

**NATIONAL MUSEUMS OF SCOTLAND**

**ANNUAL REPORT AND ACCOUNTS**

**CHARITY NUMBER : SC 011130**

**FOR THE YEAR ENDED 31 MARCH 2006**

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# REPORT OF THE BOARD OF TRUSTEES

## 1. A Brief Organisational History

The National Museums of Scotland (NMS) was created on 1 October 1985 by the amalgamation of the National Museum of Antiquities of Scotland (NMAS) and the Royal Scottish Museum (RSM). NMS and its activities are now defined primarily by the terms of the National Heritage (Scotland) Act 1985.

NMS has been granted charitable status: the charity number is SC 011130.

NMS operates six museums: the Royal Museum and Museum of Scotland on Chambers Street in Edinburgh, the National War Museum of Scotland in Edinburgh Castle, the Museum of Flight in East Lothian, the Museum of Scottish Country Life near East Kilbride, and Shambellie House Museum of Costume near Dumfries. NMS is currently developing its collections centre in Granton, north Edinburgh, as the main location for its stored collections and conservation facilities.

NMS's principal place of business is Chambers Street, Edinburgh EH1 1JF.

## 2. The Board of Trustees

The Trustees of the National Museums of Scotland are appointed by Scottish Ministers for a single four-year term, with the possibility of reappointment for a second term. An induction programme is given to all Trustees, with ongoing support and formal training as required. All Board members are appraised at least annually by the Chairman, in accordance with guidance from the Office of the Commissioner for Public Appointments (OCPAS). The following were members of the Board during the period covered by this Annual Report and Accounts and continued to the date the accounts were signed:

- Sir Angus Grossart, CBE, LLD, DLitt, FRSE, DL (Chairman) – appointed 1 February 2006.
- Lord Wilson of Tillyorn KT, GCMG, PhD, FRSE (Chairman) - term completed 31 January 2006.
- James A.G. Fiddes OBE, DUniv, MA, FRICS - reappointed 1 April 2005.
- Lesley Hart MBE MA MSc - appointed 1 October 2003.
- Grenville S Johnston OBE, TD, KCSG, JP, CA – second term completed 31 March 2006.
- Michael Kirwan FCA - appointed 1 January 2005.
- Professor Michael Lynch PhD, FRSE, FSA (Scot) - appointed 1 October 2002.
- Christina Macaulay MA - reappointed 1 April 2003.
- Sir Neil McIntosh CBE, JP, DL - reappointed 1 April 2003.
- Anne Maclean BA, DipAss, - reappointed 1 April 2005, deceased 10 February 2006.
- Professor Malcolm McLeod, CBE, MA, BLitt(Oxon), FRSE - appointed 1 April 2005.
- Neena Mahal MA DCG - reappointed 1 April 2004.
- Dr Stuart Monro CGeol, FGS, ILTM, FRSSA - appointed 1 April 2005.
- Ian Ritchie CBE, FREng, FRSE, FBCS - appointed 1 October 2002.
- Ian Smith FFA, FCIA - reappointed 1 April 2003.
- Sir John Ward CBE, CA - appointed 1 January 2005.

The following served as members of the Audit Committee during the year: Grenville Johnston (Chairman), Sir Neil McIntosh, Michael Kirwan, Ian Ritchie, Lord Wilson (ex officio) and Sir Angus Grossart (ex officio).

NMS maintains a Board Members' Register of Interests, which complies with the requirements of the Ethical Standards in Public Life (Scotland) Act 2002. Trustees are required to update the register within 28 days of a change to their registerable interests. The Register is available on the NMS website [www.nms.ac.uk](http://www.nms.ac.uk) and for inspection at the Royal Museum on application to the Head of Corporate Policy and Performance.

Trustees are responsible for determining vision and strategy for the organisation and for monitoring progress to achieve these. A range of decisions are reserved for the Board, such as approval of major projects (£1 million and over) and acceptance of gifts or donations of £1 million or over. The management of NMS is responsible for the implementation of strategy and policy and for operational management and decisions.

## 3. Related Organisations

NMS wholly owns a limited company, NMS Enterprises Limited, which operates commercial services (hospitality, retail, publishing and image management) at NMS sites. Profits are covenanted to NMS through Gift Aid. The NMS Charitable Trust is independent of NMS. Its purpose is to aid any objects

deemed legally charitable, but giving preference to any such objects which are directly or indirectly of benefit or assistance to the Board of Trustees of NMS. The Trust manages funds raised through NMS fundraising activity, or received as donations and bequests. Most of the funds held by the charity are restricted and may only be applied for the purposes for which they were established. However there is also a general fund from which the Trustees may make discretionary grants.

NMS works closely with the Scottish Executive Education Department (SEED) as its principal funder, and is a member of a Shared Services Forum comprising the 6 National Collecting Institutions (National Galleries of Scotland, National Library of Scotland, Royal Botanic Gardens Edinburgh, Royal Commission of the Ancient and Historical Monuments of Scotland, National Archive); the Forum collaborates to improve public services and to achieve efficiencies.

