

Museums Galleries Scotland
(a company limited by guarantee)

Directors' annual report and financial statements

For the year ended 31 March 2019

Registered number SC074264

Charity number SC015593

Contents

Reference and Administrative Details	1
Directors' Annual Report	2
Statement of Directors' Responsibilities	12
Independent Auditors' Report to the Directors and the Members of Museums Galleries Scotland	13
Statement of Financial Activities (incorporating Income and Expenditure Account)	16
Balance Sheet	17
Statement of Cash Flows	18
Notes to the Financial Statements	19

Reference and Administrative Details

Directors

Ray Macfarlane (Chair) (appointed 20/6/2018)
Donna Heddle
Sir John Leighton
Robert Downie (resigned 31/12/18)
William McDonald
Diana Montador
Ruth Gill
Trish Botten
Vivienne Cockburn (resigned 31/12/18)
John McLeish (appointed 1/2/19)
Mary Jane Brouwers (appointed 1/1/19)
Steph Scholten (appointed 1/1/19)
Veena Muthuraman (appointed 1/4/19)
Rhona Arthur (appointed 1/9/19)

CEO

Lucy Casot

Company Secretary

Lucy Casot (appointed 1/2/19)
John McLeish (resigned 1/2/19)

Auditors

Chiene + Tait LLP
Chartered Accountants & Statutory Auditors
61 Dublin Street
Edinburgh
EH3 6NL

Bankers

Royal Bank of Scotland

Registered Office

Waverley Gate
2-4 Waterloo Place
Edinburgh
EH1 3EG
Telephone: 0131 550 4100

www.museumsgalleriesscotland.org.uk

Directors' Annual Report

The Directors, who are also Trustees for the purposes of Charity Law, have pleasure in presenting their report for the year ended 31 March 2019.

Museums Galleries Scotland is a company limited by guarantee, registered in Scotland No. 74264, and recognised as a charity (No SC015593).

Directors

The Directors who served during the year ended 31 March 2019 were as follows:

Ray Macfarlane (appointed June 2018)
Charles Sloan (resigned 24 July 2018)
Donna Heddle
Sir John Leighton
Robert Downie (resigned 31 December 2018)
William McDonald
Diana Montador
Ruth Gill
Trish Botten
Vivienne Cockburn (appointed 21 March 2018 resigned 31 December 2018)
John McLeish (reappointed 1 February 2019)
Steph Scholten (appointed 1 January 2019)
Mary Jane Brouwers (appointed 1 January 2019)

Structure, Governance and Management

Nature of governing document

Museums Galleries Scotland (MGS), as a company limited by guarantee, is governed by its Memorandum and Articles of Association dated March 1981. Following publication of the Companies Act 2006, the Memorandum and Articles of Association were revised to ensure compliance with the new regulations and to reflect the change of name agreed at the Annual General Meeting in 2007. They have also been reviewed by our legal advisors to ensure that the structure of governance continues to meet the requirements of the Office of the Scottish Charity Regulator (OSCR). The Memorandum and Articles of Association were again revised in 2012 to ensure the organisation was fit for purpose as a National Development Body and were formally adopted on 22 May 2012.

The Members of the Company are the Directors.

Recruitment and appointment of Board Members

The minimum number of Directors is nine and the maximum is seventeen. Directors are elected for a fixed term of three years and can serve one further term of three years, unless special circumstances dictate that they should serve a third term of up to three years' duration. After that period a Director will stand down for at least two years before they can then be reappointed as a Director. New Directors other than those seeking re-election will be appointed by the Board. The majority of the Board of Directors must, at any given time, consist of individuals from the museum and cultural sector. The Board meets as required to discharge their responsibilities.

Directors' Annual Report *(continued)*

Policies and procedures for induction and training of Directors

Following appointment, Directors receive a copy of the Board Handbook which contains information on MGS, including copies of previous Board Minutes, corporate plan, publications, staff information (organisational structure, roles, etc.) and details of other Board Members as well as the Code of Conduct for Members of the Board of Directors which alerts them to their corporate responsibilities. Directors are invited to an induction programme which includes sessions with the Chair and members of the Leadership Team and also an opportunity to meet other members of staff.

Decision making structure

A Chief Executive Officer is appointed by the Board of Directors to manage the operations of the organisation. The Chief Executive and senior team members have delegated authority within the terms of a Scheme of Delegation which is reviewed and approved by the Audit and Risk Committee on a regular basis on behalf of the Board.

MGS Board

As the National Development Body, MGS continues to be an independent charitable organisation. It is supported by, but is entirely independent of, the Scottish Government. MGS has a skills-based Board with a mix of Directors representative of the whole museum and galleries sector as well as those with relevant professional qualifications and business experience for effective Board governance. The Board is supported by 2 subordinate committees made up of Directors that report to the Board. These are the Audit and Risk Committee whose responsibilities speak for themselves including the remit for terms and conditions (remuneration) and the Recruitment Committee which is responsible for the recruitment of Board Members and the Chief Executive Officer.

Charles Sloan, a Board member since 2014, who took on the role of Chair in early 2018, resigned in July 2018 after Ray Macfarlane was appointed as Chair on 20th June 2018.

During the year Vivienne Cockburn and Robert Downie resigned from the Board and two new appointments were made: Steph Scholten and Mary Jane Brouwers.

The current Board continues to have a wealth of in-depth experience and knowledge of all aspects of business and a clear commitment to promoting the importance of the role of museums and galleries and to supporting the preservation and celebration of Scotland's cultural heritage.

Key Management Personnel and Remuneration

During the year MGS undertook a UK wide search for a new Chief Executive Officer ("CEO"). Having undertaken a tender process, Saxton Bampfylde was appointed as recruitment consultants to manage the recruitment process. Lucy Casot, formerly Head of the Heritage Lottery Fund ("HLF"), Scotland (now National Lottery Heritage Fund ("NLHF")) joined the organisation as CEO in January 2019.

John McLeish continued in his role as Interim CEO until the end of December 2018. He remained on the staff of MGS until end of January 2019 to ensure a smooth handover to Lucy Casot, before he returned to the MGS Board on 1 February 2019. Further changes in the Senior Management team during the year saw the Head of Finance and Compliance and the Head of Strategic Marketing leave their roles on 11 May 2018 and 19 July 2018 respectively. MGS accounting services have now been contracted out, following a thorough tender process, with the Business Services Manager taking on the line management of the Resources Function. The Senior Communications Manager now manages the Communications team and function within the organisation.

Directors' Annual Report *(continued)*

Key Management Personnel and Remuneration *(continued)*

The remuneration of the key management personnel is based on broadly comparable rates of pay for similar levels of management responsibility and skills in Scottish Local Government and similar organisations.

Reference and administrative details

These details, including Directors who served in the year, are set out on page 1.

Principal risks and uncertainties

MGS has a Risk Management Policy, which was updated in March 2016 that sets out the process by which risks are identified, the measures put in place to manage them and how the risks are monitored. The Risk Register shows the detail of how risks are managed and monitored and is reported regularly to the Audit and Risk Committee and the Board. In the course of the year principle risks monitored, managed and mitigated were in the following areas:

Organisational

- Impact of change within the senior management team on delivery of service
 - Mitigation: On-going review of structure; Recruiting a new Chief Executive following the appointment of a new Chair; Ensuring interim appointments were in place.
- Potential for failure to comply with new Data Protection Regulations
 - Mitigation: Business Services Manager holds a Certificate in Data Compliance and attends regular Information and Records Management Society (Scotland) meetings to keep informed of best practice; Data team in place which meets regularly; Policy updated and reviewed regularly by Business Services Manager.

Financial

- Pension Fund Deficit
 - Mitigation; a tender to contract a pensions consultant was launched with an appointment made at the end of the year; a review of staff contracts and terms and conditions was launched.

