail's Printing Works** in Innerleithen. One of the most fascinating of the Trust's properties, it still functions as a working printers using original Victorian machinery.
- **Pollok House** started the year shrouded in scaffolding as works progressed to repair the external fabric of the ancestral home of one of the Trust's founders, Sir John Stirling Maxwell. The works were funded by Glasgow City Council, which owns the property although it is managed by the Trust.
- 30,914 children joined one of our **Cadbury Easter Egg Hunts** over four days, 11% up on the previous year. Income from the hunts (excluding property entrance fees and other income) was £66,270 - an increase of 13% on 2015.

#### April

- A £170,000 conservation project was underway at the **Glenfinnan Monument** at Loch Shiel. Masonry was repaired, interior details were cleaned and restored and improvements made to accessibility. Monitoring equipment was also installed to keep an eye on a pronounced lean the monument has developed over the last two centuries.
- The **National Trust for Scotland USA Foundation** staged its ninth New York gala, presenting 'Downton Abbey' actress Phyllis Logan with their prestigious Great Scot award. \$414,000 worth of generous donations went towards a range of projects at NTS properties.
- A special programme of commemorative events and displays was organised to mark the 270<sup>th</sup> anniversary of the **Battle of Culloden**. Most grim of all was perhaps the 3-D digital model of the skull of an unfortunate combatant which showed the catastrophic effects of musket fire. The battlefield itself was subjected to the latest LiDAR laser scanning to produce a topographical survey that will be used to tell us more about the events of April 1746.
- Ardoch Lodge in the grounds of **Culzean Castle and Country Park** was rescued from its uninhabitable state and returned to use as a holiday cottage. The 1830s building now boasts an ultra-modern interior with cosy underfloor heating and brings in valuable income to be invested in the wider property.
- Following a comprehensive survey, a range of repair works were completed at **Pitmedden Garden**. These included consolidation and repointing of the garden's A-listed walls.

#### May

- **Drum Castle** may be famous for being a castle but it also has extensive and quite beautiful gardens. These were chosen to host a Chelsea Fringe event linked to the Chelsea Flower Show. The display theme was 'Digging Down on Deeside', created by Head Gardener, Diana Robertson.
- CIE Tours International presented its 'Awards of Excellence' to **Crathes Castle, Culloden Battlefield** and **Inverewe Garden and Estate**. The awards are given only to those attractions

which achieve more than 90% customer satisfaction and were presented at a special ceremony staged at Edinburgh Castle.

- The Trust once again spoke up for heritage. A challenge was made to extremely concerning and potentially destructive plans by energy giant SSE to erect **50 metre tall pylons** on a route that would cut across unspoiled countryside intrusively close to **Culloden, Castle Fraser and Leith Hall**. Early in 2017 it was confirmed that SSE had dropped the plans for the time being.
- Re-thatching, lime-washing and internal redecoration of **Souter Johnnie's Gallery** was completed.

## June

- The Trust celebrated the 30<sup>th</sup> anniversary of **St Kilda** gaining its World Heritage designation. Although weather conditions prevented a ceremony being held on the archipelago, the occasion was used to launch the '**Love Our Islands**' fundraising campaign. This resulted in tens of thousands of pounds of donations that will be put towards wildlife projects on St Kilda.
- As part of National Volunteering Week, in conjunction with the Society for the Preservation of Ancient Buildings (SPAB), a building conservation working party consisting of 20 volunteers lime pointed and soft-capped the walls of **Balmerino Abbey**.

## July

- A female hen harrier chick was tagged on **Mar Lodge Estate** following the first successful breeding attempt on the estate by this iconic raptor in decades. This followed hard work by Trust staff and volunteers to restore habitats in order to make the recovery of populations of various threatened species possible. The estate also carried out £1.3 million of remedial works to deal with the effects of devastating floods and storm damage in December 2015. Meanwhile, the long-term regeneration of **Caledonian Pinewoods** resulted in marked success with naturally regenerated woodland spread over 835 hectares compared to 135 hectares five years earlier.
- **Fyvie Castle** became the first in Aberdeenshire to gain VisitScotland's prestigious five-star rating. This was a real accolade for the volunteers and staff responsible for tending the 800 year-old exemplar of the North East's heritage.
- 'Floral' tributes from worldwide fans of the Bard were installed at the **Burns Monument** in Alloway. Attractive metal plaques crafted in the likeness of red roses carried messages and the engraved names of supporters as part of a campaign to raise funds to restore the 200 year-old monument.
- The Trust's Culzean-based **Stonemasonry Team** delivered workshops at the St Mary's Cathedral Workshop Re-launch and attracted great interest from HRH The Princess Royal.
- Generous contributions from the Friends of **Broughton House**, the Art Fund, the National Museum of Scotland National Fund for Acquisitions, the NTS Galloway Members Group and a host of individuals allowed the Trust to acquire EA Hornell's 1885 painting 'Harvesting, Kirkcudbright' and literally bring it home.

## August

- Important monitoring work at **Glencoe** revealed that many of Scotland's world-famous and extremely fragile alpine plants are facing extinction. Changing climate is forcing plants, such as Highland Saxifrage, higher into the mountains to seek suitable conditions. If current trends continue, they will run out of places to survive.

- Visitors to **Alloa Tower** were treated to the sight of ‘conservation in action’ as paint conservator Owen David cleaned and restored an Erskine family portrait and two works by 18<sup>th</sup> century local artist David Allan.
- Participants in one of the Trust’s ‘Trailblazer’ residential working holidays helped discover a lost castle at the **House of Dun**. The 14<sup>th</sup> century structure was found following repair work to the Erskine family’s (them again) mausoleum and represented part of the chapel that stood on the west side of the original castle.
- To the strains of live music provided by schoolchildren, the Deputy-Chair of the Trust, Jill Carrick formally opened a new shelter on **Iona** – this contained bespoke wooden furniture and colourful information panels describing the island’s heritage and the role of the Trust in its care.

## September

- At the Trust’s **2016 AGM**, staged in Stirling, the Chief Executive announced an initiative to celebrate the life of and contribution made by the late former Chairman and renowned conservationist, **Dick Balharry** with a lasting memorial. This is to involve support for young people to learn about and contribute solutions to the challenges of land management in Scotland. We have joined a partnership led by the University of Highlands and Islands to provide this opportunity to around 60 young people, as well as offering a prize in Dick’s name which involves international travel and further learning. The first of these prizes will be awarded in March 2018.
- **Holmwood House** in Glasgow staged special events to celebrate ‘forgotten genius’ Daniel Cottier who collaborated with architect Alexander ‘Greek’ Thomson to create the building’s stunning visual splendour in 1858 – this was a key contribution by the Trust to the Year of Innovation, Architecture and Design.
- After £2 million of investment, as part of a wider ‘priority project’ to re-think the garden, **Inverewe House** was opened to the public for the first time. Built in 1936 by Mairi Sawyer, daughter of the garden’s founder, Osgood Mackenzie, the building now provides visionary interpretation along with welcoming catering and visitor facilities.

## October

- Plans were announced by the Ministry of Defence to continue its ongoing commitment to the tracking station on **St Kilda** by completely re-building the 1950s facility and replacing it with state of the art, low environmental ‘footprint’ structures which visually blend in with the Village Bay landscape. NTS worked in full partnership to inform the proposals.
- The Scottish Government announced that a Marine Protection Area was to be established around **Fair Isle**. The Trust had long supported the aspiration of island residents to protect precious marine habitats in order to ensure the wellbeing of important seabird colonies and economic benefit from sustainable tourism.
- The Trust raised its voice again, this time to join others in expressing deep concern at proposals by Cromarty Firth Port Authority to begin **ship to ship transfers of oil cargoes** in the mouth of the Firth. This would pose real danger to many species as well as the economic status of local residents who depend on tourism. At the time of writing the plans have been put on hold.
- A BBC 4 production ‘Britain’s Lost Masterpieces’ revealed that **Haddo House’s ‘The Virgin Mary’** was probably painted by renaissance artist Raphael. Special viewings of the work were arranged to let the public see the re-discovered masterpiece for themselves.

- Following on from months of planning and consultation, the Chief Executive announced that the Trust was to move ahead with big changes entitled ‘**Transforming the Trust,**’ which would result in an initial £17 million being invested on conserving and upgrading our properties, developing the Trust’s charitable cause and growing membership and support.

## November

- Collections held in **Brodict Castle** on the Isle of Arran were given formal recognition as being ‘Nationally Significant to Scotland’ by Museums Galleries Scotland on behalf of the Scottish Government. Included in the distinction is the castle’s famous Beckford Silver Collection.
- A landmark two-part television programme filmed over a year with the Trust’s help proved to be one of BBC Scotland’s most acclaimed hits. ‘**Fair Isle: Life on the Edge**’ followed the lives of various residents as they coped with the reality of living on one of the most remote of the British Isles. The programme later won a Scottish BAFTA and, when broadcast UK-wide on BBC 4, achieved one of the largest audiences the channel has ever had.

## December

- NTS nature conservation staff revealed the sobering results of a bird count conducted on **St Kilda**. This showed that kittiwake numbers have plummeted to their lowest ever recorded level and that other populations – fulmars, puffins and razorbills – are also threatened. The decline is evidence that climate change is taking a toll, in part because the plankton that is vital to the marine food chain moves northwards as sea temperatures rise.
- Pupils from **Craigievar** Primary arrived at the nearby castle to retrieve a time capsule buried in 1991 by their (then) young predecessors. They buried a new capsule which is not to be opened before 2041, at which time the Trust will be 110 years old.

## 2017

### January

- There was a sad start to the New Year with the unwelcome news that the “infuriating, opinionated and absolutely wonderful” **Tam Dalyell** had passed away. Tam had been associated with NTS since he was a boy in 1944 when his ancestral home, the House of the Binns, was gifted to the Trust.
- For the first time in 100 years, the **front door of Burns Cottage** in Ayrshire was opened. This followed extensive restoration and conservation work on the door and the first visitors in a century to use it were local schoolchildren from Alloway Primary.
- The occasion was also marked when the newly restored 1779 **William Gregg violin** was played to an appreciative audience. Gregg was the adolescent Robert Burns’ dance teacher and the Bard himself may have also played the instrument. Later in the year, the violin was taken to New York to be played in Central Park and at the 2017 NTS USA Foundation gala.
- There was an American connection too at Alexander ‘Greek’ Thomson’s **Holmwood**. Specialist painter Ian Howie began work to re-instate the intricate colour schemes of the Thomson-designed frieze in the dining room. This was achieved thanks to generous donations from the Trust’s London Members’ Centre and the NTS USA Foundation.

## February

- The Trust joined forces with Plantlife Scotland to reveal the secrets of the ‘Celtic rainforest.’ The event was designed to show visitors the flora that survives in the damp, ancient woodlands of Scotland that can still be found at **Balmacara** in Wester Ross.

## Key Performance Indicators

KPI	2017	2016
Number of members at year end	366,000	351,000
Total visitors to properties	2.99 million	2.65 million
Paying visitors to properties	511,000	477,000
Conservation project expenditure	£8.7 million	£9.3 million
Gross fundraising income (excluding legacies)	£2.1 million	£2.7 million
RIDDOR incidents	9	13
Health & Safety enforcement actions	-	-

## Notes

RIDDOR = Reporting of Injuries, Disease and Dangerous Occurrences Regulations 1995

**Simon Skinner, Chief Executive, June 2017**



## CHIEF FINANCIAL OFFICER'S REPORT

### INTRODUCTION and OVERVIEW

The audited financial statements, and accompanying notes to the financial statements, are set out on pages 25 to 48. In my summary set out below, I am looking to provide some overview commentary on the financial performance for the financial year, the Trust's overall financial position as at the end of the financial year, as well as also commenting on the Trust's cash flows for the financial year. The commentary set out below refers, in all cases, to the consolidated results being reported and not just those of the Trust on a standalone basis.

### VISITOR NUMBERS

We welcomed a total of 2,989,000 visitors to our properties during the year which is an increase of 335,000 or 12.6% on the previous year's total of 2,654,000. Our paying visitor numbers increased to just under 511,000 from 477,000 last year – an increase of some 34,000 or 7.1%.

### STATEMENT of FINANCIAL ACTIVITIES – Financial performance

The statement of financial activities ("SoFA") is set out on page 25. Total income and endowments for the financial year were £50,453k (2016: £52,937k) and total expenditure was £54,631k (2016: £53,104k). In overall terms, the SoFA brings out a net income total for the 2017 financial year of £21,526k which represents a significant positive swing of £30,332k from the net expenditure amount of (£8,806k) in 2016. However, both these amounts are stated after recognising net gains and losses (both realised and unrealised) on investment assets. During this past financial year, investment gains amounted to £25,704k of which £24,593k were unrealised in addition to realised gains of £1,112k made on sales of investments. In contrast, net losses on investments in the previous financial year amounted to (£8,639k), of which (£14,245k) were unrealised losses offsetting £5,606k of realised gains on sales of investments.

Non-recurring costs of £2,618k were incurred during the financial year in relation to the restructuring programme, the bulk of which related to redundancy/ severance costs.

Set out in the table below, following on from a similar format presented at last year's AGM, I have sought to strip-out the effect of various items – specifically investment gains and losses, legacies, investment income and the non-recurring restructuring costs - in order to get to a presentation of the underlying financial performance of the Trust for the past financial year.

All amounts £'000s	2017	2016
<b>Net income/ (expenditure) for the financial year</b>	<b>21,526</b>	<b>(8,806)</b>
Adjust for investment (gains)/ losses – see Note 5	(25,704)	8,639
<b>Net expenditure before gains and losses on investment assets</b>	<b>(4,178)</b>	<b>(167)</b>
Adjustment in respect of legacies – see Note 4	(3,957)	(7,765)
Adjustment in respect of investment income – see Note 5	(7,685)	(8,005)
Adjustment in respect of restructuring costs – see Note 34	2,618	-
<b>Underlying net expenditure for the financial year</b>	<b>(13,202)</b>	<b>(15,937)</b>

On this adjusted basis, the underlying financial performance for the financial year shows a £2,735k improvement on the equivalent basis to last financial year. This net expenditure reflects the cost of operating our properties and our expenditure on conservation, repairs and improvements – further details of which are given in Notes 11 and 12 respectively.