NMS works in partnership with a number of private and public sector organisations to support the delivery of its objectives. Formal partnerships include the National Trust for Scotland for the operation of the Museum of Scottish Country Life; the Piping Centre in Glasgow which NMS has supported with a major loan and curatorial advice; and SportsScotland for the development of the *Sporting Scotland* gallery and Scottish Sports Hall of Fame in the Museum of Scotland.

NMS's banker is The Royal Bank of Scotland, 6-8 George Street, Edinburgh EH2 2SA. The external auditor is PricewaterhouseCoopers LLP, under contract to Audit Scotland, 18 George Street, Edinburgh EH2 2QU. Legal advice is provided primarily by Dundas & Wilson, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN.

#### 4. The Principal Functions of NMS

The functions of NMS are, as set out in Section 2(1) of the 1985 Act, to:

- a) care for, preserve and add to the objects in their collections;
- b) secure that the objects are exhibited to and interpreted for the public;
- c) secure that the objects are available to persons seeking to inspect them in connection with study or research;
- d) generally promote the public's awareness, appreciation and understanding of matters agricultural, archaeological, architectural, artistic, cultural, environmental, historical, industrial, military, scientific and social, both by means of the Board's collections and by such other means, including collaboration with other institutions, as they consider appropriate; and
- e) provide education, instruction and advice and carry out research.

NMS contributes to the cultural wealth and knowledge of Scotland by:

- a) the preservation of material and natural objects;
- b) providing displays to illuminate for the public Scottish and international aspects of man's culture and the natural world;
- c) encouraging research on its collections; and
- d) providing an education service for the interpretation of its collections.

In 2003 NMS defined its vision to be 'A world class museums service that informs, educates and inspires.' The mission of NMS is to 'preserve, interpret and make accessible for all, the past and present of Scotland, of other nations and cultures, and of the natural world.'

NMS achieves its objectives through a structured planning and performance management system. This is based upon identification of strategic aims within the vision and mission, which cascade into objectives at directorate, departmental and personal level and SMART measures for these. NMS publishes a Strategic Plan, currently covering 2006-2012, which is distributed to all staff and key stakeholders and appears on the NMS website. In addition an annual Operating Plan defines the key objectives and actions for the current financial year. Performance is reported annually in updates to the Plan, in the Annual Report and the Annual Review. There is a Personal Performance Review and Development system for all staff.

The commercial interests of NMS are promoted by NMS Enterprises Ltd, the aims of which are to:

- exploit commercial hall hire and catering activities on behalf of NMS;
- operate the shops in NMS's museums;
- publish books; and
- exploit commercially NMS's photographic records.

The Board of NMS controls NMS Enterprises Ltd.

## 5. Organisational Structure and Staff

The Corporate Management Team (CMT) is the senior executive decision-making body, reporting through the Director to the Board of Trustees. The CMT comprises:

Dr Gordon Rintoul, Director  
Jane Carmichael, Director of Collections  
Andrew Patience, Director of Finance and Resources  
Catherine Holden, Director of Marketing and Development  
Mary Bryden, Director of Public Programmes

Stephen Elson, Director of Facilities Management and Projects, ceased employment on 31 December 2005.

Sheila McClure, the Head of Corporate Policy and Performance, acts as the Secretary to the CMT, and Peter Williamson, the NMSE Managing Director, represents the interest of NMSE to the CMT.

NMS adopts a positive attitude towards the employment of disabled persons both in recruitment and in the provision of suitable working conditions.

Corporate information is shared with staff through publication of plans, minutes, newsletters, formal notices, and departmental and team meetings. An Internal Communications Manager has been appointed to develop these and other channels of communication, including a staff intranet. NMS management regularly meet staff representatives from the three Trade Unions; in summer 2005 a new Partnership Agreement was agreed to improve on and supersede the former meeting mechanism of the Whitley Council and its sub-committees.

NMS has strong relationships with volunteers in a variety of capacities, including leading guided tours and assisting with curatorial and conservation activity. NMS received volunteer support from over 300 individuals during the year.

## 6. Key Achievements in 2005/06

NMS made progress towards all of its strategic aims during the year, the main developments and achievements being noted below. Further details are provided in Section 4 of the Strategic Plan 2006-2012, which is available on our website [www.nms.ac.uk](http://www.nms.ac.uk).