Strategic/Commercial

- Failure to develop diversified funding streams
 - Mitigation; regular engagement with Scottish Government; exploitation of commercial opportunities; development of a Business Plan.

Objectives and Activities

MGS is the strategic development body for museums and galleries in Scotland.

MGS acts as the representative for the sector, promoting its work to the public, stakeholders and the Scottish Government. This involves speaking on behalf of the sector and showing that museums and galleries are not only custodians of Scotland's rich and diverse history but are also relevant in modern society.

The activities, strategies and performance of MGS are set out in more detail under "Key Achievements and Successes" below.

Details of MGS' policy with regard to grant-making are set out within the Financial Review section of this report.

The Delivery Plan 2 - *Realising the Vision*, was launched in July 2015. This plan set out the framework for the delivery of a clear set of actions for both MGS and the sector to deliver the National Strategy over four years ending in 2019. The development of Delivery Plan 3 began during the year.

Directors' Annual Report (*continued*)

Key achievements and successes

- Launch of HLF (now NLHF) Skills for Success programme involving 22 non-graduates and 16 host museums from throughout Scotland
- MGS' *Rethinking Leadership* Symposium in September attracted 77 attendances from throughout the sector
- A new Accreditation Standard was launched successfully in 2018 in partnership with ACE, NIMC and Museums, Archives Libraries Division of the Welsh Government
- Lucy Casot was recruited as CEO in January 2019
- 79 grants totalling £1,153,718 were distributed to 56 organisations
- An outcomes focused approach to MGS Grants was developed for use from 2019/20
- MGS retained Silver accreditation status from Investors in People
- A new reporting procedure and timetable was agreed with and delivered to the Scottish Government.
- A new Board Development programme was launched in partnership with the Social Enterprise Academy
- A partnership with SURF was established
- A new Strategic Learning Forum was launched.
- The organisation became fully GDPR compliant with robust systems in place.
- The organisation became a signatory to the Scottish Business Pledge
- Museums Galleries Scotland became a Disability Confident Employer.

AIM 1: Maximise the potential of our collections and culture for future generations

In August 2018, MGS launched a new Accreditation Standard along with the other UK Accreditation Partners: Arts Council England and Northern Ireland Museum Council, and Museums, Archives Libraries Division of the Welsh Government.

In 2018/19 a total of 92 museums and galleries were assessed under the 2011 Accreditation standard. MGS' role in Accreditation was enhanced with a 0.6 FTE post.

MGS continues to manage Scotland's Recognition Scheme. There are currently 49 collections recognised as Nationally Significant Collections in areas throughout Scotland. At the beginning of the year, a further two collections began the application process, and these will be submitted in July 2019.

Two collection holders' meetings were held during this period, in Verdant Works Dundee and the Scottish Football Museum. Most of the recognised collections were represented at these events, and several gave talks about their current and recent work. In this year two Recognition Committee meetings were also held, and four new committee members and a new Chair were recruited. The second Committee meeting was held at the new Renfrewshire Leisure Museums' Store in Paisley.

MGS hosted three peer support days focusing on collections projects that can be funded by MGS, on receiving loans from national organisations, and on 'Banishing the Backlog' in partnership with the Collections Trust. MGS published 5 case studies highlighting good practice and advice guides covering collections care and management, environmental monitoring and interpretation. During the year, MGS also collaborated with National Museums Scotland on providing training on collections.

AIM 2: Strengthen connections between museums, people and places to inspire greater public participation, learning and wellbeing

In 2018/19 MGS launched a Strategic Learning Forum for museum professionals, in partnership with former GEM Scotland and Heritage Education Forum. The first two meetings of the Forum have taken place. Forum members identified the priority learning topics for the year and action plans to support implementation.

Directors' Annual Report *(continued)*

AIM 2: Strengthen connections between museums, people and places to inspire greater public participation, learning and wellbeing *(continued)*

MGS undertook a study of the impact of museum learning on the Curriculum for Excellence and STEM to gain a better understanding of the current level and nature of formal learning provision for 0 to 16 year olds in Scottish museums. The analysis of the results has informed our understanding of the support needs of practitioners and how we shape our development support provision for quality formal learning provision in museums. Education Scotland gave a presentation on the Curriculum for Excellence at the 2nd Forum meeting in March 2019.

The final Festival of Museums was delivered in May 2018 attracting over 11,000 visitors to 128 events at 66 museums across Scotland.

A review of the long standing annual event was undertaken in response to sector feedback. In June 2018 the decision was made to replace Festivals of Museums with:

- A new Festivals Fund launched in December 2018. This is a regional engagement fund to enable museums to take part in regional or local events or festivals throughout the year, enabling flexibility to respond to local opportunities; and,
- an annual advocacy campaign (the first of which will take place in May 2019) to ensure that the role of Festival of Museums in raising the profile of museums is retained.

The first two awards totalling £3,000 under the new Festivals fund were made in March 2019.

In January 2019 MGS formed a new partnership with SURF - Scotland's Regeneration Forum.

AIM 3: Empower a diverse workforce to increase their potential for the benefit of the sector and society

In 2018 MGS launched the NLHF funded Skills for Success programme. A development officer was recruited to deliver the programme through which 22 non-graduates from diverse backgrounds have been placed in 16 host museums across Scotland. The 22 learners will progress towards SVQ Level 3 in Museums and Galleries Practice through the programme which has also resulted in creating 6 trained assessors from the museums and galleries sector. In autumn 2018 the Skills for Success programme was nominated for the Scottish Training Federation's *Success in Partnership* Award.

MGS launched a Board Development Programme in January in partnership with the Social Enterprise Academy. This sustained programme of development is supporting the Boards of 10 museums throughout Scotland.

MGS continued to provide free online webinar training to the sector allowing take up from museums across Scotland. In 2018/19 4 webinars took place attended live by 105 delegates and re-watched on Vimeo 122 times. The webinars covered topics such as income generation, governance models, event planning and regional marketing.

Museum Galleries Scotland's symposium on Rethinking Leadership in September has led to MGS initiatives for the sector including:

- A 6 day Accredited Level 5 Institute of Leadership and Management programme in partnership with, and part funded by the Social Enterprise Academy
- Technical Leadership one day course.

Directors' Annual Report *(continued)*

AIM 4: Forge a sustainable future for sector organisations and encourage a culture of enterprise

Following Board approval in September 2018, a set of grant outcomes were introduced for the 2019/20 grant programme. These consolidated the previous grant priorities, National Strategy objectives and Recognition objectives, in order to make the grant application forms and assessment process clearer and simpler for applicants and assessors, leading to a more consistent approach and making it easier to see the impact that the grants are having. MGS' grants function was enhanced further with a new 0.6 FTE post.

At the Association of Independent Museums Conference in June 2018, MGS organised and chaired a session involving the HMRC and Scott Moncrieff on the Museums and Galleries Tax Relief. In addition, MGS set up a free enquiry service for museums through Scott Moncrieff on tax related questions, including direct advice to museums online.

Museums Connections continued to offer good two-way communications with all museum types across the country. During 2018/19 67 Museum Connections visits were undertaken by MGS staff which exceeded the target of 50 visits. The feedback gathered from visited museums informed decisions on how MGS supports the sector.

MGS' advocacy work was enhanced with the setting up of the Advocacy team within MGS, this has involved encouraging and supporting the sector to measure their impacts, piloting improved guidance with Local Authority and ALEO contacts and reviewing the Advocacy Toolkit. The advocacy team also helped to plan and deliver activity to demonstrate the value of museums to Scotland's society on a political and public level. This activity supported museums to develop and use skills to advocate for their organisations with a range of audiences.