## **INCOME and ENDOWMENTS**

### **Membership revenues**

Membership grew during the financial year by a net of 15,000 to now over 366,000 and this represents the 19<sup>th</sup> consecutive year of growth in our membership numbers. This continued growth was driven by increased online membership sales and was supported by an advertising campaign, including television, during the year which emphasised the value for money our membership represents. As was the case for the first time last year, membership revenues are now separately broken out and reported as comprising both a donation and subscription element and, in total, amounted to £14,593k which is up 8.3% on the £13,475k total last financial year and which reflects the growth in membership numbers, together with a modest price increase taking effect.

### **Appeals and donations**

Income from appeals and donations of £2,052k was (£614k) down on last financial year's total of £2,666k. These, by their very nature, can vary from year to year and 2017 saw fewer appeals being undertaken in comparison to the previous year.

### **Legacies**

The receipt of legacy income is, by its very nature, highly unpredictable but the Trust has been very fortunate to benefit from a number of generous bequests over the years. During this past financial year, we have benefitted from legacy income totalling £3,957k (of which £2,902k was unrestricted), but which is a reduction on the £7,765k of total legacies recognised for 2016. As was reported last year, recognition of legacies is a specific area that has been directly impacted by adoption of the Charities SORP (FRS102), the effect being that, in comparison to previous treatment, we are now required to recognise and account for legacies at the point when their receipt become "probable". As a consequence, there are amounts now included in the reported legacy income totals where the Trust has not, as yet, received any cash and so has had to recognise a receivable for the anticipated legacy receipt. The amount of legacy receivable as at 28 February 2017 was £2,460k (2016: £2,270k).

As always, we are extremely grateful to everyone who made provision for the Trust in their will.

### **Investment income**

Our investments are primarily managed in two pools, one of which holds endowment type funds from which we can only use the income generated and a second which holds funds from which we can spend both capital and income. The equity components of these pools are managed on the Trust's behalf by Martin Currie and both equity pools outperformed their comparator benchmark in the year to 28 February 2017. Despite the fact the capital value of our investments increased significantly, the level of investment income received this past financial year of £7,685k, whilst still strong, was down on the level of £8,005k enjoyed in the previous financial year which had benefitted from a higher level of special dividends.

### **Grants**

The Trust continues to receive grants towards the cost of our conservation work and we are grateful to the Scottish Government, Historic Environment Scotland, Scottish Natural Heritage, Heritage Lottery Fund, Local Authorities and Scottish Museums Council for providing valuable support during this past financial year.

Our grant income fluctuates from year to year depending on the major projects which are active in any given year. Grant income increased to £1,637k this year from a level of £1,471k in 2016 and which was mainly due to increased levels received from Historic Environment Scotland (and also the Scottish Government), offsetting reduced levels from both Scottish Natural Heritage and Local Authorities.

### **Property and other income**

Property and other income, which includes admissions income and rental income, increased by 21.9% this year to £7,754k from £6,363k in the prior year. Admissions revenue increased by 6.5% to £3,748k, boosted by an increase in paying visitors and the impact of price increases at some properties. The level of rental income we generated from our let portfolio increased significantly to £2,253k from £1,542k previously, reflecting improved occupancy levels, increased rents and a higher level of income from our rural conservation activities. Other income, which includes amongst others advertising income, income from events and proceeds from insurance claims in respect of costs previously incurred, increased by £450k to £1,753k from £1,303k.

### **Commercial activities**

Our total income from commercial activities, all of which is conducted through our Enterprises subsidiary, continued to build on last year's increased levels, and rose by a further £163k or 1.4% to £11,836k with increases seen in most revenue categories, particularly in both retail and catering, and which has meant, in view of a tight control of costs and some improved margins, that the profit contribution from our commercial activities has increased by £334k or 17.1% to £2,289k from its level of £1,955k in the prior year. The contribution made from our commercial activities is reinvested in the wider charitable and conservation activities undertaken by the Trust. Retail profits have increased to £806k at a margin of 18.2%, both an improvement on the prior year, with strong growth particularly at our Culloden site where a new retail offering was put in place at the start of the financial year. We have also continued to see improvements in profit from our catering operations, which have increased by 31.7% to £664k at an improved margin of 18.0%. Whilst cruise revenue and associated contribution fell on the previous year, due in part to a change in mix of our sales offering, it still continued to make an important contribution with gross contribution at £285k. Our holiday cottages have, once again, had a strong year with overall contribution increasing to £344k from £285k in the prior year. Functions at the properties and other income and events together generated a contribution of £190k, down from £309k in the prior year with functions income continuing to be impacted negatively by reduced bookings from the oil and gas sector caused by continued lower oil prices and reduced corporate spending. Revenues and gross contribution from other income and events, which includes Renewables activities, were relatively flat year on year.

### **Gain on sale of assets**

There were a number of disposals of assets during the financial year with sales proceeds amounting to £1,000k and which resulted in a gain on sale recognised of £939k. Note 15.3 to the financial statements provides further details of heritage assets included in these totals with a sales values of £859k (2016: £1,422k).

### **EXPENDITURE**

Total expenditure for the financial year was £54,631k, up from £53,104k in the prior year. In terms of SoFA presentation on page 25, the major items of expenditure relate to Property operating expenditure of £25,476k (2016: £25,109k), Conservation, repairs and improvements of £11,841k (2016: £12,795k), costs of Commercial activities of £9,547k (2016: £9,718k), Publicity and fundraising costs of £3,936k (2016: £4,190k) and Membership and recruitment costs totalling £1,211k (2016: £1,192k). In addition, during the current financial year £2,618k of non-recurring restructuring costs were incurred. Further detail on the breakdown of all relevant costs is set out in the accompanying notes to the financial statements.

## **Wages and salaries**

Total staff costs, which get included in a number of different cost category lines on the SoFA including some of those referenced above, increased by £1,225k or 5.2% to £24,589k due to the inclusion of £2,274k of redundancy and termination payments in the current financial year. Implementation of the second year of the previously agreed two year pay deal agreed with Prospect, the Trust's recognised trade union, resulted in pay being increased by a further 1% added to which was a further pay increase of a further 1% in respect of the 2017 pay award. As in previous years, there was also a weighting in favour of lower paid staff as further commitment to paying the Scottish Living Wage. The Trust has also been able to continue to employ a number of additional staff on fixed term contracts to carry out specific conservation and other projects.

In addition to its paid workforce, the Trust also benefits greatly from a committed group of volunteers who give their time to help at properties and in our administrative offices. During the year to 28 February 2017 these volunteers carried out a total of 208,747 hours of work which is a 4% decrease on the previous year. If translated at an indicative cost of £10 per hour, this effort equates to a value in excess of £2 million. The Trust depends heavily on its volunteers and could not operate without their ongoing support. We are extremely grateful to them all for the time and energy they devote to the Trust.

## **Conservation, repairs and improvements**

Total expenditure on conservation, repairs and improvements amounted to £11,841k in the financial year, a reduction of (£954k) or (7.5%) on the level of £12,795k in 2015/16. The bulk of the year on year reduction related to expenditure on routine conservation and repairs, where expenditure of £4,004k was down by (£915k) or (18.6%) on the £4,919k peak level last year. As far as expenditure on projects is concerned, there is often a difference in phasing and timing of expenditure from year to year. Whilst investment and spend has been committed this past year on various priority projects, and some initial expenditure incurred, the bulk of the expenditures on these are expected to come through in the next financial year. Major projects expenditure in this year included the completion of work on Inverewe House and new glasshouses for the gardens and the first part of the investment at Culzean on driveways and other infrastructure needs. Further details on our conservation work are described in the Chief Executive's Report.

## **BALANCE SHEET and FUNDS – Financial position**

As at 28 February 2017, total funds amounted to £242,864k which is up on the comparable figure of £221,338k as at the end of 2015/16. The increase in overall funds is primarily as the result of the movement in the fair value of investments which, as commented on earlier, has given rise to an overall gain on investments of £25,704k for the year, of which £24,593k was unrealised. As is evident from the SoFA, overall investment and stock market performance this year has been significantly stronger than we experienced last financial year when the value of funds was impacted by a significant level of unrealised losses on investments held – as such, the unrealised gains experienced in this financial year have more than offset the deterioration experienced in 2015/16. Aided by these unrealised gains, Note 5 to the financial statements shows that the current fair value of investments is significantly in excess of their original historical cost.

The Trust has approximately 400 restricted funds in which we hold monies that have been either donated or set aside by the Board for a specific purpose. The value of these restricted funds was £173,740k at 28 February 2017, an increase of £19,846k from their level of £153,894k at the prior year end. As previously reported, over the course of recent years we have been investigating the restrictions placed on certain of these funds in order to determine how best to use them for our conservation work and had been successful in obtaining approval from the Office of the Scottish Charity Regulator ("OSCR") to vary the restrictions

on some of our larger restricted funds, including the Fawcitt and Alexander bequests in previous years. A process is ongoing to identify further funds where a similar application process can be made to OSCR with a view to obtaining variations to previous restrictions thereby freeing up additional funds and reserves to support our ongoing activities. During this past financial year, the Board approved the transfer of two previously designated funds – the under endowed properties fund and maintenance for Geilston fund – back to the General Income Fund (“GIF”). In total, the amount of these transfers was £8,413k.

In addition to its restricted or designated funds, the Trust has a separate designated fund for tangible fixed assets with a balance of £26,234k at 28 February 2017, a reduction of £2,149k on the prior year. The bulk of the Trust’s unrestricted reserves are held in the GIF which has a balance of £37,574k as at 28 February 2017, up from £26,222k as at the end of 2015/16. The balance on the GIF has been directly impacted this year by the transfers (referenced above) of the two previously designated funds, but also by unrealised gains on investments and the general improvement in underlying financial performance. As a result of these factors, the reported GIF balance is now considerably higher than the previously stated target level of £21,000k but this increased level is in line with internal plans, recognising the significant level of investment being committed to priority projects over the course of these next two financial years which will require to be funded.

The Trust is currently working on delivering through on its plans to generate additional income and improve our operational efficiency with a view to ensuring the Trust is put onto a financially sustainable footing. Recognising that these projects will be valuable contributors to the long term financial sustainability of the Trust, the Board had previously approved temporary reductions in the level of the GIF in order to provide project funding if necessary. Under this prior approval, which has never yet had to be activated, the target level of the GIF may be reduced by up to 10% (to £18,900k) to fund approved commercial projects provided that no further approvals can be given until the balance of the GIF returns to its previously set target level of £21,000k. Separately, however, a review is being conducted in relation to our reserves policy to determine whether it is still appropriate to have a target GIF level of £21,000k.

## **CASH FLOW and LIQUIDITY – Cash generation**

Cash flow from operations in the financial year was an outflow of (£8,885k), a deterioration of (£1,239k) from the outflow of (£7,646k) reported for 2015/16 and which mostly relates to the overall higher net expenditure position for the year (including the impact of non-recurring restructuring costs) and lower investment income, offset to some extent by improved working capital movements.

Cash inflows from investing activities amounted to £6,310k, which is a significant reduction on the level of £17,447k last financial year. This is mostly related to overall net investment activity (sales proceeds net of costs of purchases) which came to an overall outflow this year of (£1,234k) versus an overall inflow last financial year of £9,962k – a swing of some (£11,196k) year on year. Capital expenditure of (£1,142k) was lower than last year, as were also investment income and proceeds from the sale of fixed assets.

As a consequence of the above cash flows, cash and cash equivalents at the year-end amounted to £3,318k, a decrease of (£2,575k) from the opening level of £5,893k at the start of the financial year.

## **CONCLUDING COMMENTS and FUTURE OUTLOOK**

Whilst much work has been done to stabilise the Trust’s financial position in recent years, with some painful actions having to be taken this past financial year in relation to restructuring, the fact remains that our property portfolio costs more to operate and maintain than properties are able to drive in terms of direct revenue and so we will always rely on membership revenues, endowment income and commercial returns. However, increasingly, we are also relying on legacy and other investment income to cover and address the shortfall, which is what the restructuring is aiming to redress. Crucially, and importantly,

annual spend on conservation, repair and maintenance activities is an integral element to what we do as an organisation and has seen a total spend of £24,636k over the course of these past two financial years. Actions taken to date in an effort to eliminate the Trust's operating deficit have had a positive effect, with operating deficits reducing in recent years, however the Trust is currently working on implementing its plans and strategy to generate additional income and improve our operational efficiency with a view to ensuring the Trust is put onto a more financially sustainable footing. The impact of initial phases of these plans should be seen during 2017/18 but there is still much work remaining to be done before we see the full impact coming through the Trust's reported results in future financial years.

**Allan Bowie, Chief Financial Officer and Director of Corporate Services, June 2017**

## THE REPORT OF THE BOARD OF TRUSTEES

The Board of Trustees is pleased to present its report for the financial year ended 28 February 2017. This report is prepared in accordance with the requirements of the Charities Statement of Recommended Practice (“SORP”) FRS 102 and complies with applicable law.

### CONSTITUTION

The Trust operates under The National Trust for Scotland Order Confirmation Acts 1935 to 1973 and the National Trust for Scotland (Governance, etc) Act 2013. The National Trust for Scotland for Places of Historic Interest or Natural Beauty is registered as a charity in Scotland, with charity registration number SC007410, and has its principal office and place of business at Hermiston Quay, 5 Cultins Road, Edinburgh EH11 4DF. The charitable purposes of the Trust may be summarised as the promotion of the preservation of, access to and enjoyment of places of historic interest or natural beauty.

### OBJECTIVES, ACTIVITIES, ACHIEVEMENTS AND PERFORMANCE

The year to 28 February 2017 had originally represented the fifth and final year of the previously communicated five year strategic plan for the Trust but, to a certain extent, it was then overtaken by the announcement of a major restructuring programme (announced in June 2016) the delivery of which was a major element of focus and attention throughout much of the 2016/17 financial year. Development of a new strategic plan has commenced and it is anticipated that this new plan will be presented at this year’s AGM. Under the original plan, the Trust’s core purpose and a set of guiding principles underpinning its activities had been set out as follows:-

#### Core purpose

The purpose of the National Trust for Scotland is to conserve and promote our heritage.