AIM 5: Foster a culture of collaboration, innovation and ambition

The MGS Stakeholder group met with a new focussed approach and recent meetings looked at a collective response to the Cultural Strategy consultation.

A Strategic Learning Forum was established with two successful meetings taking place in 2018/19 and Regional Forums and Subject Specialist Networks continued to meet.

Partnerships have been consolidated with HLF (now NLHF) and VisitScotland to promote targeted funding and opportunities to the sector.

In 2018 MGS participated in VisitScotland working groups promoting the Year of Young People and joined the working group for the Year of Coasts and Waters 2020. MGS maintained support of the Scottish Museums Federation's annual #ScottishMuseumsDay.

The Chief Executive of Museums Galleries Scotland sat on the Chief Executives' Forum engaged in delivering *Our Place in Time*, Scotland's strategy for historic environment and during the year the organisation was involved in the Skills Investment Programme and Volunteering Group for Scotland's historic environment sector.

AIM 6: Develop a global perspective using Scotland's collections and culture

MGS is represented on the VisitScotland working group planning activity for the Year of Coasts and Waters (2020).

In 2018 the organisation reignited its relationship with the British Council ("BC"), with partnership options explored for MGS and our museums in three potential thematic areas (dementia/reminiscence; women & girls; music) tied to specific international programmes run by BC, and offering opportunities for museums to engage both within Scotland and abroad.

Directors' Annual Report *(continued)*

AIM 6: Develop a global perspective using Scotland's collections and culture *(continued)*

In October the organisation hosted an international delegation from China.

MGS has retained accredited status as an expert NGO Advisor to UNESCO on the 2003 UNESCO Convention for the Safeguarding of the Intangible Cultural Heritage.

Throughout the year, the 49 Recognised Collections continued to show the best that our museums in Scotland have to offer.

Future Activity

MGS' future activity continues to be driven by the delivery of the National Strategy and Museums Galleries Scotland is consulting on a third Delivery Plan for the sector to cover the period from 2020 to 2022 for launch at the end of 2019.

Underpinning the 2019-20 business plan, planned activity over the next financial year includes:

- Delivery of grants to the museum sector on behalf of Scottish Government
- Ongoing delivery of the Museum Accreditation and Recognised Collection schemes
- An advocacy programme which includes a parliamentary reception and launch of #MuseumsSparkJoy museums awareness day
- A new account management approach to geographical forums and targeted support for subject specialist networks
- Hosting a symposium focusing on learning in museums
- A 5-strand skills development programme which includes: delivering SVQ Museums Galleries Practice Level 3; a Modern Apprenticeship pilot; quarterly themed professional development opportunities; governance development programme for Museum boards; and development of a vocational qualifications framework for the sector
- Increased focus on museum ethics, in particular restitution and repatriation, and environmental sustainability, with MGS taking a facilitating role in the development of national approaches
- A continued focus on Intangible Cultural Heritage, maintaining UNESCO NGO Accreditation for Intangible Cultural Heritage, and working in collaboration with others including TRACS, Historic Environment Scotland and Creative Scotland
- Continued collaboration with key organisations within the cultural sector and beyond
- Research and evaluation to inform sector advocacy and to provide a sound basis for future programming and for reporting to Scottish Government.

Financial Review

The results for the period are set out in the Statement of Financial Activities on page 16.

Income

In 2018/19, MGS' total income was £2,871,861 (2018: £3,020,280).

Expenditure

In the course of the year MGS awarded grants in line with the key schemes outlined below and these are listed by grant type and recipient on MGS' website:

<https://www.museumsgalleriescotland.org.uk/funding/funding-overview/>

Directors' Annual Report *(continued)***Financial Review** *(continued)***Expenditure** *(continued)*

The grant schemes delivered in the year were:

1. **Museum Development Fund £5,000 - £40,000 (up to £60,000 for organisations looking after Recognised collections):** This fund supports museums to make strategic steps towards becoming more resilient organisations in line with the aims of the National Strategy. Restricted Recognition Funding and Capital Funding are issued via the Museum Development Fund and the Small Project Fund. These grants specifically address the following:
 - a. **Recognition Funding (up to £60,000, restricted to organisations within the Recognition Scheme):** Supports museums who hold Recognised Collections to celebrate, promote and invest in their collections, through projects which pursue excellence and which fit with the Recognition Scheme's objectives.
 - b. **Capital Funding (up to £40,000):** Supports projects which both support the strategic development of museums and contribute to the delivery of the aims of the National Strategy.
2. **Small Project Fund – up to £5,000:** This fund supports museums to carry out small discrete projects (that are out with their core work) in line with their own continuous improvement goals and the aims of the National Strategy.
3. **Purchase Fund for Smaller Independents - up to £600:** This fund supports eligible museums to make small equipment purchases (e.g. ICT, audio visual, environmental monitoring or collections care equipment).
4. **Festivals Fund - up to £1,500:** This fund supports museums to develop local and regional relationships in order to increase their audience development potential by supporting museums to stage an event that is part of a wider local or regional event programme or festival.
5. **Achieving Accreditation Fund - up to £1,500:** For museums holding the status of 'working towards Accreditation', this fund supports activity that will help a museum to achieve Accreditation.

All the information on how to apply for a grant is available on the MGS website (<http://www.museumsgalleriesscotland.org.uk/funding>).

Financial Results

The Statement of Financial Activities shows a year-end balance on Unrestricted Funds of £880,495. This is before taking into account the pension deficit of £1,369,000, resulting in a net deficit balance of £488,505 after pension obligations. This increase in the level of the defined benefit pension scheme deficit has contributed to a decrease in the net assets in the balance sheet from £177,883 to a net liability of £184,586. This significant change in the level of net assets is covered in more detail below.

The first year of Phase 2 of HLF Skills for Success shows £285,138 in restricted income, an increase of £266,012 on the prior year which showed £19,126 for the activity undertaken in the smaller Phase 1 of the project. This is also a significant increase on budget, due to a change in the way the project has been accounted for, and the balance on this fund was nil at the end of March 2019. Other restricted fund balances at 31 March 2019, including the Scottish Government Grants Programme amounted to £234,777.

Directors' Annual Report *(continued)***Financial Results** *(continued)*

Income received during the year was largely in line with what was anticipated with core grants and restricted grant income being confirmed by the Scottish Government in advance. The amount received as restricted grant income has fallen this year by £144,000 following one-off additional funding received in 2017/8 for Capital (reduction of £260,000), Vocational Pathways (reduction of £100,000) and World War 1 projects (reduction of £50,000). This reduction is partially offset by increased income from the Heritage Lottery Fund of £266,000 as discussed above.

As in the prior year there were small amounts of other income received relating to activities such as training, consulting and events held. Following the work carried out into where cash funds were held, interest income has risen in the year as funds are now being held on deposits with more favourable interest terms.

Overall charitable expenditure has reduced from the prior year by approximately £349,000. This is largely due to reduced grants being given out compared to 2017/18 when increased funding was provided by the Scottish Government as noted above. Restricted expenditure in the prior year totalled £1,632,402 with this figure falling to £1,294,505 in the current year.

Running costs of the charity have remained fairly in line with the prior year, with lower costs in areas such as legal and professional fees, travel and subsistence for both staff and directors and IT. Some of these areas are reduced due to the staff changes throughout the year. Additionally, the Festival of Museums event that previously ran annually has been discontinued and therefore the costs incurred in advance for this event have not occurred this year. However, due to the increased income relating to the HLF project, the irrecoverable VAT has increased this year due to the adjustment this causes to the recoverable proportion.

It should be noted that included within total expenditure is £139,000 (2018: £147,000) of defined benefit pension scheme service cost adjustments. Excluding these adjustments, the charity would have reported net income before actuarial pension scheme adjustments in unrestricted non-designated funds of £92,522 (2018: £89,578).