#### Guiding principles

**Excellence** We work to the highest standards allowed by our resources in all aspects of our work.

**Affordability** We live within our means and use our resources economically and creatively.

**Accountability** We discharge our duty of care to the nation and to our members.

**Integrity** We are open, respectful and considerate in our dealings with others. We honour our commitments.

**Co-operation** We seek to work positively in partnership where appropriate in order to achieve our purpose and fully realise our potential.

In addition, the strategy stated that the Trust would seek to fulfill its core purpose by taking forward detailed actions meeting five main strategic objectives covering:

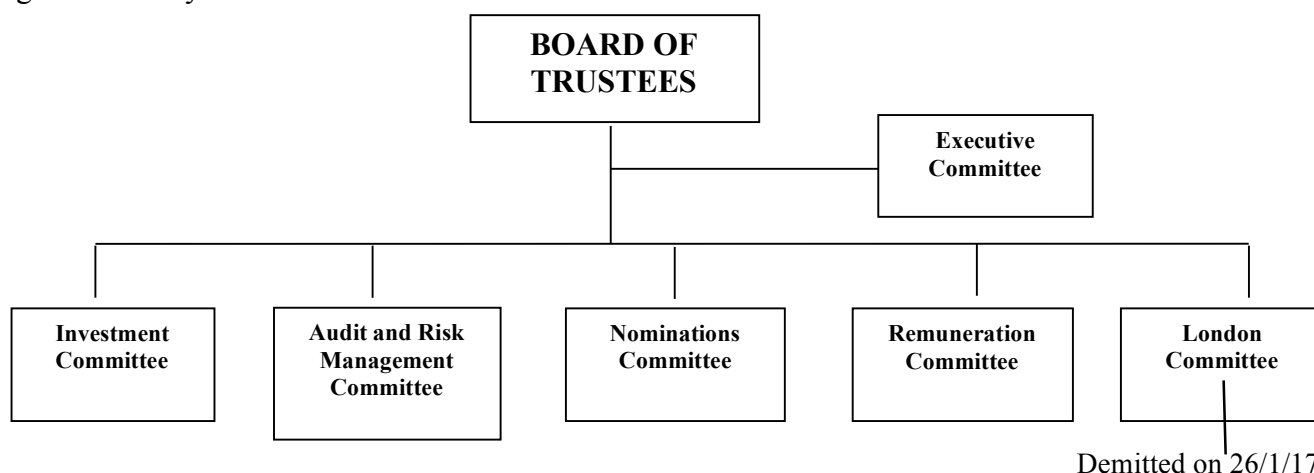
- The portfolio and its conservation: Our portfolio reflects our core purpose and vision for the future and can be maintained to a high conservation standard.
- The promotion of Scotland’s heritage: We tell the stories of all our properties in compelling and inspiring ways. We encourage the effective protection of our natural, built and cultural heritage.
- Financial sustainability: We run the Trust efficiently and within its means, setting and measuring performance against clear targets.
- Visitor enjoyment: We deliver a consistently high quality visitor and membership experience which appeals to a broad range of people.
- Investment in our people: Our people are motivated, fairly rewarded and have the right skills.

Performance against these objectives are measured and regularly monitored and reported as part of Key Performance Indicators and are also regularly assessed as part of the Trust’s risk management processes.

Further details of the strategy can be found on the Trust's website, [www.nts.org.uk](http://www.nts.org.uk). The transformation programme announced during the 2016/17 financial year was principally focused on implementing a new operating model for running the Trust, providing a simpler structure with less bureaucracy, and clearer lines of management accountability and responsibility. Details of the Trust's activities, performance in the year and its future plans can be found within the accompanying Chief Executive's Report.

## ORGANISATIONAL STRUCTURE

The organisational structure in operation during the financial year under review is outlined diagrammatically below:



## THE BOARD OF TRUSTEES

The Board of the Trust was constituted on 1 March 2011 and comprises up to fourteen Trustees. Ten of the Trustees are elected by the Trust's members on an initial four year term and four may be co-opted by the elected Trustees. Elected Board members retire by rotation and can offer themselves for re-election at the AGM for one further term. Co-opted Board members may be co-opted for a term of up to four years, which may be renewed for a further term of up to four years. All four of the co-opted places are currently filled. The Board of Trustees makes use of a number of committees to advise it on various areas of the Trust's activities and has delegated certain responsibilities to them. Board members serve on each of these committees.

Board members are listed on page 49 and held office throughout the year unless otherwise stated.

## STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The law applicable to charities in Scotland requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and parent charity and of the incoming resources and application of resources of the group and parent charity for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP FRS102;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and



- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and parent charity and enable them to ensure that the financial statements comply with Regulation 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). They are also responsible for safeguarding the assets of the group and parent charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustees are responsible for the maintenance and integrity of the charity and financial information included on the charity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Trustees confirm that, as far as they are aware, there is no relevant audit information of which the auditors are unaware.

## **THE NOMINATIONS COMMITTEE**

The remit of the Nominations Committee is to identify and recommend nominees for all appointments to be made by the Board of Trustees (including those of co-opted Board members) and to recommend candidates with appropriate skills and experience for election to the Board. It is intended that skill gaps which are left following the retirement or resignation of Board members are identified and the recruitment process aims to ensure that the gaps are filled by suitably qualified candidates. These gaps may include specific areas of conservation, business or management experience. The main task of the Nominations Committee during the past year was the proposal of the appointment of a new co-opted Trustee, and the conduct of a review of the Trust's election system.

The committee has an independent chair, Dame Sue Bruce, who took up office after the retirement of Professor Ian Percy, and a further independent member, Lesley Knox. The committee also has a further four Trustee members who are Sir Moir Lockhead, Jill Carrick, Amanda Herries and Veronica Morriss.

## **THE REMUNERATION COMMITTEE**

The Remuneration Committee of the Board is chaired by the Chairman of the Trust. The purpose of the Committee is to set the remuneration of the Executive Committee (formerly known as Senior Management Team or "SMT"), make recommendations to the Board on the annual pay award for other staff and to maintain an overview of the reward and recognition function within the Trust. In setting remuneration for key management personnel, the Committee makes reference to external benchmarks whilst being mindful of the fact that it is a charity. The other members of the Committee are all Trustees, Keith Griffiths, Jill Carrick and Veronica Morriss.

## **THE AUDIT AND RISK MANAGEMENT COMMITTEE**

The Audit and Risk Management Committee is chaired by Ian Doig, a Trustee. The full complement of the Committee is five with three posts filled by Trustees. The Committee chair takes one of these positions and the others are filled by Keith Griffiths and Caroline Borwick. In addition the Committee currently has two independent members, John Naylor and Grant Macrae.

Both the Trust's external and internal auditors are invited to attend all Audit and Risk Management Committee meetings. The Committee has been established and operates in accordance with current best practice relating to corporate governance. The Committee meets quarterly.

The role of the Committee is to assess the overall integrity of the Trust's financial recording and reporting systems and the effectiveness of its internal controls, risk management systems and internal and external

audit functions and to report to the Board of Trustees on its findings. A separate report on the work of the Committee is included on page 22.

## **THE LONDON COMMITTEE**

The London Committee was disbanded by the Board of Trustees on 26 January 2017, with the Board of Trustees having decided that an alternative model for fundraising in London would be more effective. The primary purpose of the London Committee was to raise funds for the Trust from supporters in the London area, primarily through a series of events each year. The Committee was chaired by Robert Pollok who was supported by a further eight members. One of the Committee members, Amanda Herries, was a Trustee.

## **THE INVESTMENT COMMITTEE**

The work of the Investment Committee is described in the section on Investment policy below. The Committee is chaired by James Ferguson who is supported by a further seven Committee members. Two of the Committee members, Peter Ord and Graeme Sword, are Trustees.

## **THE EXECUTIVE COMMITTEE**

The responsibility for managing the operations of the Trust in accordance with the Board's policies, and for monitoring progress through the monthly and quarterly reporting systems, lies with the Chief Executive and the Executive Committee who report regularly to the Board of Trustees.

The Chief Executive is Simon Skinner, supported by Allan Bowie, Chief Financial Officer and Director of Corporate Services, Patrick Duffy, Chief Operating Officer, and Mark Bishop, Director of Customer & Cause.

The members of the Executive Committee are listed on page 50.

## **PERSONAL DEVELOPMENT AND SUPPORT TO BOARD MEMBERS**

All members of the Trust's Board receive an induction detailing Trustees' roles and responsibilities and attend face-to-face group briefings. Regular reports are sent to each Trustee including data relevant to any specific role they hold and generic information about the operations of the Trust. Where particularly complex or contentious issues are encountered, Trustees are invited to attend specific briefings. Each of the Trustees meet with the Chairman on an annual basis as part of a process of annual evaluation. In addition, a programme of external training courses (including those of the Institute of Directors) were made available to Trustees.

## **RELATED PARTIES**

The National Trust for Scotland consolidates the results of its wholly owned subsidiary undertaking, National Trust for Scotland Enterprises Ltd. The company's principal activities are the running of retail, catering, holiday cottages, cruises, hospitality and other sundry trading activities at The National Trust for Scotland properties. Other related parties with which the Trust has transacted during the year are listed in Note 32.

## **POLICIES**

### **Funds and reserves policy**

The General Income Fund ("GIF"), which represents the working capital reserves of the Trust, acts as a source of capital for the Trust's activities and helps to ensure that the Trust can continue to comply with its obligations in the event of a shortfall in income or sudden upturn in expenditure. The current policy of the

Board of Trustees is to have, in reserve, a GIF balance sufficient to meet at least the budgeted costs of six months' normal operational activity and the estimated costs to be met from the GIF of the major conservation, repair and improvement projects during the succeeding twelve month period. This general formula was translated to a target of £21m as part of the five year strategy and the target was initially met by February 2012. In January 2015 the Board of Trustees gave approval for temporary reductions in the level of the GIF up to a maximum of 10% of the fund value. The funds released are available to support commercial projects at the Trust's properties but no further reductions will be approved until the GIF has regained its target level.

A number of the Trust's properties held for conservation have been endowed and such endowments have been given to the Trust either by donors or grant-making bodies on the condition that the capital will not be spent. It is the Trust's policy to seek adequate endowments for all new acquisitions.

Unrestricted funds may from time to time be earmarked by the Board of Trustees as "designated" to meet future specific expenditure. Details of these designations are included in Note 24 to the financial statements.

### **Investment policy**

The Trust holds substantial funds for endowments, restricted and designated purposes and the Board of Trustees is assisted by the Investment Committee on the management of the equity and other investments represented by these funds.

The investment powers of the Trust are contained in The National Trust for Scotland Order Confirmation Act 1973 allowing investment in '...Such stocks, funds, shares, securities and any other investments... as the Council shall, in their absolute discretion, think fit' (Note: Council is now referred to as the Board of Trustees). Funds are currently invested mainly in UK equities and bonds, cash, overseas investments and property. Martin Currie Investment Management Limited has been appointed as the Trust's investment manager responsible for quoted securities. In addition, the Trust holds an investment in a pooled property investment fund. The asset allocation of the quoted and property funds is considered by the Committee and reported to the Board of Trustees on an annual basis or more frequently during periods of changing investment market conditions.

The objective is to meet budgeted income targets approved on an annual basis by the Board of Trustees and to achieve an increase in the value of the income and investment portfolio in real terms over time, while maintaining prudent diversification of assets. Excluding the pooled property investment fund, the remaining investments are split into three parts (two managed portfolios and one cash pool) with funds allocated based on the restrictions attached to the spending of capital. One portfolio (with a year-end value of £93m) is designed to deliver real income growth over time and the other managed portfolio (with a year-end value of £53m) is managed on a total return basis without regard to the split of returns between income and capital. The value of the cash pool amounted to £23m at year-end. The performance of the investment portfolios is measured against appropriate benchmarks and reviewed regularly (on a quarterly basis) by the Investment Committee – who were satisfied with actual performance being ahead of benchmarks - on behalf of the Board of Trustees.

### **GOING CONCERN**

The Board of Trustees has agreed, with the benefit of advice from the Audit and Risk Management Committee, that it is appropriate for the financial statements to be prepared on a going concern basis as detailed in Note 1(b) and 1(c) of the financial statements.

### **TIMING OF INCOME AND EXPENDITURE**

The Trust reports its financial affairs in accordance with the statutory reporting requirements for charities. Accordingly, the Trust reports income from appeals and donations in the year in which it is receivable.

The commitment for the associated expenditure is recognised only once there is a contractual arrangement or the goods have actually been received. There can therefore be a timing difference between the recognition of income and the actual spend resulting in a distortion of the financial results although there were no significant such distortions in the year under review.

Similarly, the Trust is required to report income from grants in the year in which they are receivable. However the expenditure on large projects is usually capitalised in the Balance Sheet and therefore would not necessarily be included as Expenditure in the Consolidated Statement of Financial Activities in the same year. As a result of such a “mismatch”, the capitalised expenditure is not offset against the income from grants, appeals and donations which have financed it until the underlying assets are depreciated.

## **RISK MANAGEMENT**

The Board of Trustees is responsible for ensuring that the Trust has effective systems of internal control and risk management and recognises that the management of risk is an integral aspect of all the Trust’s activities. However, such systems can only provide reasonable, rather than absolute, assurance against material failure or loss.

Following on from a request from the Audit and Risk Management Committee in the previous financial year, work was undertaken during the course of the 2016/17 financial year to create separate risk registers for both (i) strategic risks and (ii) operational risks, and both of these have continued to develop and evolve throughout the course of the financial year. The Board of Trustees have oversight of the strategic risk register and the Executive Committee and Audit and Risk Management Committee maintain and review both the strategic and operational risk registers. The risk registers form an important part of the Trust’s risk management process, which is designed to ensure that the Board of Trustees were made fully aware of the risks inherent in the Trust’s operations. In the normal course of business, there is a monthly risk management report reviewed and updated as relevant by the Executive Committee which monitors the Trust’s risk management systems and raises awareness and understanding of the risks facing the Trust and how they are being managed. The full risk register is on the Executive Committee and Audit and Risk Management Committee agendas at each meeting and a revised version of the report highlighting the most critical risks facing the organisation is considered by Trustees on a quarterly basis with a full review carried out once a year. Risks are tracked with a target risk level agreed for risk mitigation over time.

In recent years a major risk facing the Trust has been that of financial sustainability i.e. of failing to meet its objective to balance its costs and income over time and having insufficient finances to meet the conservation needs of the portfolio leading to a deterioration in condition of the estate. While the Trust’s underlying financial position has continued to improve over recent years, this area of financial sustainability remains one of particular focus with costs and commitments continually increasing and income from paying visitors, government and other sources either falling or failing to match the levels of increased costs. The transformation and restructuring programme that was announced in June 2016, and which followed on from earlier approval by the Board of Trustees, was intended to improve operational efficiency which, together with additional income generated from improved visitor numbers and increased membership, would help ensure the Trust is put onto a financially sustainable footing thereby enabling the Trust to properly meet its conservation objectives.

Other significant risks facing the Trust include, but are not limited to, the following:

**Compliance risk** – due to the variety of its operations and the sectors in which it operates the Trust is subject to extensive regulation particularly in the areas of property and rural land management and in our visitor operations. We have developed a regime of extensive staff training supported by comprehensive guidance materials to ensure that staff understand the relevant regulations and can draw on appropriate guidance and support as required. In addition we have recruited specific compliance skills and engaged expert contractors to address specific areas of concern.

**Health and safety risk** – the safety and well-being of our staff and visitors is of paramount importance to the Trust. The Trust employs a small team of health and safety specialists who advise on management of health and safety issues and carry out audits of the health and safety management processes at properties and in head office. Primary responsibility for site management rests with property managers who each have a property specific safety manual known as the Safe Systems of Work.

The central health and safety team provide a monthly report to both the SMT and the Board of Trustees detailing incidents of concern in the previous month and any consequent remedial action taken. The report also tracks the number and nature of incidents over the year to provide comparisons with previous years.

**Competitive risk** – the Trust derives significant income through providing visitors to its properties with an enjoyable and interesting experience. It operates primarily in the visitor attraction market which in Scotland is extensive and highly competitive. The Trust conducts annual visitor satisfaction surveys to ensure that the experience provided remains of a high standard and monitors developments at local and national competitors to ensure that its offering remains competitive.

In addition, the Trust faces increasing competition in the fundraising arena with traditional donors and grant giving bodies experiencing increases in the number of applications received. We continue to invest in our Development department in order to ensure that we can continue to attract support for our important conservation work.

## **BOARD EFFECTIVENESS**

A full independent and external review of the effectiveness of the Board is carried out every three to five years. The last external review was carried out in 2014. In addition, the Board carries out self-assessment reviews on an ad hoc basis. The Trustees have an opportunity to meet in closed session without management in attendance at each meeting in order to discuss, amongst other things, the effectiveness of the Board's performance and processes.

## **TAXATION**

The Trust is a Scottish registered charity and is recognised as such by HMRC for UK taxation purposes. As a result there is no liability to UK taxation on any of its income or capital gains in respect of charitable activities. The trading activities of the Trust are undertaken by National Trust for Scotland Enterprises Limited which then gift aids its taxable profits in the form of a distribution to the Trust and hence no taxation is incurred.

## **AUDITORS**

The Board of Trustees recommends that RSM UK Audit LLP be appointed as auditors at the Annual General Meeting on 30 September 2017.

Approved by the Board of Trustees on 20 June 2017 and signed on its behalf by:



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**Sir Moir Lockhead OBE, Chairman 20 June 2017**

# **REPORT OF THE AUDIT & RISK MANAGEMENT COMMITTEE**

## **Terms of reference**

The remit of the Committee includes monitoring and reviewing the overall integrity of the financial recording and reporting systems of the Trust, effectiveness of internal controls, risk management systems, budget scrutiny, overseeing internal and external audit functions, managing the independent audit of the annual accounts, and reporting to the Board of Trustees on the Committee's work and findings.

## **Membership and meetings**

Membership of the Committee comprises Trustees and independent external experts, shown on pages 49 and 50. The Trust's external auditor (RSM UK Audit LLP), internal auditor (Grant Thornton UK LLP), Chief Executive, Chief Financial Officer and Director of Corporate Services and Trust Secretary also attend each Committee meeting.

## **External audit activities**

The Committee considered regular reports from the Trust's external auditors, including the audit plan for 2016/17 and a final audit report that documented key findings arising from the audit of the year-end financial statements and internal controls.

## **Internal audit activities**

The Committee scrutinised reports from the internal auditors on audits commissioned to review specific risk issues and to test the effectiveness of internal controls and risk mitigation measures; the Committee then considered the audit findings and recommendations, together with considering management responses to audit recommendations. The Committee monitored the implementation of audit recommendations, in order to strengthen internal controls, efficiency and risk management across the Trust.

The Committee considered several internal audit reports during the year, including on Health and Safety, VAT, governance, and budgetary controls and financial strategy alignment. Internal auditors also visited two Trust properties and submitted reports on the internal controls and operations at these properties. Committee members then discussed control, risk issues and recommendations that arose from all internal audit reports.

Committee members also met the internal and external auditors in private session, without management present, to explore any areas of particular concern, in accordance with best practice in financial governance; however, no significant additional issues emerged during the year.

The Committee reviewed the work and appointment contracts of both the internal and external auditors during the year. The Committee continued to be satisfied with the quality and relevance of the reports received from both external and internal auditors.

## **Budget Monitoring and Risk Management activities**

The Committee regularly reviews the assumptions underlying the Trust's budgets and scrutinises management accounts from the Chief Financial Officer, which report projected outturns against the budgets approved by the Board. The Committee also reviews reports submitted by management on the effectiveness of risk management systems, internal controls and management systems.

## **Accounts activities**

The Committee scrutinised the year-end Financial Statements for 2016/17, together with the Final Audit Findings Report from the independent external auditor. RSM UK Audit LLP provided the Trust with an unqualified audit opinion (see page 24) on the Trust's Financial Statements. The external auditor reported that it had no significant outstanding issues of concern; however, a number of improvements to financial controls and efficiencies were recommended and will be adopted.

## **Summary**

The Audit and Risk Management Committee is satisfied that the range of assurances and evidence of effective internal controls supplied to the Committee are robust, have integrity and are sufficiently reliable to provide overall assurance and support to the Board in its financial stewardship responsibilities.

Sources of assurance considered by the Committee during the year include reports from external and internal auditors, reviews of risk management systems and internal controls, and reports from the Trust's management.

**Ian Doig, Chairman, June 2017**

# INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF THE NATIONAL TRUST FOR SCOTLAND

## Opinion on financial statements

We have audited the financial statements of the National Trust for Scotland (the 'parent charity') and its subsidiary (the 'group') for the year ended 28 February 2017 which comprise the Group and parent charity Statement of Financial Activities, the Group and parent charity Balance Sheets, the Group and parent charity Cash Flow Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent charity's affairs as at 28 February 2017 and of the group's and parent charity's incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, regulations 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at <http://www.frc.org.uk/auditscopeukprivate>

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

We have nothing to report in respect of the following matters where the Charities Accounts (Scotland) Regulations 2006 (as amended) require us to report to you if, in our opinion:

- the information given in the Trustees' Report is not consistent with the financial statements; or
- proper and sufficient accounting records have not been kept by the parent charity; or
- the parent charity financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

## Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Trustees' responsibilities set out on pages 16 and 17 the trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed auditors under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with regulations made under that Act. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

This report is made solely to the charity's trustees, as a body, in accordance with section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the charity's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and its trustees as a body, for our audit work, for this report, or for the opinions we have formed.

*RSM UK Audit LLP*

RSM UK Audit LLP  
Statutory Auditor  
Quay 2 139 Fountainbridge  
Edinburgh  
EH3 9QG  
Date



# Consolidated Statement of Financial Activities for the Year Ended 28 February 2017

	<u>Notes</u>	<u>Unrestricted Funds</u>					
		General Funds £000s	Designated Funds £000s	Restricted Funds £000s	Endowment Funds £000s	Total 2017 £000s	Total 2016 £000s
<b><u>Income and Endowments</u></b>							
<b>Donations and legacies</b>							
Donations from membership subscriptions		10,973	-	5	-	<b>10,978</b>	10,137
Appeals & donations	3	758	-	1,293	1	<b>2,052</b>	2,666
Legacies	4	2,902	-	1,055	-	<b>3,957</b>	7,765
<b>Investment income</b>	5	2,163	53	1,318	4,151	<b>7,685</b>	8,005
<b>Income from charitable activities</b>							
Income from membership subscriptions		3,613	-	2	-	<b>3,615</b>	3,338
Grants	6	-	18	1,619	-	<b>1,637</b>	1,471
Property and other income	7	6,984	-	770	-	<b>7,754</b>	6,363
<b>Income from other trading activities</b>							
Commercial activities	8	11,836	-	-	-	<b>11,836</b>	11,673
<b>Other income</b>							
Gain on sale of assets	9	129	-	810	-	<b>939</b>	1,519
<b>Total income and endowments</b>		<b>39,358</b>	<b>71</b>	<b>6,872</b>	<b>4,152</b>	<b>50,453</b>	<b>52,937</b>
<b><u>Expenditure</u></b>							
<b>Cost of raising funds</b>							
Membership and recruitment		911	-	-	-	<b>911</b>	896
Publicity and fundraising	10	3,548	12	86	290	<b>3,936</b>	4,190
Commercial activities	8	9,547	-	-	-	<b>9,547</b>	9,718
<b>Expenditure on charitable activities</b>							
Membership and recruitment		300	-	-	-	<b>300</b>	296
Property operating expenditure	11	16,868	3,321	1,425	3,862	<b>25,476</b>	25,109
Conservation, repairs and improvements	12	4,732	2,798	4,311	-	<b>11,841</b>	12,795
<b>Other expenditure</b>							
Restructure	34	2,618	-	-	-	<b>2,618</b>	-
Other		2	-	-	-	<b>2</b>	100
<b>Total expenditure</b>		<b>38,526</b>	<b>6,131</b>	<b>5,822</b>	<b>4,152</b>	<b>54,631</b>	<b>53,104</b>
<b>Net income/(expenditure) before gains and losses on investment assets</b>		<b>832</b>	<b>(6,060)</b>	<b>1,050</b>	<b>-</b>	<b>(4,178)</b>	<b>(167)</b>
Net gains/(losses) on investment assets	5	2,284	3,660	9,251	10,509	<b>25,704</b>	(8,639)
<b>Net income/(expenditure) for the year</b>		<b>3,116</b>	<b>(2,400)</b>	<b>10,301</b>	<b>10,509</b>	<b>21,526</b>	<b>(8,806)</b>
Transfers between funds	25	8,236	(7,272)	(964)	-	-	-
<b>Net movement in funds</b>		<b>11,352</b>	<b>(9,672)</b>	<b>9,337</b>	<b>10,509</b>	<b>21,526</b>	<b>(8,806)</b>
<b>Reconciliation of funds</b>							
Total funds brought forward		26,222	41,222	68,117	85,777	<b>221,338</b>	230,144
<b>Total funds carried forward</b>	21	<b>37,574</b>	<b>31,550</b>	<b>77,454</b>	<b>96,286</b>	<b>242,864</b>	<b>221,338</b>

The statement of financial activities includes all gains and losses recognised in the year.

All income and expenditure derive from continuing activities.

The comparative figures for each fund are shown in the notes to the financial statements on pages 30 to 48 which form part of these financial statements.

# Trust Statement of Financial Activities for the Year Ended 28 February 2017

	<u>Notes</u>	<u>Unrestricted Funds</u>		<u>Restricted Funds</u>			
		<b>General Funds £000s</b>	<b>Designated Funds £000s</b>	<b>Other Restricted Funds £000s</b>	<b>Endowment Funds £000s</b>	<b>Total 2017 £000s</b>	<b>Total 2016 £000s</b>
<b><u>Income and Endowments</u></b>							
<b>Donations and legacies</b>							
Donations from membership subscriptions		10,973	-	5	-	<b>10,978</b>	10,137
Appeals & donations	3	758	-	1,293	1	<b>2,052</b>	2,666
Legacies	4	2,902	-	1,055	-	<b>3,957</b>	7,765
<b>Investment income</b>	5	3,629	53	1,318	4,151	<b>9,151</b>	9,185
<b>Income from charitable activities</b>							
Income from membership subscriptions		3,613	-	2	-	<b>3,615</b>	3,338
Grants	6	-	18	1,619	-	<b>1,637</b>	1,471
Property and other income	7	7,807	-	770	-	<b>8,577</b>	7,138
<b>Other income</b>							
Gain on sale of assets	9	129	-	810	-	<b>939</b>	1,519
<b>Total income and endowments</b>		<b>29,811</b>	<b>71</b>	<b>6,872</b>	<b>4,152</b>	<b>40,906</b>	<b>43,219</b>
<b><u>Expenditure</u></b>							
<b>Cost of raising funds</b>							
Membership and recruitment		911	-	-	-	<b>911</b>	896
Publicity and fundraising	10	3,548	12	86	290	<b>3,936</b>	4,190
<b>Expenditure on charitable activities</b>							
Membership and recruitment		300	-	-	-	<b>300</b>	296
Property operating expenditure	11	16,868	3,321	1,425	3,862	<b>25,476</b>	25,109
Conservation, repairs and improvements	12	4,732	2,798	4,311	-	<b>11,841</b>	12,795
<b>Other expenditure</b>							
Restructure	34	2,618	-	-	-	<b>2,618</b>	-
Other		2	-	-	-	<b>2</b>	100
<b>Total expenditure</b>		<b>28,979</b>	<b>6,131</b>	<b>5,822</b>	<b>4,152</b>	<b>45,084</b>	<b>43,386</b>
<b>Net income/(expenditure) before gains and losses on investment assets</b>		832	(6,060)	1,050	-	<b>(4,178)</b>	(167)
Net gains/(losses) on investment assets	5	2,284	3,660	9,251	10,509	<b>25,704</b>	(8,639)
<b>Net income/(expenditure) for the year</b>		<b>3,116</b>	<b>(2,400)</b>	<b>10,301</b>	<b>10,509</b>	<b>21,526</b>	<b>(8,806)</b>
Transfer between funds	25	8,236	(7,272)	(964)	-	-	-
<b>Net movement in funds</b>		<b>11,352</b>	<b>(9,672)</b>	<b>9,337</b>	<b>10,509</b>	<b>21,526</b>	<b>(8,806)</b>
<b>Reconciliation of funds</b>		26,222	41,222	68,117	85,777	<b>221,338</b>	230,144
Total Funds brought forward							
<b>Trust Funds carried forward</b>	21	<b>37,574</b>	<b>31,550</b>	<b>77,454</b>	<b>96,286</b>	<b>242,864</b>	<b>221,338</b>

The statement of financial activities includes all gains and losses recognised in the year.