The unrestricted reserves at 31 March 2019, excluding Designated Funds and the Pension Fund deficit, were £880,495 (2018: £798,042).

As this pension scheme liability that has given rise to the overall net balance sheet deficit is not immediately repayable the directors are satisfied that the charity is in a position to meet its commitments as they fall due. The pension scheme liability can be subject to large movements from year to year as a result of actuarial calculations, changes in assumptions, and asset valuations and the directors will monitor this on a continuing basis to assess the impact upon the financial position of the charity.

Although any valuation is only a "point in time", the level of the pension fund deficit increased again in the year from £913,000 to £1,369,000. As a result, the net asset position in the Balance Sheet has deteriorated versus the prior year and serves to further emphasise the volatility of the performance of the fund. The Triennial valuation of December 2017 has set the future contributions for the next two years at 22% and 23.2% respectively. The Board is fully aware that this is an ongoing matter for concern and have it under active review.

Reserves Policy

MGS is restricted by the terms and conditions of its main funding body (Scottish Government) from building up reserves. MGS has assured funding up to March 2020 from the Scottish Government and any unplanned expenditure or loss of income will have to be met, either from additional funds from the Scottish Government or a reduction in the services provided by the organisation.

Directors' Annual Report *(continued)*

Restricted and Designated Funds

MGS holds a number of Restricted and Designated funds as detailed in Note 16.

The Restricted Funds are largely made up of Grants to the sector as detailed in Note 16 and in Note 9. These are financed by direct grants from Scottish Government, Heritage Lottery Fund, and the Big Lottery Fund and for specified, restricted purposes as detailed in agreements with funders.

Several Designated Funds have been established over time to facilitate the meeting of Strategic Aims and to develop the necessary infrastructure to support the organisations activities.

There are 4 main Designated Funds as follows:

Discretionary Grants and Development Fund; Balance £62,771

- The only spending from this fund in this financial year is CEO recruitment costs and pension advice.

Systems Development Fund; Balance £Nil

- This represents the balance of undepreciated capitalised costs that will be charged to the Fund in accordance with the Depreciation Policy.

Web Site Development Fund; Balance £771

- A sum of £70,000 was set aside previously for the development of a new Web Site. The balance is available for future development work.

Festival of Museums website; Balance £5,600

- A sum of £25,000 had been set aside for the Festival Of Museums website and it has been completed and launched successfully in April 2018. The total cost was £16,000. A decision will be made to better align this website to future activities or the balance will be returned back to the Discretionary Fund. In 2018/2019 £3,400 was spent on maintenance and hosting of the website.

Future Plans

In meeting the Aims and objectives of the National Strategy, and focusing on the key strategic priorities of skills, advocacy and enterprise, MGS has supported the museums sector in Scotland to rise to the challenge presented by ongoing austerity. While the museums sector has been relatively protected from cuts to funding (compared to other local government services), MGS is aware some Local Authorities plan to make significant reductions to museum budgets in the years ahead.

This means new income streams must be explored, found viable, and put in place to fill the gap. While enterprising approaches are undoubtedly critical, the issue is one of the scale and the pace of these cuts. If these exceed the capacity of the museums sector to respond without excessive loss to institutions, collections, workforce and skills, or even all combined there will still be a challenge. The extent to which each of these aspects can be safeguarded and the ability of the sector to respond to such a scenario in the short-term will, arguably, need to be at the forefront of MGS's priorities and service delivery in the years ahead.

In 2019/20, increased support of geographical forums will allow for a more informed approach across a wider network within the sector and MGS will be reviewing the strands and criteria for grants to ensure that support is given at the time of need. Consultation work around Delivery Plan 3 will also provide invaluable information on the current issues in the sector and will provide a basis for future business plans.

Related Parties

Certain directors are involved with organisations which benefit from grant funding, the details of which are set out in note 21. The directors do not take part in decisions relating to grants awarded to these organisations.

Directors' Annual Report *(continued)*

Statement of Directors' Responsibilities

The Directors (who are also the directors of Museum Galleries Scotland for the purposes of company law) are responsible for preparing the Directors' report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charitable company and of the incoming resources and application of resources, including the income and expenditure of the charitable company for that period.

In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Observe the methods and principles in the Charities SORP (FRS102)
- Make judgements and estimates that are reasonable and prudent
- State whether applicable UK 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 charitable company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charitable company, and enable them to ensure that the financial statements comply with the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Directors are aware:

- There is no relevant audit information of which the charitable company's auditor is unaware; and
- The Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that no auditor is aware of that information.

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


Auditors

A resolution for the re- appointment of auditors is to be proposed at the annual general meeting.

Approval of the Directors' annual report

So far as each Director is aware, there is no relevant audit information of which the auditors are unaware. Each Director has taken the appropriate steps as a Director to make themselves aware of such information and to establish that the auditors are aware of it.

By order of the Board


.....

Ray Macfarlane
Chair

14 Oct 2019

**Independent Auditor's Report to the Directors and Members of
Museums Galleries Scotland**



Opinion on financial statements

We have audited the financial statements of Museums Galleries Scotland for the year ended 31 March 2019 which comprise the Statement of Financial Activities, the Balance Sheet, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 charitable company's affairs as at 31 March 2019 and of its incoming resources and application of resources, including its income and expenditure 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 Companies Act 2006; the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the charity in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – defined benefit pension scheme

We draw attention to note 22 of the financial statements which highlights the net deficit position of the charitable company at 31 March 2019 as a result of obligations arising from its membership of a defined benefit pension scheme. Our opinion is not modified in this respect.

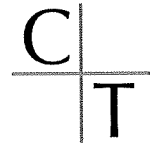
Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report to the Directors and Members of

Museums Galleries Scotland (continued)



Other information

The Directors are responsible for the other information. The other information comprises the information included in the Directors' Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 and the Charity Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:

- the charitable company has not kept proper and adequate accounting records, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies' regime and take advantage of the small companies' exemption from the requirement to prepare a strategic report.

Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities set out on page 11 the Directors (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the charitable company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the charitable company or to cease operations, or have no realistic alternative but to do so.

**Independent Auditor's Report to the Directors and Members of
Museums Galleries Scotland (continued)**



Auditor's responsibilities for the audit of the financial statements

We have been appointed auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report to you in accordance with regulations made under those Acts.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made exclusively to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and to the charitable company's directors, as a body, in accordance with Section 44(1)(c) of the Charities and Trustees 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 charitable company's members and its directors those matters we are required to state to them in an auditors' 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 charitable company, its members as a body and its directors as a body, for our audit work, for this report, or for the opinions we have formed.

JEREMY CHITTLEBURGH BSc CA (Senior Statutory Auditor)
For and on behalf of
CHIENE + TAIT LLP
Chartered Accountants & Statutory Auditor

61 Dublin Street
Edinburgh
EH3 6NL

29 October 2019

Statement of financial activities (incorporating income and expenditure account)

for the year ended 31 March 2019

	Note	Unrestricted funds £	Unrestricted designated funds £	Restricted funds £	Total 2019 £	Total 2018 £
Income from:						
Donations and core grants	3	1,450,000	-	-	1,450,000	1,450,000
Charitable activities	4	8,078	-	1,385,138	1,393,216	1,546,891
Other trading activities		2,920	-	-	2,920	3,609
Investments	5	25,725	-	-	25,725	19,780
Total income		1,486,723	-	1,385,138	2,871,861	3,020,280
Expenditure on:						
Charitable activities	6	1,394,201	89,624	1,294,505	2,778,330	3,119,393
Total expenditure excluding pension scheme adjustments		1,394,201	89,624	1,294,505	2,778,330	3,119,393
Net income / (expenditure) before pension scheme adjustments	11	92,522	(89,624)	90,633	93,531	(99,113)
Pension scheme adjustments	6	(139,000)	-	-	(139,000)	(147,000)
Net (expenditure)/ income		(46,478)	(89,624)	90,633	(45,469)	(246,113)
Transfers between funds	16	(10,069)	-	10,069	-	-
Actuarial gain/(loss) on defined benefit pension scheme	18	(317,000)	-	-	(317,000)	75,000
Net movement in funds		(373,547)	(89,624)	100,702	(362,469)	(171,113)
Funds reconciliation						
Total funds at 1 April 2018	16	(114,958)	158,766	134,075	177,883	348,996
Fund balance carried forward at 31 March 2019	16	(488,505)	69,142	234,777	(184,586)	177,883

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

All income and expenditure derive from continuing activities.

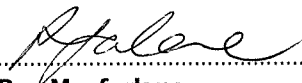
The notes on pages 19 to 35 form part of these financial statements.

Balance sheet

As at 31 March 2019

	<i>Notes</i>	2019	2019	2018	2018
		£	£	£	£
Fixed assets	<i>12</i>		40,445		100,562
Current assets					
Debtors	<i>13</i>	201,876		42,589	
Cash at bank and in hand		3,391,512		3,745,863	
		-----		-----	
		3,593,388		3,788,452	
Creditors: amounts falling due within one year	<i>14</i>	(2,449,419)		(2,798,131)	
		-----		-----	
Net current assets			1,143,969		990,321
			-----		-----
Total assets less current liabilities			1,184,414		1,090,883
Defined benefit pension liability	<i>18</i>		(1,369,000)		(913,000)
			-----		-----
Net assets			(184,586)		177,883
			=====		=====
The funds of the charity					
Restricted funds	<i>16</i>		234,777		134,075
Designated funds	<i>16</i>		69,142		158,766
Unrestricted funds – excluding defined benefit pension reserve	<i>16</i>		880,495		798,042
Defined benefit pension reserve	<i>16</i>		(1,369,000)		(913,000)
			-----		-----
Total funds after defined benefit pension reserve			(184,586)		177,883
			=====		=====

The audited financial statements on pages 16 to 35 were approved and authorised for issue by the board of directors on and signed on its behalf by:


.....
Ray Macfarlane
Chair

14 Oct 2019

Company number SC074264

The notes on pages 19 to 35 form part of these financial statements.

Statement of Cash Flows
for the year ended 31 March 2019

	<i>Notes</i>	2019 £	2019 £	2018 £	2018 £
Net cash used in/ (provided by) operating activities	<i>(see below)</i>		(378,748)		547,692
Cash flows from investing activities					
Interest income		25,725		19,780	
Purchase of office and computer equipment		(1,330)		(4,921)	
		-----		-----	
Net cash used in investing activities			24,395		14,859
			-----		-----
Change in cash and cash equivalents in the year			(354,353)		562,551
			-----		-----
Cash and cash equivalents brought forward			3,745,865		3,183,314
			-----		-----
Cash and cash equivalents carried forward	<i>(see below)</i>		3,391,512		3,745,865
			=====		=====
Reconciliation of net expenditure to cash flow from operating activities					
			2019		2018
			£		£
Net income/(expenditure) for the year			(45,469)		(246,113)
Adjustments for:					
Defined benefit pension scheme adjustments			139,000		147,000
Depreciation charges			61,445		60,546
Deduct interest income shown in investing activities			(25,725)		(19,780)
(Increase)/decrease in debtors			(159,287)		14,040
(Decrease)/increase in creditors			(348,712)		591,999
			-----		-----
Net cash (provided by) / used in operating activities			(378,748)		547,692
			=====		=====
Analysis of cash and cash equivalents					
			2019		2018
			£		£
Cash in hand			401,259		1,030,582
Deposits			2,990,253		2,715,283
			-----		-----
Total cash and cash equivalents			3,391,512		3,745,865
			=====		=====

The notes on pages 19 to 35 form part of these financial statements.

Notes to the financial statements

for the year ended 31 March 2019

1 Company information

Museum Galleries Scotland is a company limited by guarantee incorporated and domiciled in Scotland with registered company number SC074264. The registered office and principal place of business is Waverley Gate, 2-4 Waterloo Place, Edinburgh, EH1 3EG. The financial statements have been presented in Pounds Sterling as this is the functional and presentational currency of the charitable company.

Museum Galleries Scotland meets the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy note(s).

2 Accounting policies

The following accounting policies have been applied consistently in dealing with items considered material in relation to Museums Galleries Scotland's Financial Statements.

(a) **Basis of accounting**

The financial statements have been prepared under the historical cost accounting rules and in accordance with the Companies Act 2006, Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) - (Charities SORP (FRS 102)) and the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

The financial statements are prepared on the going concern basis. The Board has considered the funding available and the charity's current reserves and cash position, on this basis the board believes that the going concern basis of preparation is appropriate. Additional information is set out in note 22 to the financial statements.

(b) **Significant judgements and estimation uncertainty**

In the application of the charitable company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. As the estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) **Useful economic lives of tangible assets**

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 12 for carrying amounts of tangible assets.

Notes to the financial statements *(continued)*
for the year ended 31 March 2019

2 Accounting policies *(continued)*

(e) **Income**

All income is accounted for on a receivable basis, when the charity is legally entitled to the income and it can be quantified with reasonable accuracy. All income is in respect of the furtherance of the Museums Galleries Scotland's aims.

Donations, legacies and similar income is included in the year in which it is receivable, which is when the charity becomes entitled to the income, it is probable that it will be received, and the amount can be measured reliably.

Interest income is included in the year in which it is receivable.

Grants receivable are reflected in the Statement of Financial Activities when relevant conditions for entitlement have been met, it is probable they will be received, and the amounts can be quantified with sufficient reliability. Where donors specify that grants are for particular purposes, this income is included in incoming resources within restricted funds when receivable. Grants of a revenue nature are credited to the SoFA in the period to which they relate.

The grant from the Scottish Government allocated to general purposes is taken to the income and expenditure account in the year to which it relates.

(f) **Expenditure**

All expenditure is accounted for on an accruals basis, where there is legal and constructive obligation. Expenditure is classified under the principal categories of charitable and other expenditure rather than the type of expense, in order to provide more useful information to users of the financial statements. Expenditure is accounted for net of VAT and irrecoverable amounts are accounted for separately.

Charitable expenditure comprises grants payable and direct expenditure including direct staff costs attributable to the activity. Where costs cannot be directly attributed, they have been allocated on the basis of grants awarded.

Grants payable are payments made to third parties in the furtherance of the charitable objects of the charity. In the case of an unconditional grant offer this is accrued once the recipient has been notified of the grant award. The notification gives the recipient a reasonable expectation that they will receive the grant. Grants awards that are subject to the recipient fulfilling performance conditions are only accrued when the recipient has been notified of the grant and any remaining unfulfilled condition attaching to that grant is outside of the control of the charity.

Provisions for grants are made when the intention to make a grant has been communicated to the recipient but there is uncertainty as to the timing of the grant or the amount of grant payable. The charity does not normally make multi-year grants, but should these occur, a provision for the grant is recognised at its present value where settlement is due over more than one year from the date of the award, there are no unfulfilled performance conditions under the control of the charity that would permit the charity to avoid making the future payment(s), settlement is probable and the effect of discounting is material. The discount rate used is the average rate of return on bank deposits in the year in which the grant award is made. This discount rate is regarded by the Directors as providing the most current available estimate of the opportunity cost of money reflecting the time value of money to the charity.

Notes to the financial statements *(continued)*
for the year ended 31 March 2019

2 Accounting policies *(continued)*

(f) **Expenditure** *(continued)*

Support costs are those functions that assist the work of the charity but do not directly undertake charitable activities. Support costs include back office costs, finance, personnel and payroll costs which support the charitable activities and *Governance costs*.