All income and expenditure derive from continuing activities.

The comparative figures for each fund are shown in the notes to the financial statements on Pages 30 to 48 which form part of these financial statements.

## Consolidated Balance Sheet for the Year Ended 28 February 2017

	<u>Notes</u>	2017 £000s	2016 £000s
<b>Fixed Assets</b>			
Tangible	14	26,234	28,383
Investments	5	213,637	186,699
<b>Current Assets</b>			
Stock	16	875	1,001
Debtors	17	8,405	7,215
Cash and bank		3,318	5,893
		<u>12,598</u>	<u>14,109</u>
<b>Current Liabilities</b>			
Creditors: Amounts falling due within one year	18	<u>(8,353)</u>	<u>(6,570)</u>
<b>Net Current Assets</b>		4,245	7,539
Total Assets less Current Liabilities		<u>244,116</u>	<u>222,621</u>
Creditors: Amounts falling due after more than one year	19	(1,252)	(1,283)
		<u>242,864</u>	<u>221,338</u>
<b>Restricted Funds</b>			
Endowments	22	96,286	85,777
Other Restricted	23	<u>77,454</u>	<u>68,117</u>
		173,740	153,894
<b>Unrestricted Funds</b>			
Designated – Tangible Fixed Assets	24	26,234	28,383
Other Designated		<u>5,316</u>	<u>12,839</u>
		31,550	41,222
General Income	21	<u>37,574</u>	<u>26,222</u>
		69,124	67,444
	21	<u>242,864</u>	<u>221,338</u>

The financial statements were approved by the Board of Trustees on 20 June 2017 and signed on its behalf and authorised for issue by:




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**Sir Moir Lockhead OBE, Chairman 20 June 2017**

# Trust Balance Sheet for the Year Ended 28 February 2017

	<u>Notes</u>	2017 £000s	2016 £000s
<b>Fixed Assets</b>			
Tangible	14	26,234	28,383
Investments	5	213,637	186,699
<b>Current Assets</b>			
Stock	16	117	124
Debtors	17	9,552	8,977
Cash and bank		967	4,382
		<u>10,636</u>	<u>13,483</u>
<b>Current Liabilities</b>			
Creditors: Amounts falling due within one year	18	<u>(6,424)</u>	<u>(5,988)</u>
<b>Net Current Assets</b>		4,212	7,495
<b>Total Assets less Current Liabilities</b>		<u>244,083</u>	<u>222,577</u>
Creditors: Amounts falling due after more than one year	19	(1,219)	(1,239)
		<u>242,864</u>	<u>221,338</u>
<b>Restricted Funds</b>			
Endowments	22	96,286	85,777
Other Restricted	23	<u>77,454</u>	<u>68,117</u>
		173,740	153,894
<b>Unrestricted Funds</b>			
Designated – Tangible Fixed Assets	24	26,234	28,383
Other Designated		<u>5,316</u>	<u>12,839</u>
		31,550	41,222
General Income	21	<u>37,574</u>	<u>26,222</u>
		69,124	67,444
	21	<u>242,864</u>	<u>221,338</u>

The financial statements were approved by the Board of Trustees on 20 June 2017 and signed on its behalf and authorised for issue by:



Sir Moir Lockhead OBE, Chairman 20 June 2017

## Consolidated and Trust Cash Flow Statement for the Year Ended 28 February 2017

		Group 2017	Group 2016	Trust 2017	Trust 2016
	<u>Notes</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
<b>Cash used in operating activities</b>	33	<u>(8,885)</u>	<u>(7,646)</u>	<u>(11,191)</u>	<u>(9,196)</u>
<b>Cash flows from investing activities</b>					
Purchase of assets	14	(1,142)	(2,074)	(1,142)	(2,074)
Returns from investments	5	7,685	8,005	9,151	9,459
Receipts from sales of assets		1,001	1,554	1,000	1,554
Purchase of investments	5	(15,539)	(15,992)	(15,538)	(15,992)
Sale of investments	5	14,305	25,954	14,305	25,954
<b>Cash provided by investing activities</b>		<u>6,310</u>	<u>17,447</u>	<u>7,776</u>	<u>18,901</u>
<b>Cash flows from financing activities</b>					
Repayment of borrowings		-	(6,000)	-	(6,000)
<b>Cash used in financing activities</b>		<u>-</u>	<u>(6,000)</u>	<u>-</u>	<u>(6,000)</u>
<b>Decrease/(increase) in cash in the year</b>		<u>(2,575)</u>	<u>3,801</u>	<u>(3,415)</u>	<u>3,705</u>
<b>Cash and cash equivalents at the beginning of the year</b>		<u>5,893</u>	<u>2,092</u>	<u>4,382</u>	<u>677</u>
<b>Total cash and cash equivalents at the end of the year</b>		<u>3,318</u>	<u>5,893</u>	<u>967</u>	<u>4,382</u>

The Notes on Pages 30 to 48 form part of these Financial Statements

# Notes to the Financial Statements

## 1. ACCOUNTING POLICIES

### (a) General

The Trust operates under The National Trust for Scotland Order Confirmation Acts 1935 to 1973 and the National Trust for Scotland (Governance, etc) Act 2013. The National Trust for Scotland for Places of Historic Interest or Natural Beauty is registered as a charity in Scotland, with charity registration number SC007410, and has its principal office and place of business at Hermiston Quay, 5 Cultins Road, Edinburgh EH11 4DF. The charitable purposes of the Trust may be summarised as the promotion of the preservation of, access to and enjoyment of places of historic interest or natural beauty.

The National Trust for Scotland has one wholly owned subsidiary undertaking, National Trust for Scotland Enterprises Ltd., the results of which are consolidated with those of the Trust. The company's principal activities are the running of retail, catering, holiday cottages, cruises, hospitality and other sundry trading activities at The National Trust for Scotland properties.

The principal accounting policies adopted, judgements and key sources of estimation uncertainty in the preparation of the financial statements are as follows:

### (b) Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102) (effective 1 January 2015), with the Charities and Trustee Investment (Scotland) Act 2005, Regulation 6 and 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and with the Statement of Recommended Practice – Accounting & Reporting by Charities (Charities SORP (FRS 102)), effective 1 January 2015.

The National Trust for Scotland (“the Trust”) meets the definition of a public benefit entity under FRS 102.

Monetary amounts in these financial statements are rounded to the nearest whole £1,000 except when otherwise indicated.

### (c) Going Concern

The Audit and Risk Management Committee reviews the position in relation to Going Concern and advises the Board of Trustees accordingly. The closing General Income Fund (“GIF”) balance of £37,574k is significantly above its target level of £21,000k mainly due to improved financial performance in the financial year and the impact of unrealised gains on investment assets.

Based on assumptions which the Board of Trustees has agreed and approved, the GIF is forecasted to remain at a satisfactory level during 2018, even when taking into account anticipated future expenditure being committed to investments in priority properties, whilst assuming unrestricted legacy income remains at typical historic levels. Wherever possible, projects and investment in priority properties will continue to be funded from restricted funds to the fullest extent in the first instance, without recourse to the GIF.

The Group has £3,318k of cash in banks (Trust £967k) and a further £17,626k held in readily realisable investments which the Board of Trustees considers is more than sufficient to cover the forecast cash requirements in 2018. Accordingly, the going concern basis of accounting has been adopted in the preparation of the financial statements.

### (d) Basis of consolidation

The results include those of the National Trust for Scotland, and those of National Trust for Scotland Enterprises Ltd, the wholly-owned subsidiary of the Trust.

### (e) Income

With the exception of membership subscriptions, income is recognised when the Trust has legal entitlement, any performance conditions attached to the item(s) of income have been met, it is probable that the income will be received and the amount can be measured reliably.

- The element of annual membership subscriptions which is not regarded as a donation is treated as income from charitable activities. This is deferred and released to the Statement of Financial Activities over the period to which the membership subscription relates. The element which is deemed to be a donation and its associated gift aid is recognised on receipt and reported within Donations and Legacies in the Statement of Financial Activities. Life membership subscriptions and any associated gift aid are recognised in 15 equal annual instalments and allocated to donations and legacies and income from charitable activities, within the Statement of Financial Activities, as appropriate.
- Income from government and other grants, whether ‘capital’ grants or ‘revenue’ grants, is recognised when the charity has entitlement to the funds, performance conditions attached to the grants have been met, it is probable that the income will be received and the amount can be measured reliably. Where terms or conditions have not been met, or uncertainty exists as to whether they can be met, then the relevant income is not recognised in the year but is deferred and included in the balance sheet as deferred income.
- Legacies are accounted for as income either upon receipt or when receipt of the legacy is considered probable. Receipt is normally probable when:
  - (i) Confirmation has been received from the representatives of the estate(s) that probate has been granted,
  - (ii) The executors have established that there are sufficient assets in the estate to pay the legacy, and
  - (iii) All conditions attached to the legacy have been fulfilled or are within the charity’s control.

If there is uncertainty as to the amount of the legacy and it cannot be reliably estimated then the legacy is shown as a contingent asset until all of the conditions for income recognition are met.

Restricted legacies are allocated to the relevant property or other funds following the wishes of the donor. All other legacies are credited to the General Income Fund.

#### **(f) Expenditure**

Expenditure is recognised once there is a legal or constructive obligation to make a payment to a third party, it is probable that settlement will be required and the amount of the obligation can be measured reliably. Expenditure is classified under the following activity headings either directly or, if shared, on the basis of time spent by staff.

- Cost of raising funds comprises those costs which are associated with the generation of income from sources other than from undertaking charitable activities, and includes trading, investment management costs, membership, fundraising and an allocation of associated support costs.
- Expenditure on charitable activities comprises those costs incurred by the charity in the delivery of its charitable activities, and includes membership, property operations, conservation, repairs and improvements and an allocation of associated support costs.
- Other expenditure represents those items not falling into any other heading.
- Governance costs include those costs associated with meeting the constitutional and statutory requirements of the charity and include the audit fees and costs linked to the strategic management of the charity.

#### **(g) Allocation of support costs**

Support costs are those costs which do not relate directly to a single activity. These include back office costs, finance, personnel, ICT and governance costs. Support costs have been allocated between cost of raising funds and expenditure on charitable activities. The analysis of support costs and the bases of allocation are shown in Note 13.

## **(h) Funds and reserves**

The summarised movements of funds analysed by category are shown in the Statement of Financial Activities.

The National Trust for Scotland's financial statements are a consolidation of around 400 individual funds.

### Restricted funds

Restricted funds are funds subject to specific trusts or conditions, which are declared or made by the donor, or with authority of the donor (e.g. an appeal). Restricted funds can be restricted income funds or restricted capital funds. The Statement of Financial Activities identifies two main headings for restricted funds as follows:

*Endowment Funds* are capital funds where only the income from the invested money can be spent on work at properties.

*Other Restricted Funds* includes monies raised from specific appeals and legacies given for specific purposes. This also includes reserves created for use at specific properties either from prior year surpluses or from specific donations.

### Unrestricted funds

Unrestricted funds can be used at the discretion of the Board of Trustees in furtherance of the objects of the Trust. In order to ensure that money is available for specific projects, certain funds are put aside and designated by the Board of Trustees into separate funds and used accordingly. The Statement of Financial Activities splits unrestricted funds between Designated Funds and General Funds.

*Designated funds* include funds represented by costs of certain properties built by the Trust or occupied for administration purposes and other funds designated by the Board of Trustees for specific projects.

*The General Income Fund ('GIF')* is the working reserve of the Trust. When the expenditure of an individual property exceeds its income, and it has no reserves of its own, the GIF covers the deficit. In addition, subject to the availability of funds, the GIF may be used to help fund an acquisition or to pay for a special project where no other sources of funding can be found or is available. After making any transfers as described above, the balance of the operating result is retained in the GIF.

### Transfers between Funds

Transfers are made between funds to reflect either the allocation of revenue and costs or a designation of funds for a specific purpose. Transfers are effected to ensure that only related investment income and income from each of specific legacies, donations and grants, remain in restricted funds. In relation to the restricted fund for appeals, donations and grant income for newly constructed buildings, the balance is transferred to a designated fund on completion of construction.

## **(i) Fixed Assets - Heritage Assets**

Heritage assets are defined as tangible and intangible assets with historic, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

The majority of the assets owned by the Trust fall under the definition of Heritage Assets contained in FRS 102. The Trust accounts for its Heritage Assets in line with FRS 102 and these fall into two categories, land and buildings and collections. The accounting policies adopted for these categories are as follows:

### **Land and buildings**

As allowed by FRS 102, the Trust does not capitalise heritage assets in the form of land and buildings in the balance sheet. Following the introduction of FRS 102, the Board of the National Trust for Scotland reviewed the position and confirmed its view that the capitalisation of heritage assets would result in a distorted view of the Trust's financial position. These assets are not "assets" in the normal sense, since any value placed on them would be more than offset by a liability, being the obligation to maintain them in perpetuity.