Governance costs are those incurred in connection with the management of the organisation's structure, including directors' costs, and compliance with constitutional and statutory requirements.

(g) **Fund accounting**

Unrestricted funds are available for use at the discretion of the directors in furtherance of the general objectives of Museums Galleries Scotland.

Restricted funds are funds subject to specific restriction imposed by donors or by the purpose of the appeal by which the funds are raised.

Designated funds are funds which have been set aside for a specific purpose. Museums Galleries Scotland currently holds four such funds; one which is used to fund additional grants or strategic development at their discretion; one for funding systems to make more effective use of resources; one for a public-facing advocacy website; and a final one to fund a sector-facing website.

(h) **Tangible fixed assets**

All fixed assets over £1,000 are initially capitalised at cost, plus any incidental costs of acquisition. Depreciation is provided on all tangible assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Office and computer equipment	over 4 years
Furniture and fittings	over 10 years
Leasehold improvements	over 5 years

Depreciation on assets commences once an asset is brought into use.

(i) **Debtors**

Trade and other debtors are recognised at the settlement amount due. Prepayments are valued at the amount prepaid net of any discounts due.

(j) **Cash at bank and in hand**

Cash at bank and cash in hand includes cash and short term highly liquid investments with a short maturity between three and twelve months from the date of acquisition or opening of the deposit or similar account.

(k) **Creditors**

Creditors are recognised where the company has a present obligation resulting from a past event that will probably result in the transfer of funds to a third party and the amount due to settle the obligation can be measured or estimated reliably. Creditors are normally recognised at their settlement amount after allowing for any trade discounts due.

Notes to the financial statements *(continued)*
for the year ended 31 March 2019

2 Accounting policies *(continued)*

(l) **Financial instruments**

The charitable company only has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction value and subsequently measured at their settlement value.

(m) **Leases**

Museums Galleries Scotland has no material finance leases. Costs in relation to operating leases are charged on a straight line basis to the statement of financial activities over the life of the lease.

(n) **Foreign currencies**

Asset and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the time of the transaction. All exchange differences are taken to the statement of financial activities.

(o) **Pension costs**

Museums Galleries Scotland is a member of The Lothian Pension Fund, which provides benefits based on final pensionable pay. Contributions to the scheme are charged to expenditure so as to spread the costs of pensions over the working lives of the employees. These contributions are invested separately from the organisation's assets.

3 Donations and grants

	2019	2018
	£	£
Scottish Government – Core activities grant	1,450,000	1,450,000
	-----	-----
	1,450,000	1,450,000
	=====	=====

Notes to the financial statements *(continued)*
for the year ended 31 March 2019

4 Charitable activities

	2019	2018
	£	£
Grant income - restricted		
Scottish Government – Recognition Scheme	470,000	470,000
Scottish Government – Capital	200,000	460,000
Scottish Government – Grants Programme	430,000	530,000
Scottish Government – World War I Commemorations	-	50,000
Heritage Lottery Fund – Skills for Success	285,138	19,126
	-----	-----
	1,385,138	1,529,126
	-----	-----
Income from services provided to beneficiaries – Unrestricted - general		
Workforce development - training	2,583	4,264
Consulting Fees Income	1,500	1,367
Contribution towards Accreditation costs	3,995	-
	-----	-----
	8,078	5,631
	-----	-----
Unrestricted - designated		
External programmes – seminars and events	-	12,134
	-----	-----
Income from other sources	-	12,134
	-----	-----
Total income from charitable activities	1,393,216	1,546,891
	=====	=====

5 Investment income

	2019	2018
	£	£
Interest receivable	25,725	19,780
	=====	=====

The company's investment income relates to unrestricted funds in both 2019 and 2018.

Notes to the financial statements (continued)
for the year ended 31 March 2019

6 Charitable expenditure

	Charitable activity staff costs £	(Note 10) Governance costs £	Grants Awarded £	Programme Direct Costs £	Support Costs £	Total 2019 £	Total 2018 £
Aim 1- Maximising the Potential	209,480	18,525	319,775	31,615	142,529	721,924	713,384
Aim 2- Strengthening Connections	209,480	13,893	239,831	14,301	106,897	584,402	721,414
Aim 3- Empowering a Diverse Workforce	240,902	6,947	119,916	302,358	53,448	723,571	517,866
Aim 4- Forging a Sustainable Future	178,058	8,104	139,902	8,342	62,356	396,762	577,432
Aim 5- Fostering a Culture of Collaboration	167,584	7,525	129,909	7,747	57,902	370,667	573,142
Aim 6- Developing a Global Perspective	41,896	2,894	49,965	2,979	22,270	120,004	163,155
Total expenditure including pension scheme service cost adjustments	1,047,400	57,888	999,298	367,342	445,402	2,917,330	3,266,393
Pension scheme service cost adjustments	(113,000)	-	-	-	(26,000)	(139,000)	(147,000)
Total charitable expenditure per Statement of Financial Activities	934,400	57,888	999,298	367,342	419,402	2,778,330	3,119,393

In 2019, of the total expenditure of £2,917,330 (2018: £3,266,393), £1,533,201 (2018: £1,536,442) was expenditure from unrestricted funds and £89,624 (2018: £97,549) was expenditure from unrestricted designated funds, and £1,294,505 (2018: £1,632,402) was expenditure from restricted funds.

Of the net grants awarded of £999,298 (2018: £1,607,163), grants awarded during the year were £1,153,798 (2018: £1,736,767) offset by underutilised grants previously awarded of £154,500 (2018: £129,604).

Staff costs have been allocated on the basis of an estimate of time spent. Support costs and governance costs are allocated on the basis of grants awarded by Aim and this is believed to reflect the priorities of the organisation and the sector.

Notes to the financial statements *(continued)*
for the year ended 31 March 2019

7 Support costs

	2019	2018
	£	£
Recruitment	26,517	3,940
Staff development	9,796	4,365
Property	144,263	144,884
Admin	13,598	15,270
Transport, travel and subsistence	8,657	13,375
Supplies and Services	18,936	17,898
IT	56,607	61,759
Events and conference costs	9,172	4,949
Other Costs	518	1,441
Depreciation	61,446	60,546
Finance costs relating to defined benefit pension scheme (Note 18)	26,000	23,000
Bank charges	1,585	1,408
Non-Reclaimable VAT	68,307	29,059
	-----	-----
	445,402	381,894
	=====	=====

8 Staff costs and remuneration of key management personnel

	2019	2018
	£	£
Wages and salaries	713,829	752,742
Social Security costs	65,649	68,264
Pension costs – standard contributions	144,609	122,443
Pension costs – deficit reduction plan payments	-	23,400
Pension costs – service cost adjustments (Note 18)	113,000	124,000
	-----	-----
	1,037,087	1,090,849
Temporary/seconded staff	38,539	9,880
Childcare vouchers	3,069	3,064
	-----	-----
	1,078,695	1,103,793
	=====	=====
	No	No
The average number of employees during the year were:	24	24
	=====	=====

One employee earned between £70,000 and £80,000 in the year and was a member of the defined benefit pension scheme (2018: One Employee who earned between £90,000 and £100,000 in the year and was also a member of the defined benefit pension scheme).

Included in wages and salary costs are settlements made to staff in respect of restructuring during the year amounting to £23,000 (2018: £30,000). The restructuring payment made during 2019 was to the former Head of Strategic Marketing (2018: the restructuring payment was to the former chief executive).

Notes to the financial statements *(continued)*
for the year ended 31 March 2019

8 Staff costs and remuneration of key management personnel *(continued)*

Directors

The directors neither received nor waived any emoluments during the year (2018: Nil). Expenses amounting to £2,084 were reimbursed to 3 directors (2018: £4,553 to 6 Directors).

In addition to the Board, the directors consider the Chief Executive and the three Heads of Department as being the key management personnel. The total remuneration and employee benefits of the key management personnel of the charity during the year were £280,159 (2018: £263,351).

9 Grants expenditure

During the year total grants were committed to by the charity as follows:

	2019 £	2018 £
Aims		
1 - Maximising the Potential	319,775	370,116
2 - Strengthening Connections	239,831	366,379
3 - Empowering a Diverse Workforce	119,916	212,031
4 - Forging a Sustainable Future	139,902	305,788
5 - Fostering a Culture of Collaboration	129,909	302,551
6 - Developing a Global Perspective	49,965	50,299
	-----	-----
	999,298	1,607,164
	=====	=====

All grants were made to institutions and further information is available on the charity's website at:
<http://www.museumsgalleriesscotland.org.uk/funding>

10 Governance costs

	2019 £	2018 £
Audit fee	5,050	4,800
Directors' travel	2,084	4,554
Legal and professional advice	18,114	22,667
Board meetings and governance	1,345	983
Staff costs	31,295	33,255
	-----	-----
	57,888	66,259
	=====	=====

Notes to the financial statements (continued)
for the year ended 31 March 2019

11 Net income before transfers

Net income is stated after charging:

	2019	2018
	£	£
Auditors' remuneration – audit	5,050	4,800
Auditors' remuneration – accounting assistance, payroll services, VAT advice	13,702	9,935
Depreciation	61,446	60,546
Operating lease charges – building	83,079	82,871
	=====	=====

12 Tangible fixed assets

	Leasehold Improvements £	Office and computer equipment £	Furniture and fittings £	Total £
Cost				
At beginning of year	224,242	229,058	41,633	494,933
Additions	-	1,330	-	1,330
Disposal	-	(342)	-	(342)
	-----	-----	-----	-----
At end of year	224,242	230,046	41,633	495,921
	-----	-----	-----	-----
Depreciation				
At beginning of year	224,242	145,214	24,915	394,371
Charge for the year	-	57,283	4,164	61,447
Disposal for the year	-	(342)	-	(342)
	-----	-----	-----	-----
At end of year	224,242	202,155	29,079	455,476
	-----	-----	-----	-----
Net book value				
At 31 March 2019	-	27,891	12,554	40,445
	=====	=====	=====	=====
At 31 March 2018	-	83,844	16,718	100,562
	=====	=====	=====	=====

13 Debtors

	2019	2018
	£	£
Business debtors	2,652	2,501
Prepayments and accrued income	199,224	26,523
Taxation recoverable	-	12,115
Other debtors	-	1,450
	-----	-----
	201,876	42,589
	=====	=====

Notes to the financial statements *(continued)*
for the year ended 31 March 2019

14 Creditors: amounts falling due within one year

	2019	2018
	£	£
Business creditors	12,098	51,745
Accruals and deferred income	201,787	49,208
Grants payable	2,170,856	2,661,804
Taxation and social security	63,421	33,376
Other creditors	1,257	1,998
	-----	-----
	2,449,419	2,798,131
	=====	=====

15 Total future minimum lease payments under non-cancellable operating leases

	2019	2018
	£	£
Within 1 year	84,000	84,000
Within 2 to 5 years	159,715	243,715
	-----	-----
	243,715	327,715
	=====	=====

Notes to the financial statements *(continued)*
for the year ended 31 March 2019

16 Statement of funds 2019

	At 1 April 2018 £	Income £	Expenditure £	Transfers £	Gains and Losses £	At 31 March 2019 £
Restricted income funds						
Scottish Government (Grants Programme)	85,632	1,100,000	(1,007,900)	-	-	177,732
Scottish Government (Skills Development)	726	-	3,262	-	-	3,988
Scottish Government (WW1 Commemorations)	6,866	-	(13)	-	-	6,853
Network and partnership fund	10,239	-	5,433	-	-	15,672
Big Lottery Fund Project (TPYF 2)	30,612	-	(80)	-	-	30,532
Heritage Lottery Fund Skills for Success	-	285,138	(295,207)	10,069	-	-
Total restricted income funds	134,075	1,385,138	(1,294,505)	10,069	-	234,777
Unrestricted income funds						
Unrestricted income fund	798,042	1,486,723	(1,394,201)	(10,069)	-	880,495
Pension reserve	(913,000)	-	(139,000)	-	(317,000)	(1,369,000)
Total unrestricted income funds	(114,958)	1,486,723	(1,533,201)	(10,069)	(317,000)	(488,505)
Designated funds						
Discretionary grants and development fund	88,861	-	(26,090)	-	-	62,771
Systems development fund	55,976	-	(55,976)	-	-	-
Website development fund	4,929	-	(4,158)	-	-	771
Festival of Museums website	9,000	-	(3,400)	-	-	5,600
Total designated funds	158,766	-	(89,624)	-	-	69,142
Total funds	177,883	2,871,861	(2,917,330)	-	(317,000)	(184,586)

Notes to the financial statements *(continued)*
for the year ended 31 March 2019

16 Statement of funds 2018

	At 1 April 2017 £	Income £	Expenditure £	Transfers £	Gains and Losses £	At 31 March 2018 £
Restricted income funds						
Scottish Government (Grants Programme)	121,225	1,460,000	(1,495,593)	-	-	85,632
Scottish Government (Skills Development)	11,353	-	(10,627)	-	-	726
Scottish Government (WW1 Commemorations)	2,177	50,000	(45,311)	-	-	6,866
Network and partnership fund	65,872	-	(55,633)	-	-	10,239
Big Lottery Fund Project (TPYF 2)	33,010	-	(2,398)	-	-	30,612
Heritage Lottery Fund Skills for Success	-	19,126	(22,840)	3,714	-	-
Total restricted income funds	233,637	1,529,126	(1,632,402)	3,714	-	134,075
Unrestricted income funds						
Unrestricted income fund	708,464	1,479,020	(1,389,442)	-	-	798,042
Pension reserve	(841,000)	-	(147,000)	-	75,000	(913,000)
Total unrestricted income funds	(132,536)	1,479,020	(1,536,442)	-	75,000	(114,958)
Designated funds						
Discretionary grants and development fund	100,672	-	-	(11,811)	-	88,861
Systems development fund	116,039	-	(60,063)	-	-	55,976
MGS Conference Fund	(165)	12,134	(20,066)	8,097	-	-
Website development fund	6,349	-	(1,420)	-	-	4,929
Festival of Museums website	25,000	-	(16,000)	-	-	9,000
Total designated funds	247,895	12,134	(97,549)	(3,714)	-	158,766
Total funds	348,996	3,020,280	(3,266,393)	-	75,000	177,883

Notes to the financial statements *(continued)*
for the year ended 31 March 2019

16 Statement of funds *(continued)*

No expenditure is committed unless sufficient funds are held to meet that expenditure.

The purpose of each of the restricted funds is as follows:

Grants Programme: funding from the Scottish Government for providing grants.

Skills Development: funded by the Scottish Government, the fund offers grants of up to 100% of funding ranging from £1,000-£20,000 to support museums to work in partnership to run collaborative training courses and skills development programmes.

WW1 Commemoration: funding from the Scottish Government for the sector to commemorate WW1.

Network and partnership fund: funding from the Scottish Government to promote networks and partnership amongst the museum and gallery sector.

TPYF: funding from the Big Lottery Fund towards event in connection with WWII – "Their Past Your Future", a programme based on intergenerational learning between Veterans and young people.

Heritage Lottery Fund Skills for Success : funding to address a lack of diversity and accessible entry routes in the museum workforce by supporting and training 22 non-graduates from diverse backgrounds in one-year paid placements in museums across Scotland while they work towards the SVQ3 in Museums and Galleries Practice.