### **Collections**

In the years of its existence the Trust has acquired numerous collections of furniture, paintings, books, fine china and other artefacts. These collections substantially of heritage significance were often acquired at the same time as the property in which they are housed but some have also been acquired separately. Descriptions of artefacts acquired are held on a database which currently holds almost 80,000 entries encompassing around 1 million individual items. However, since these items have been accumulated over a considerable period of time, the Trust does not hold a record of the cost or valuation for the majority of items



acquired. Further, the Board of Trustees believes that the cost of obtaining valuations for all its collection items would not be commensurate with the benefits to the users of its financial statements. It is therefore the Trust's policy not to capitalise its collections assets in its balance sheet.

The Trust's approach to the potential acquisition of new heritage assets is governed by its acquisition policy a copy of which is available on request from [policy@nts.org.uk](mailto:policy@nts.org.uk). The Trust has also developed an acquisition policy which specifically relates to material culture collections which can also be obtained from the above email address.

The Trust has no plans to dispose of any of its significant heritage assets.

**(j) Fixed Assets – Tangible**

Administrative offices are held at cost and not depreciated, as there is a long estimated useful life and the residual value at disposal is expected to be equal to or in excess of carrying value. A review is carried out annually to confirm that no impairment has arisen.

Individual assets costing more than £5,000 are capitalised and written off over their estimated useful life.

The Trust regularly refurbishes the interior of its holiday cottages and its commercial operations such as retail or catering outlets. These units are often located in Heritage Assets which themselves are not capitalised in line with the policy outlined previously. However, since the primary purpose of these refurbishments is income generation the costs of the refurbishments (if in excess of £5,000) are capitalised and depreciated over the appropriate period below.

Depreciation is charged to write off the cost less estimated residual value of fixed assets in equal instalments over the expected useful life as follows:

Buildings	30 years
Renewable equipment*	20 years
Fit-out costs	10 - 15 years
Office furniture and equipment*	8 years
Fixtures and fittings	5 - 20 years
Motor vehicles	4 years
Computer equipment	4 years

(\*included in Fixtures and fittings in Note 14)

Assets under construction are not depreciated until completed and placed into service or use.

**(k) Operating leases**

The annual rental for leases which are classified as operating leases are charged as expenditure to the Statement of Financial Activities on a straight line basis over the lease term.

**(l) Investments**

Investments are shown at fair value. Unquoted investments are shown at the Board of Trustees' valuation on advice. Additions are shown at cost with the exception of gifts which are shown at valuation on the date of gift. Realised and unrealised gains and losses are recognised in the Statement of Financial Activities in the period in which they arise. The investment held in the subsidiary is held at cost.

**(m) Stock**

Stock is stated at the lower of cost and net realisable value other than farm stocks which are stated at valuation. Cost is stated at the purchase price incurred by the Trust.

**(n) Cash and bank**

Cash at bank and in hand is held to meet the day to day running costs of the charity as they fall due.

**(o) Financial instruments**

The Trust has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Finance Instruments Issues' of FRS 102, in full, to all of its financial instruments.

Financial assets and financial liabilities are recognised when the Trust becomes a party to the contractual provision of the instrument, and are offset only when the Trust currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

***Financial assets***

A financial asset represents financial resources available to the charity and examples include financial investments in shares or bonds, debtors and cash.

**Debtors**

Trade and other debtors which are receivable within one year are initially measured at the transaction Price. They are subsequently measured at amortised cost, being the transaction price less any amounts settled and any impairment losses.

A provision for impairment of trade and other debtors is established when there is objective evidence that the amounts due will not be collected according to the original terms of the contract. Impairment losses are recognised in the Statement of Financial Activities for the excess of the carrying value of the trade debtor over the present value of the future cash flows discounted using the original effective interest rate. Subsequent reversals of an impairment loss that objectively relate to an event occurring after the impairment loss was recognised, are recognised immediately in profit or loss.

Prepayments are valued at the amount prepaid. Accrued income is measured at the amount recoverable.

***Financial liabilities***

**Creditors**

Trade and other creditors payable within one year are initially measured at the transaction price and subsequently measured at amortised cost, being the transaction price less any amounts settled.

**(p) Borrowings**

Borrowings are initially recognised at the transaction price, including transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest expense is recognised on the basis of the effective interest method and is included in interest payable and other similar charges.

**(q) Pension schemes**

The Trust operates a defined contribution scheme through a Group Personal Pension Scheme and National Employment Savings Trust (NEST). Further detail is provided in Note 30.

**(r) VAT**

The Trust is registered for VAT, with partial exemption due to the nature of incoming resources. Expenditure is stated inclusive of any irrecoverable input tax.

**(s) Contribution of volunteers**

No amounts have been included in these financial statements to reflect the value of services provided free of charge to The National Trust for Scotland by volunteers. An estimate of the value of hours of volunteer time from which the Trust has benefited is included in Note 29.

**(t) Comparative financial information**

The accounting policies adopted have been consistently applied in both the current and comparative period.

**(u) Capital contributions**

Capital contributions from Landlords are treated as deferred income and are released to the Statement of Financial Activities over the initial lease period.

## 2. CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### Critical accounting estimates and assumptions

The Trust makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results.

The Trust has made no estimates and assumptions that will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Critical areas of judgement

No critical judgements have been made in the process of applying the Group's accounting policies that will have a significant effect on the amounts recognised in the financial statements.

## 3. APPEALS & DONATIONS

The income from appeals and donations was £2,052k (2016: £2,666k). Detailed comparative information for each separate class of fund is set out below:

Group and Trust	Unrestricted Funds		Restricted Funds		Total £000s
	General Funds £000s	Designated Funds £000s	Other Restricted Funds £000s	Endowment Funds £000s	
2017	758	-	1,293	1	2,052
2016	826	-	1,566	274	2,666

## 4. LEGACIES

The income from legacies was £3,957k (2016: £7,765k). Legacy income is now recognised when its receipt is probable and quantifiable. Detailed comparative information for each separate class of fund is set out below:

Group and Trust	Unrestricted Funds		Restricted Funds		Total £000s
	General Funds £000s	Designated Funds £000s	Other Restricted Funds £000s	Endowment Funds £000s	
2017	2,902	-	1,055	-	3,957
2016	6,320	-	1,445	-	7,765

## 5. INVESTMENTS AND INVESTMENT INCOME

	2017 £000s	2016 £000s
<b>Opening Fair Value</b>	<b>186,699</b>	205,300
Additions at cost	15,539	35,902
Disposal proceeds	(14,305)	(45,864)
Realised gains	1,111	5,606
Unrealised gains/(losses)	24,593	(14,245)
<b>Closing Fair Value</b>	<b>213,637</b>	186,699
<b>Book Cost of Investments at 28 February 2017</b>	<b>159,022</b>	156,677

Detailed comparative information for each separate class of fund relating to the realised gains/(losses) from investment asset disposals and unrealised gains/(losses) from investment asset revaluation is set out below:

	<b>General Funds</b>		<b>Designated Funds</b>		<b>Other Restricted Funds</b>		<b>Endowment Funds</b>		<b>Total</b>	
	2017 £000s	2016 £000s	2017 £000s	2016 £000s	2017 £000s	2016 £000s	2017 £000s	2016 £000s	2017 £000s	2016 £000s
Realised gains/(losses) on investment disposals	-	-	423	854	826	3,824	(138)	928	1,111	5,606
Unrealised (losses)/gains on investment revaluation	2,284	(498)	3,237	(194)	8,425	(8,544)	10,647	(5,009)	24,593	(14,245)
<b>Net gains/(losses) on investment assets</b>	<b>2,284</b>	<b>(498)</b>	<b>3,660</b>	<b>(660)</b>	<b>9,251</b>	<b>4,720</b>	<b>10,509</b>	<b>4,081</b>	<b>25,704</b>	<b>(8,639)</b>

The following is a summary of the investments of all the funds of the Trust and the income arising from them:

	<b>Group and Trust Capital Fair Value</b>		<b>Group Investment Income</b>		<b>Trust Investment Income</b>	
	2017 £000s	2016 £000s	2017 £000s	2016 £000s	2017 £000s	2016 £000s
UK equities	75,632	67,651	3,571	3,943	3,571	3,943
Property investments	2,715	2,985	-	45	-	45
Overseas equities	59,289	44,075	1,301	1,181	1,301	1,181
Fixed and variable interest stock	12,192	12,077	583	605	583	605
Deposits and cash	22,959	21,120	25	137	25	137
Unit trusts and open ended securities	40,850	38,791	2,205	2,094	2,205	2,094
Distribution from Enterprises	-	-	-	-	1,466	1,180
<b>Fair Value of Investments</b>	<b>213,637</b>	<b>186,699</b>	<b>7,685</b>	<b>8,005</b>	<b>9,151</b>	<b>9,185</b>

No individual investment exceeds 5% of the total value of the portfolio.

Of the total group investment income of £7,685k (2016: £8,005k), £2,163k was unrestricted (2016: £1,452k), £53k was designated (2016: £421k), £1,318k was restricted (2016: £1,801k) and £4,151k was endowment (2016: £4,331k).

At the year end, the Trust held property deemed to be 'not of heritage significance'. In line with FRS 102 these properties have been included within Property investments above at a fair value of £2,715k (2016: £2,657k) as per valuations conducted by Lucy St Johnston, MRICS, the Trust's National Estates Manager, as at 28 February 2017.

In addition to the investment income of the Group of £7,685k (2016: £8,005k), the Trust's investment income includes a gift aid distribution of £1,466k (2016: £1,180k) from National Trust for Scotland Enterprises Ltd SC095585, its subsidiary undertaking, arising from an investment of £2 held within the National Trust for Scotland.

## 6. GRANTS

The Trust received grants from the following bodies:

	Group and Trust	
	2017	2016
	£000s	£000s
Scottish Government	128	62
Historic Environment Scotland	656	316
Scottish Natural Heritage	428	585
Local Authorities and Enterprise companies	390	443
Heritage Lottery Fund (partly on behalf of National Heritage Memorial Fund)	10	55
Scottish Museums Council	25	10
	<u>1,637</u>	<u>1,471</u>

Of the total grants received of £1,637k (2016: £1,471k), £0k were unrestricted (2016: £899k) and £18k were designated (2016: £0k) and £1,619k were restricted (2016: £572k).

Of the total grants received, £0k (2016: £12k) was deferred due to early receipt from the grant provider.

## 7. PROPERTY AND OTHER INCOME

Group	General Funds		Designated Funds		Other Restricted Funds		Endowment Funds		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	£000s		£000s		£000s		£000s		£000s	
Admissions	3,748	3,518	-	-	-	-	-	-	3,748	3,518
Rents	1,642	1,460	-	-	611	82	-	-	2,253	1,542
Other	1,594	1,254	-	10	159	39	-	-	1,753	1,303
	<u>6,984</u>	<u>6,232</u>	<u>-</u>	<u>10</u>	<u>770</u>	<u>121</u>	<u>-</u>	<u>-</u>	<u>7,754</u>	<u>6,363</u>

Trust	General Funds		Designated Funds		Other Restricted Funds		Endowment Funds		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	£000s		£000s		£000s		£000s		£000s	
Admissions	3,748	3,518	-	-	-	-	-	-	3,748	3,518
Rents	1,642	1,460	-	-	611	82	-	-	2,253	1,542
Other	2,417	2,029	-	10	159	39	-	-	2,576	2,078
	<u>7,807</u>	<u>7,007</u>	<u>-</u>	<u>10</u>	<u>770</u>	<u>121</u>	<u>-</u>	<u>-</u>	<u>8,577</u>	<u>7,138</u>

Other income, for the Group and Trust, includes income from event and produce sales at properties, income from the running of Thistle Camps and working party holidays to St Kilda as well as contributions from third parties.

## 8. COMMERCIAL ACTIVITIES

National Trust for Scotland Enterprises Ltd (“Enterprises”) is wholly owned by the Trust and incorporated in Scotland (SC095585) and its results are consolidated with the results of the National Trust for Scotland. Enterprises principal activities are the running of retail, catering, holiday cottages, cruises, hospitality and other sundry trading activities at Trust properties. Unlike most of the Trust’s income Enterprises does not enjoy exemption from taxation and distributes under gift aid the whole of its profits to the Trust, this year’s distribution being £1,466k (2016: £1,180k). A management charge of £823k (2016: £775k) was charged by the National Trust for Scotland for management services.

The Turnover and Net Contributions to Trust funds were:

	<b>Group Turnover</b>		<b>Group Costs</b>		<b>Group Contribution</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Retail	4,428	3,766	3,622	3,252	806	514
Catering	3,685	3,391	3,021	2,887	664	504
Holiday cottages	1,011	991	667	706	344	285
Cruises	1,692	2,396	1,407	2,053	285	343
Functions	594	728	530	523	64	205
Other income and events	426	401	300	297	126	104
	<b>11,836</b>	<b>11,673</b>	<b>9,547</b>	<b>9,718</b>	<b>2,289</b>	<b>1,955</b>

The Net Assets of Enterprises are summarised as follows:

	<b>2017</b>	<b>2016</b>
	<b>£000s</b>	<b>£000s</b>
Stock	758	877
Debtors	2,062	794
Cash and bank	2,351	1,511
Creditors	(1,962)	(626)
Loan account with the Trust	(3,209)	(2,556)
Net Assets	-	-

## 9. OTHER INCOME

Other income, being gain on sale of assets was £939k (2016: £1,519k). Detailed comparative information for each separate class of fund is set out below:

	<b>Unrestricted Funds</b>		<b>Restricted Funds</b>		
<b>Group and Trust</b>	<b>General Funds £000s</b>	<b>Designated Funds £000s</b>	<b>Other Restricted Funds £000s</b>	<b>Endowment Funds £000s</b>	<b>Total £000s</b>
<b>2017</b>	129	-	810	-	939
<b>2016</b>	344	-	1,175	-	1,519

## 10. PUBLICITY AND FUNDRAISING

Expenditure on publicity and fundraising was £3,936k (2016: £4,190k). Detailed comparative information for each separate class of fund is set out below:

	<b>Unrestricted Funds</b>		<b>Restricted Funds</b>		
<b>Group and Trust</b>	<b>General Funds £000s</b>	<b>Designated Funds £000s</b>	<b>Other Restricted Funds £000s</b>	<b>Endowment Funds £000s</b>	<b>Total £000s</b>
<b>2017</b>	3,548	12	86	290	3,936
<b>2016</b>	3,748	28	121	293	4,190

## 11. PROPERTY OPERATING EXPENDITURE

Property operating expenditure consists of the following main areas of resources expended:

Group and Trust	2017 £000s	2016 £000s
Salaries and wages	10,827	10,548
Other overheads (including depreciation)	4,641	4,388
Utilities	1,534	1,636
Maintenance and equipment	2,078	1,897
Insurance	797	857
Travel and subsistence	636	550
Support costs (Note 13)	4,697	4,934
Governance costs (Note 13)	266	299
<b>Total</b>	<b>25,476</b>	<b>25,109</b>

Of the total property operating expenditure £25,476k (2016: £25,109k), £16,868k was unrestricted (2016: £25,026k), £3,321k designated (2016: £0k) £1,425k was restricted (2016: £83k) and £3,862k was endowment (2016: £0k).