The purpose of each of the designated funds is as follows:

Pension fund: to help fund the deficit on the final salary pension scheme.

Discretionary and Development fund: to be used to make grants at the organisation's discretion and fund exceptional development costs.

Systems Development Fund: funding for systems to make more effective use of existing resources.

MGS Conference Fund: funding for the MGS conference held alternate years.

Website development fund: funding for the development of the new MGS website.

Festival of Museums website: funding for the development of a dedicated Festival of Museums website.

The Scottish Government allows transfers to be made between the different categories of grant programmes it funds. Transfers from unrestricted funds have been made to meet the deficits arising on any restricted fund.

Notes to the financial statements (continued)
for the year ended 31 March 2019

17 Analysis of net assets between funds 2019

	Unrestricted income funds £	Designated funds £	Other unrestricted funds £	Restricted income funds £	Total 2019 £
Fund balances at 31 March 2019 are represented by:					
Tangible fixed assets	40,445	-	-	-	40,445
Current assets	3,289,469	69,142	-	234,777	3,593,388
Current liabilities	(2,449,419)	-	-	-	(2,449,419)
Defined Benefit Pension provision	-	-	(1,369,000)	-	(1,369,000)
Total net assets	880,495	69,142	(1,369,000)	234,777	(184,586)

Analysis of net assets between funds 2018

	Unrestricted income funds £	Designated funds £	Other unrestricted funds £	Restricted income funds £	Total 2018 £
Fund balances at 31 March 2018 are represented by:					
Tangible fixed assets	100,562	-	-	-	100,562
Current assets	3,495,611	158,766	-	134,075	3,788,452
Current liabilities	(2,798,131)	-	-	-	(2,798,131)
Defined Benefit Pension provision	-	-	(913,000)	-	(913,000)
Total net assets	798,042	158,766	(913,000)	134,075	177,883

18 Pension costs

Museums Galleries Scotland belongs to the Lothian Pension Fund, a defined benefits pension scheme into which employees' and employers' contributions, and interest and dividends from investments are paid and from which pensions, lump sums and superannuation benefits are paid out. Employees' contributions are on a tiered scale between 5.7% and 9.0% and employers' basic contributions are assessed every three years by an actuary and are fixed to ensure the fund remains solvent and in a position to meet its future liabilities. Employers' contributions paid for the year to 31 March 2019 amount to £144,609 (2018: £145,843). In the financial year to 31 March 2019 the employer contribution rate was 20.7%.

The fund is valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years the actuaries review the progress of the scheme and prepare an interim valuation for the purposes of reporting under FRS 102, based on the estimates available at that time.

The performance of the scheme has been reported under FRS 102 as amended, and is based on the latest available report dated 3 June 2019.

Notes to the financial statements *(continued)*
for the year ended 31 March 2019

18 Pension costs *(continued)*

Employee benefit obligations

The amounts relating to the assets and liabilities of the scheme are as follows:

	Assets £	Obligations £	Year ended 31 March 2019 Net liability £	Year ended 31 March 2018 Net liability £
Fair value of employer assets	8,377,000	-	8,377,000	8,349,000
Present value of funded liabilities	-	9,290,000	(9,290,000)	(9,190,000)
Opening Position as at 31 March 2018	8,377,000	9,290,000	(913,000)	(841,000)
Service cost				
Current service cost	-	264,000	(264,000)	(268,000)
Total Service Cost	-	264,000	(264,000)	(268,000)
Net Interest				
Interest income on plan assets	227,000	-	227,000	217,000
Interest cost on defined benefit obligation	-	253,000	(253,000)	(240,000)
Total net interest	227,000	253,000	(26,000)	(23,000)
Total defined benefit cost recognised in income and expenditure	227,000	517,000	(290,000)	(291,000)
Cashflows				
Plan participants contributions	46,000	46,000	-	-
Employer contributions	151,000	-	151,000	144,000
Benefits paid	(161,000)	(161,000)	-	-
Expected closing position	8,640,000	9,692,000	(1,052,000)	(988,000)
Re-measurements (actuarial losses)				
Changes in demographic assumptions	-	-	-	59,000
Changes in financial assumptions	-	883,000	(883,000)	134,000
Other experience	-	-	-	77,000
Return on assets excluding amounts included in net interest	566,000	-	566,000	(195,000)
Total re-measurements recognised in Statement of Financial Activities	566,000	883,000	(317,000)	75,000
Fair value of plan assets	9,206,000	-	9,206,000	8,377,000
Present value of funded liabilities	-	10,575,000	(10,575,000)	(9,290,000)
Closing position as at 31 March 2019	9,206,000	10,575,000	(1,369,000)	(913,000)

Notes to the financial statements *(continued)*
for the year ended 31 March 2019

18 Pension costs *(continued)*

FRS 102

The performance of the scheme has been reported under FRS 102 as amended.

The total amount recognised in the statement of financial activities in respect of actuarial gains and losses is a loss of £317,000 (2018: a gain of £75,000).

The fair value of the employer assets and the return on these assets is as follows:

	Value 2019 £000	Value 2018 £000
Equities	6,813	6,283
Bonds	1,105	922
Property	644	586
Cash	644	586
Total	9,206 =====	8,377 =====

The expected rates of return on employer assets are determined by reference to relevant indices. The overall expected return is calculated by weighting the individual rates in accordance with the anticipated balance in the Plan's investment portfolio.

Principal actuarial assumptions (expressed on weighted averages) at the year-end were as follows:

	2019 %	2018 %
Inflation/pension increase rate	2.5	2.4
Salary increase rate	4.2	4.1
Discount rates	2.4	2.7
	=====	=====

The assumptions relating to the longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial marketing tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year-old to live for a number of years as follows:

	Males	Females
Current pensioners	21.7 years	24.3 years
Future pensioners	24.7 years	27.5 years

The charity expects to contribute approximately £158,000 to its defined benefit pension scheme in the next financial year.

Notes to the financial statements *(continued)*
for the year ended 31 March 2019

19 Commitments

Museums Galleries Scotland has a leasing commitment in respect of its offices at Waverley Gate, Edinburgh until 23 February 2022. The annual rental payable is £84,000.

20 Ultimate controlling party

The charitable company is constituted under its Memorandum and Articles of Association and is managed by its appointed directors.

21 Related parties

In the current year, no grants (2018: £20,000) were awarded to the Regimental Trust of the Gordon Highlanders. Charles Sloan is a director of MGS and Chair of the Gordon Highlanders Museum.

In the current year, no grants (2018: £20,000) were awarded to National Museums Scotland where Ruth Gill is Director of Public Programmes.

In December 2018, £30,000 was awarded to the Hunterian Museum, University of Glasgow. Steph Scholten is a Director of the Hunterian Museum, but was not appointed as a director of MGS until January 2019. As with other directors, Steph Scholten was not involved in decision making where organisations he is involved with have applied to MGS for funding.

Ray Macfarlane (Director) is also a trustee of the National Lottery Heritage Fund (formerly the Heritage Lottery Fund) from whom Museums Galleries Scotland ("MGS") receives funding, but takes no part in decision making related to funding applied for by MGS.

22 Going concern

As at 31 March 2019 total reserves show a deficit of £184,586, with undesignated unrestricted reserves showing a deficit of £488,505. The deficit results primarily from actuarial losses in the defined benefit pension scheme in the year to 31 March 2019, and as this pension scheme liability is not immediately repayable the directors are satisfied that the charity is in a position to meet its commitments as they fall due. The pension scheme liability can be subject to large movements from year to year as a result of actuarial calculations, changes in assumptions, and asset valuations and the directors will monitor this on a continuing basis to assess the impact upon the financial position of the charity.