## 12. CONSERVATION, REPAIRS AND IMPROVEMENTS

The Trust spent the following on conservation, repairs and improvements:

Group and Trust	2017 £000s	2016 £000s
Major projects	4,699	4,380
Routine conservation & repairs	4,004	4,919
Support costs (Note 13)	2,921	3,206
Governance costs (Note 13)	217	290
	<b>11,841</b>	<b>12,795</b>

Of the total spend on conservation, repairs and improvements of £11,841k (2016: £12,795k), £4,732k was unrestricted (2016: £4,576k), £2,798k was designated (2016: £3,014k) and £4,311k was restricted (2016: £5,205k).

Major projects vary year on year and as such spending will increase or decrease in accordance with the projects ongoing during each year.

## 13. ANALYSIS OF SUPPORT AND GOVERNANCE COSTS

The Trust initially identifies the costs of its support functions. It then identifies those costs which relate to the governance function. The other support costs, together with the governance costs, are allocated between fundraising activities and charitable activities. The basis of allocation is on the estimated time spent by the appropriate support service.

Group and Trust	Admin & Other £000s	Human Resources £000s	Finance £000s	ICT * £000s	2017 £000s	2016 £000s
Membership and recruitment	30	164	37	61	292	321
Publicity and fundraising	243	26	191	61	521	634
Property operating expenditure	3,093	633	607	364	4,697	4,934
Conservation, repairs and improvements	2,550	95	185	91	2,921	3,206
Governance	581	34	115	30	760	924
<b>Total</b>	<b>6,497</b>	<b>952</b>	<b>1,135</b>	<b>607</b>	<b>9,191</b>	<b>10,019</b>

\*ICT stands for Information and Communications Technology.

Group and Trust	2017	2016
	Governance	Governance
	£000s	£000s
Membership and recruitment*	195	223
Publicity and fundraising	82	112
Property operating expenditure	266	299
Conservation, repairs and improvements	217	290
<b>Total</b>	<b>760</b>	<b>924</b>

\*Governance costs relating to membership and recruitment are allocated across cost of raising funds and charitable activities based on the percentage split of income.

#### 14. TANGIBLE FIXED ASSETS

Group and Trust	Assets under Construction £000s	Admin Offices £000s	Motor Vehicles £000s	Buildings £000s	Building Fit-outs £000s	Computer Equipment £000s	Fixtures & Fittings £000s	Total £000s
<b>Cost and Valuation</b>								
At 1 March 2016	242	305	2,460	24,140	7,491	4,093	4,759	43,490
Additions	746	-	266	-	-	67	63	1,142
Disposals	-	(38)	(146)	-	-	-	(20)	(204)
Transfers	(257)	-	-	-	-	-	257	-
<b>At 28 February 2017</b>	<b>731</b>	<b>267</b>	<b>2,580</b>	<b>24,140</b>	<b>7,491</b>	<b>4,160</b>	<b>5,059</b>	<b>44,428</b>
<b>Depreciation</b>								
At 1 March 2016	-	-	1,853	4,219	4,353	2,162	2,520	15,107
Charge for period	-	-	292	805	730	931	470	3,228
Disposals	-	-	(128)	-	-	-	(13)	(141)
<b>At 28 February 2017</b>	<b>-</b>	<b>-</b>	<b>2,017</b>	<b>5,024</b>	<b>5,083</b>	<b>3,093</b>	<b>2,977</b>	<b>18,194</b>
<b>Net Book Amount</b>								
<b>At 28 February 2017</b>	<b>731</b>	<b>267</b>	<b>563</b>	<b>19,116</b>	<b>2,408</b>	<b>1,067</b>	<b>2,082</b>	<b>26,234</b>
At 1 March 2016	242	305	607	19,921	3,138	1,931	2,239	28,383



## 15. HERITAGE ASSETS

- 15.1** At 28 February 2017 the Trust owned a variety of places for the access and benefit of the nation, including 129 visited properties, 35 major gardens, 3 historic burghs, 200,000 acres of countryside, 16 island groups, 7 national nature reserves, 46 Munros, 1 Dual World Heritage Site and more than 1,000,000 artefacts.

These assets have been acquired since the formation of the Trust and many have been gifted or bequeathed to the Trust during that period. It is therefore not possible to give a total acquisition cost for the heritage portfolio nor would such a figure be meaningful.

The heritage assets owned by the Trust fall into two categories; 1) land and buildings and 2) collections. For the reasons explained in the accounting policy on heritage assets, neither of these categories are capitalised in the balance sheet.

### **Land and buildings**

Land and buildings includes areas of countryside, islands, castles, museums, houses, farms, gardens and estates.

The total insurance reinstatement value of our historic buildings is £1,061 million.

### **Collections**

Collections include furniture, paintings, museum exhibits, porcelain, cutlery, books and letters.

The Trust estimates that its collections contain 1 million different individual items acquired at various points during its 86 year history. The bulk of these collections are on display in the properties run by the Trust but some items are also held in storage and used to periodically refresh or extend displays. Examples of the significant collections held by the Trust include:

- The Beckford collection of exceptional small scale objets de vertu, silver and porcelain housed in Brodick Castle.
- The portrait collection, including works by Batoni, Romney, Gainsborough, Opie, Lawrence and Hoppner at Fyvie Castle. The castle also contains one of the largest private collections of Raeburns in the world as well as an equally impressive collection of fine furniture, tapestries, arms and armour.
- The Arms collection at Culzean Castle which includes one of the most important collections of 18<sup>th</sup> century and early 19th-century flintlock pistols in the world.
- The exceptional collection of 20th-century Scottish paintings given to the Trust by Douglas Hutchison in 1999 and which is currently hung in the Eisenhower Apartments at Culzean Castle.

The Trust maintains a database of a portion of these items which amounts to almost 80,000 different entries approximately 5,477 of which are on loan to the Trust. The database holds a valuation figure for approximately 23,000 of the remaining 74,500 entries and the total of these valuations is referenced below. The valuations cover a broad time period with the earliest dating from the early 1960's and emanate from three separate sources:

- Professional valuations carried out on certain items under a rolling programme of insurance valuation. This programme ceased in 2005.
- Acquisition costs where items have been purchased separately.
- Insurance valuations undertaken for specific purposes (e.g. the loan of a painting to a gallery for display).

Given the age of the recorded valuations and the lack of valuations available for the majority of items the figure for collections is likely to be significantly understated. The cost of obtaining valuations for the 51,500 remaining items is not thought to be commensurate with the benefit to users of these accounts. Based on the details currently held however the Trust estimates that the collections it holds have a total value in excess of £121m.

- 15.2** The Trust has acquired new items in accordance with its acquisition policy. In the last 5 years the costs of acquisitions have been as follows:

	Land and Buildings	Collections
	£000s	£000s
2017	-	<b>18</b>
2016	-	100
2015	-	85
2014	-	-
2013	-	-

- 15.3** The trust has made the following disposals of heritage assets during the year:

<b>Asset Category</b>	<b>2017 £000s</b>	<b>2016 £000s</b>
<b>Land and buildings</b>		
Keepers Cottage, Crathes	-	235
Whitehill Farmhouse & Land, Hill of Tarvit	<b>193</b>	1,140
Whitehill Cottage Hill of Tarvit	<b>93</b>	-
Glencairn Cottage, RBBM	<b>180</b>	-
Aird Cottage, RBBM	<b>207</b>	-
Fasag Cottage, Torridon	<b>132</b>	-
Wullver's Hool, Unst	<b>43</b>	-
Land at Balmacara	<b>9</b>	5
Land at Glencoe	<b>1</b>	-
Land at Torridon	-	42
Land at Kintail	<b>1</b>	-
	<b><u>859</u></b>	<b><u>1,422</u></b>

This represents the sales value (based on the prevailing market value at the time of sale) less legal fees incurred in the making of the sale.

## **16. STOCK**

	<b>Group</b>		<b>Trust</b>	
	<b>2017 £000s</b>	<b>2016 £000s</b>	<b>2017 £000s</b>	<b>2016 £000s</b>
Retail stocks	757	876	-	-
Farm stocks	117	124	117	124
Raw materials	<b>1</b>	1	-	-
	<b><u>875</u></b>	<u>1,001</u>	<b><u>117</u></b>	<u>124</u>

The value of stocks expensed during the year was £3,217k (2016: £2,736k).

## **17. DEBTORS**

	<b>Group</b>		<b>Trust</b>	
	<b>2017 £000s</b>	<b>2016 £000s</b>	<b>2017 £000s</b>	<b>2016 £000s</b>
Trade debtors	337	313	337	313
Other debtors including tax recoverable	701	795	701	795
Prepayments and accrued income and deferred expenditure	7,367	6,107	5,305	5,313
Amounts due from subsidiary undertakings	-	-	3,209	2,556
	<b><u>8,405</u></b>	<u>7,215</u>	<b><u>9,552</u></b>	<u>8,977</u>

## 18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Trust	
	2017	2016	2017	2016
	£000s	£000s	£000s	£000s
Trade creditors	1,431	1,729	1,431	1,729
Other creditors	955	796	255	214
Taxation and social security	368	458	368	458
Accruals	4,432	2,424	3,203	2,424
Deferred income	1,050	1,053	1,050	1,053
Life members account	117	110	117	110
	<u>8,353</u>	<u>6,570</u>	<u>6,424</u>	<u>5,988</u>

Deferred income is analysed as follows:

	Membership Income £000		Other Deferred Income £000		Total 2017 £000s		Total 2016 £000	
	Group	Trust	Group	Trust	Group	Trust	Group	Trust
Deferred income as at 1 March 2016	983	983	70	70	1,053	1,053	910	910
Amounts released during the year	(983)	(983)	(70)	(70)	(1,053)	(1,053)	(910)	(910)
Amounts deferred during the year	985	985	65	65	1,050	1,050	1,053	1,053
<b>Deferred income as at 28 Feb 2017</b>	<u>985</u>	<u>985</u>	<u>65</u>	<u>65</u>	<u>1,050</u>	<u>1,050</u>	<u>1,053</u>	<u>1,053</u>

Membership income is deferred and released to the Consolidated Statement of Financial Activities (SOFA) over the period to which the membership relates. Other deferred income relates mainly to a capital contribution received in respect of Hermiston Quay which will be released to the SOFA over the initial lease period.

## 19. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Trust	
	2017	2016	2017	2016
	£000s	£000s	£000s	£000s
<b>Between one and two years</b>				
Life members account	117	106	117	106
Other creditors	36	62	3	18
Deferred income	44	44	44	44
<b>Between two and five years</b>				
Life members account	303	293	303	293
Deferred income	133	133	133	133
<b>Between five and fifteen years</b>				
Life members account	456	437	456	437
Deferred income	163	208	163	208
	<u>1,252</u>	<u>1,283</u>	<u>1,219</u>	<u>1,239</u>

## 20. FINANCIAL INSTRUMENTS

The carrying amount of the Group's financial instruments at 28 February 2017 were:

	Group		Trust	
	2017	2016	2017	2016
	£000s	£000s	£000s	£000s
<b>Financial Assets:</b>				
Debt instruments measured at amortised cost	1,538	3,688	1,538	3,688
<b>Total</b>	<u>1,538</u>	<u>3,688</u>	<u>1,538</u>	<u>3,688</u>
<b>Financial Liabilities:</b>				
Measured at amortised cost	6,749	4,887	6,016	4,261
<b>Total</b>	<u>6,749</u>	<u>4,887</u>	<u>6,016</u>	<u>4,261</u>

## 21. ANALYSIS OF NET ASSETS AMONG FUNDS

The fund balances at 28 February 2017 are represented by:

Group	General Funds £000s	Designated Funds £000s	Other Restricted Funds £000s	Endowment Funds £000s	Total £000s
Tangible fixed assets	-	26,234	-	-	26,234
Investments	45,489	1,153	72,826	94,169	213,637
Net current assets	(6,663)	4,163	4,628	2,117	4,245
Creditors due in more than one year	(1,252)	-	-	-	(1,252)
<b>At 28 February 2017</b>	<b>37,574</b>	<b>31,550</b>	<b>77,454</b>	<b>96,286</b>	<b>242,864</b>
At 29 February 2016	26,222	41,222	68,117	85,777	221,388

Trust	General Funds £000s	Designated Funds £000s	Other Restricted Funds £000s	Endowment Funds £000s	Total £000s
Tangible fixed assets	-	26,234	-	-	26,234
Investments	45,489	1,153	72,826	94,169	213,637
Net current assets	(6,696)	4,163	4,628	2,117	4,212
Creditors due in more than one year	(1,219)	-	-	-	(1,219)
<b>At 28 February 2017</b>	<b>37,574</b>	<b>31,550</b>	<b>77,454</b>	<b>96,286</b>	<b>242,864</b>
At 29 February 2016	26,222	41,222	68,117	85,777	221,388

## 22. ENDOWMENT FUNDS

The following endowment funds individually exceed 5% of the total of such funds:

	2016 £000s	Incoming Resources £000s	Resources Expended £000s	Changes in Fair Value £000s	2017 £000s
<b>Property</b>					
Mar Lodge Estate	16,141	803	(803)	1,870	18,011
Newhailes	8,262	449	(449)	957	9,219
Threave	4,789	236	(236)	555	5,344

The income from these funds is used to support the named properties.

## 23. OTHER RESTRICTED FUNDS

The Trust has in excess of 100 specifically restricted funds other than endowments and property reserves. No restricted funds individually exceed 5% of the total of such funds.

## 24. DESIGNATED FUNDS

The following designated funds individually exceed 5% of the total of such funds:

Group and Trust Fund Name	2016 £000s	Fund Reclassification £000s	Incoming Resources £000s	Resources Expended £000s	Changes in Fair Value £000s	2017 £000s
Tangible fixed asset	28,383	-	1,142	(3,291)	-	26,234
Under endowed properties	5,770	(5,658)	-	(112)	-	-
Maintenance for Geilston	2,581	(2,755)	-	-	174	-

The Tangible fixed asset fund relates to assets that have been capitalised and are included in Note 14. Movements on the fund reflect additions, disposals and depreciation charged during the year.

The Under endowed properties fund (£5,658k) and the Geilston Fund (£2,755k) were undesignated by the Board and the total funds of £8,413k were returned to the General income fund. The remaining funds, which comprises mainly of the Conservation and Committed Maintenance Fund, will be used in the next financial year.

## 25. TRANSFER BETWEEN FUNDS

Transfers between funds are required to ensure that expenditure and income are reflected in the correct funds where the relevant income and expenditure, when stated gross, has initially been booked to a different fund. This initial allocation is then adjusted by transfer at a net level to the appropriate fund, as shown below:

Group and Trust	General Funds £000s	Designated Funds £000s	Other Restricted Funds £000s	Endowment Funds £000s	Total £000s	Note
Capitalisation						
- Culzean Swan Pond	-	219	(219)	-	-	(1)
- Brodie Castle Development	-	260	(260)	-	-	(1)
- Other assets	(177)	662	(485)	-	-	(1)
Fund reclassifications	8,413	(8,413)	-	-	-	(2)
<b>Net Transfer of Funds 2017</b>	<b>8,236</b>	<b>(7,272)</b>	<b>(964)</b>	<b>-</b>	<b>-</b>	
<b>Net Transfer of Funds 2016</b>	<b>7,191</b>	<b>(1,520)</b>	<b>(2,604)</b>	<b>(3,067)</b>	<b>-</b>	

### Notes:

- (1) These transfers reflect the capital value of projects which have been funded from general and restricted funds but the assets are held for general and not restricted purposes.
- (2) The Under endowed properties fund (£5,658k) and the Geilston Fund (£2,755k) were undesignated by the Board and total funds of £8,413k were returned to the General income fund.

## 26. AUDITOR'S REMUNERATION

Remuneration for audit services for the year to 28 February 2017 was £49,000 (2016: £47,200) and £39,500 (2016: £38,200) for the Group and Trust respectively and £4,350 was paid to entities related to RSM UK Audit LLP for other services (2016: £4,220).

## 27. NON-AUDIT SERVICES

In common with many other organisations of a similar size, entities related to the Trust's auditors prepare and submit returns to the tax authorities.

## 28. TRUSTEES' REMUNERATION, BENEFITS AND EXPENSES

No remuneration has been paid to members or former members of the Board of Trustees in respect of their duties as Board members. Expenses totalling £16,680 (2016: £18,574) were reimbursed to 11 (2016: 21) Board and Committee members. Expenses were incurred on travel, accommodation and subsistence for attendance at Board and Committee meetings and on visits to Trust properties.

## 29. ANALYSIS OF STAFF COSTS AND REMUNERATION OF KEY MANAGEMENT PERSONNEL

The average number of employees on permanent and fixed term contracts was 520 (2016: 537). On a full time equivalent basis this becomes 502 (2016: 503). The average number of seasonal employees was 645 (2016: 677). The peak number of staff employed during the year was 1,387 (2016: 1,396).

Details of staff costs and emoluments for the year are as follows:

	2017		2016	
	Permanent Staff £000s	Seasonal Staff £000s	Permanent Staff £000s	Seasonal Staff £000s
Gross pay	16,816	5,048	16,044	4,737
Employers NI	1,403	186	1,447	172
Employers pension	897	45	832	46
Agency staff costs	88	106	26	60
	<b>19,204</b>	<b>5,385</b>	<b>18,349</b>	<b>5,015</b>

Redundancy and termination payments of £2,274k (2016: £449k) were made or contractually committed to during the year. Redundancy costs are recognised in the year for employees who have received written notification within the financial year confirming their redundancy.

The Trust considers its key management personnel to be the senior management team comprising the chief executive officer, the chief financial officer & head of corporate services, the chief operating officer, the director of customer & cause and the strategic development director (retired September 2016). The employee benefits of key management personnel were £649,377 (2016: £806,804), of which £41,281 (2016: £128,700) were termination payments.

The numbers of employees whose annual emoluments (including termination payments but excluding employer pension contributions) were above £60,000 are set out below:

	2017		2016	
	Number of Employees	Employers Pension Contribution	Number of Employees	Employers Pension Contribution
Between £60,000 and £69,999	9	£42,966	8	£43,532
Between £70,000 and £79,999	12	£63,443	9	£63,003
Between £80,000 and £89,999	2	£6,990	-	-
Between £90,000 and £99,999	7	£42,146	1	£8,677
Between £100,000 and £109,999	2	£16,657	3	£37,652
Between £110,000 and £119,999	1	£10,230	1	£16,436
Between £120,000 and £129,999	2	£20,142	-	-
Between £130,000 and £139,999	2	£14,661	-	-
Between £140,000 and £149,999	1	£18,032	1	£3,082
Between £150,000 and £159,999	-	-	-	-
Between £160,000 and £169,999	1	£15,811	-	-
Between £170,000 and £179,999	-	-	-	-
Between £180,000 and £189,999	1	£16,848	-	-

In addition to its paid workforce the Trust also benefits from a committed group of volunteers who give their time to help at properties and in administrative offices, covering tasks ranging from visitor services to retail, events, gardening and learning through to environmental work like Rangers, Thistle Camps and footpath work.

During the year to 28 February 2017 these volunteers carried out a total of 208,747 (2016: 217,545) hours of work which is a 4% decrease on the previous year. This reduction comes on the back of transition phases at certain properties during Transforming the Trust. If translated at an indicative cost of £10 per hour, (which is an average based on the wide range of skills utilised by volunteers in the organisation), then this effort equates to a value in excess of £2m (2016: £2m)

The Trust depends heavily on its volunteers and could not operate without their ongoing support. We are extremely grateful to them all for the time and energy they devote to the Trust.

### 30. THE NATIONAL TRUST FOR SCOTLAND PENSION SCHEMES

Total pension contributions paid during the year were £897k (2016: £832k) to the defined contribution scheme and £45k (2016: £46k) to the NEST (National Employment Savings Trust) scheme. Pension contributions are treated as an operating cost and allocated by employee activity.

## 31. COMMITMENTS & CONTINGENT LIABILITIES

### Operating leases

The total future minimum lease payments under non-cancellable operating leases are as follows:

	<b>2017 Land &amp; Buildings £'000s</b>	<b>2017 Other Assets £'000s</b>	<b>2016 Land &amp; Buildings £'000s</b>	<b>2016 Other Assets £'000s</b>
Within one year	319	68	319	68
Between one and five years	1,381	296	1,343	296
After five years	208	-	208	-
	<b>1,908</b>	<b>364</b>	<b>1,870</b>	<b>364</b>

During the year expenses incurred of £365,781 (2016: £350,609) were made in respect of operating leases.

## 32. RELATED PARTY TRANSACTIONS

The Trust has considered the disclosure requirements of the Statement of Recommended Practice – Reporting & Accounting by Charities (SORP FRS102) and of FRS 102. The Trust believes that the following related party transactions require disclosure:

All Trustees are members of the Trust and total donations made by Trustees to the Trust during the year were £2,088 (2016: £2,332).

In 2017 the following transactions took place between the Trust and the National Trust for Scotland Enterprises Ltd (NTSE), its wholly owned subsidiary:

- The provision of management services covering payroll, finance, back office support, legal and managerial support of £882k (2016: £775k).
- The provision of catering, retail, fixture and fittings and ICT assets to allow the subsidiary to run its shops, cafes and holiday cottages of £318k (2016: £272k).
- The transfer, under gift aid, of the trading profits of NTSE to the Trust of £1,466k (2016: £1,180k) of which £1,466k was outstanding as at 28 February 2017 (2016: £1,180k).

## 33. RECONCILIATION OF NET MOVEMENT IN FUNDS TO NET CASHFLOW FROM OPERATING ACTIVITIES

	<b>Group 2017 £000s</b>	<b>Group 2016 £000s</b>	<b>Trust 2017 £000s</b>	<b>Trust 2016 £000s</b>
Net income/(expenditure) before gains and losses on investment assets	<b>(4,178)</b>	(167)	<b>(4,178)</b>	(167)
Add back depreciation	<b>3,228</b>	3,123	<b>3,228</b>	3,123
Deduct net gain on disposal of assets (within investing activities)	<b>(939)</b>	(1,518)	<b>(939)</b>	(1,518)
Deduct returns from investments (within investing activities)	<b>(7,685)</b>	(8,005)	<b>(9,151)</b>	(9,459)
Decrease in stock	<b>127</b>	21	<b>7</b>	7
(Increase)/ decrease in debtors	<b>(1,190)</b>	603	<b>(575)</b>	(393)
Increase/(decrease) in creditors	<b>1,752</b>	(1,703)	<b>417</b>	(789)
<b>Net cash used in operating activities</b>	<b>(8,885)</b>	<b>(7,646)</b>	<b>(11,191)</b>	<b>(9,196)</b>

### **34. OTHER EXPENDITURE - RESTRUCTURE**

As noted in last year's accounts, the Trust announced a proposed major restructuring programme which identified 68 new posts and 142 posts, mainly based at Hermiston Quay, "at risk" of redundancy. Some posts, including circa 42 based in Hermiston Quay, were to be moved to other locations. The transition to this new structure began in 2016 and the financial impact to date is £2,618k and which includes the £2,274k of redundancy and termination payments referenced in Note 29. The new model for running the Trust provides a simpler structure with less bureaucracy, clearer lines of management and is a key contributor towards a savings target of £4m.



## **TRUST GOVERNANCE AND ADVISERS**

### **PATRON**

HRH The Prince Charles, Duke of Rothesay KG KT GCB OM

### **PRESIDENT**

Jamie, Earl of Lindsay DL

### **VICE-PRESIDENTS**

Professor Hugh Cheape DL, Angus MacDonald OBE DL, Professor Michael Scott-Morton, Simon Fraser and The Duchess of Fife

### **BOARD of TRUSTEES MEMBERS**

Sir Moir Lockhead OBE \*\*\* \*\*\*\*\*

Jill Carrick (Deputy Chair) \*\*\* \*\*\*\*\*

Caroline Borwick (member of the Audit & Risk Management Committee from 26 January 2017) \*

Ian Doig (retired from the Nominations Committee on 30 November 2016) \* \*\*\*

Sir Peter Erskine Bt

Dr James Fenton

Keith Griffiths \* \*\*\*\*\*

Robin Harper

Amanda Herries (member of the London Committee until it was wound up on 26 January 2017) \*\*\*  
\*\*\*\*\*

Kevin McCormick

Veronica Morriss \*\*\* \*\*\*\*\*

Peter Ord\*\*

Graeme Sword (co-opted on 30 June 2016 and a member of the Investment Committee from 25 August 2016) \*\*

Benjamin Tindall

\* Member of Audit & Risk Management Committee

\*\* Member of Investment Committee

\*\*\* Member of Nominations Committee

\*\*\*\*Member of Remuneration Committee

\*\*\*\*\* Member of London Committee

### **TRUST SECRETARY**

Stephen Small

## **EXECUTIVE COMMITTEE MEMBERS**

Mark Bishop, Director of Customer & Cause (interim Director until 30 March 2016)  
Allan Bowie, Chief Financial Officer and Director of Corporate Services  
Patrick Duffy, Chief Operating Officer (appointed on 8 April 2016, previously Property and Visitor Services Director)  
Peter Selman, Strategic Development Director (retired on 30 September 2016)  
Simon Skinner, Chief Executive

## **COMMITTEE CONVENORS**

Dame Susan Bruce DBE, DL, Nominations Committee (Convenor from 23 March 2017)  
Ian Doig, Audit & Risk Management Committee  
James Ferguson, Investment Committee  
Giles Herdman, London Committee (Convenor until 30 March 2016 and remained a member of the London Committee until the Committee was wound up on 26 January 2017)  
Lesley Knox, Nominations Committee (Convenor until 30 March 2016, interim Convenor between 14 December 2016 and 23<sup>rd</sup> March 2017 and remains a member of the Nominations Committee)  
Sir Moir Lockhead OBE, Remuneration Committee  
Professor Ian Percy, Nominations Committee (Convenor from 30 March 2016 to 14 December 2016 and retired from the Committee on 14 December 2016)  
Robert Pollok, London Committee (from 30 March 2016 until the Committee was wound up on 26 January 2017)

## **OTHER NON TRUSTEE COMMITTEE MEMBERS**

Grant Macrae, Audit and Risk Management Committee  
John Naylor, Audit & Risk Management Committee  
Mike Ross Audit & Risk Management Committee/Investment Committee (retired from Investment Committee on 26 April 2016 and from Audit & Risk Management Committee on 24 September 2016)  
Mark Hunter, Investment Committee  
Bill Lambert, Investment Committee  
Michael MacPhee, Investment Committee  
Russell Napier, Investment Committee  
Anne Richards, Investment Committee (retired 26 April 2016)  
Magnus Swanson, Investment Committee  
The Hon Andrew Colville, London Committee (until the Committee was wound up on 26 January 2017)  
The Earl of Kinnoull, London Committee (until the Committee was wound up on 26 January 2017)  
The Viscount Younger of Leckie, London Committee (until the Committee was wound up on 26 January 2017)  
Ian MacDonald, London Committee (until the Committee was wound up on 26 January 2017)  
Joss Mitchell, London Committee (until the Committee was wound up on 26 January 2017)  
Simon Peters, London Committee (until the Committee was wound up on 26 January 2017)

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Turcan Connell  
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