The special exhibitions at the Royal Museum were particularly successful: *Dinosaurs Alive!* attracted 90,000 visitors, *Nicholas and Alexandra: The Last Tsar & Tsarina* attracted 70,000 visitors; and *Monster Creepy Crawlies* 50,000 visitors. Other special exhibitions in the year included *No Easy End in Sight* in a new exhibition space at the War Museum; the *Jerwood Applied Arts Prize* exhibition and *Fabric to Fashion* in a new exhibition space at the Museum of Scotland; and *JM Barrie: Peter Pan, Art in Gardens, Scottish Connections: Quilts and Hidden Secrets* at the Museum of Costume. The Royal Museum also hosted *Movement & Shadows: The Magic of Sharmanka Theatre*, a series of popular interactive science displays, and four art and design displays: *Bags of Style, Expectations, 40 Under 40*, and *Gifted*. *The Concorde Experience* opened in March 2005 at the Museum of Flight and was an instant success. It attracted 146,015 visitors in 2005/06 – trebling visitor numbers at that site – and was longlisted for the prestigious Gulbenkian Prize for museums and galleries.

Visit numbers overall were up 9% on the previous financial year, outperforming the wider Scottish attractions market.

*The Royal Museum Masterplan* received Trustee approval in September 2004, setting the framework for an extensive redevelopment of the Royal Museum, as well as further improvements to the storage and conservation facilities at NMS's collections centre at Granton in north Edinburgh. Work on the Enabling phase of the Masterplan has begun, with significant progress in refurbishing and developing existing buildings at Granton to increase storage capacity and house curatorial and conservation staff. In September 2005 NMS staff completed the move of important collections to Granton, and a new purpose-built reception and conservation building will be built by June 2007. This will be the final phase of the Enabling works, which are expected to be completed at a total cost of £9.1 million. Funding for the Enabling phase has come from specific and block capital grants from the Scottish Executive, and from disposals of land.

In June 2005 the Heritage Lottery Fund (HLF) pledged £16.865 million to *The Royal Museum Project* – the most significant development phase of the Masterplan. This support included a grant of £1.292 million as development funding, supporting work on a Stage 2 HLF application to confirm the full grant. The Scottish Executive also contributed £800,000 to the development of the Stage 2 HLF Application.

Another important stage in the realisation of the Royal Museum Masterplan is the opening of *Connect* on the ground floor of the West Wing of the Royal Museum. This new permanent interactive science and technology gallery, opened in February 2006, and was funded by the ReDiscover programme and a number of other donors.

NMS delivered its National Partnerships Strategy through a range of joint projects broadening access to and understanding of national and non-national museum collections in Scotland. An advice policy, setting out the type and extent of NMS support for the museums community, was developed and publicised on the website. A total of 2,540 objects from the collections were loaned for display purposes in the UK and abroad.

In addition to working nationally through partnerships, NMS responded to the initiatives announced in January 2006 in *Scotland's Culture* by establishing a National Collecting Institutions Shared Services Forum. The Forum will identify, assess and deliver collaborative projects which both achieve efficiencies and improve services.

As part of its programme of organisational development, NMS began a leadership programme for senior managers, created a competency framework and an internal communications strategy, and undertook its first staff survey, following this with an action plan to respond to areas requiring improvement.

## **7. Research Activities**

During the year ended 31 March 2006, 105 research articles by NMS staff members were accepted for publication. In addition, the outcomes of research activities were communicated through a wide range of channels such as conferences, lectures and in exhibitions and public programmes.

## **8. Future Plans**

Following the HLF Stage 1 funding award in June 2005, the *Royal Museum Project* has undergone detailed development to progress to the Stage Two submission which was made to HLF in July 2006. HLF will announce their decision on this application in January 2007. *The Royal Museum Project* is a major redevelopment of the site which will double the number of objects on display, create sixteen new galleries and learning zones, and improve visitor facilities and access. Further improvements will be made at Granton to improve collections storage and increase public access. This major Project has an expected cost of circa £46 million and will take place from 2007 to 2011.

At the Museum of Scotland, the new *Sporting Scotland* gallery, incorporating the Scottish Sports Hall of Fame in collaboration with *Sportscotland*, opens in the summer of 2006. This gallery is the first stage in a much larger project to create a new permanent exhibition on Modern Scotland due to open in spring 2008. New *Discovery Zones* will also be opened in a number of Museum of Scotland galleries in October 2006, encouraging families and schoolchildren to explore the displays in new and creative ways. The above galleries, along with the *Connect* and other West Wing galleries, will remain open during the partial closure of the Royal Museum site and provide engaging experiences to attract visitors to the Chambers Street site.

In late 2006 NMS will produce a 10 year development plan for the Museum of Flight, to build on the success achieved by *The Concorde Experience* and guide investment in the site as a major visitor attraction in East Lothian. In autumn 2006 NMS will launch the first phase of the Online Museum, providing enhanced digital content and greater virtual access to the national collections through a new website.

## **9. Scottish Executive Priorities**

Scottish Executive objectives set for the Tourism, Culture and Sport Ministerial portfolio are contained in the Spending Review 2002, which covers the period 2003/04 to 2005/06. The principal objectives which relate to NMS are:

- Visit Numbers - to increase participation in cultural events and activities supported by bodies funded by the Executive by 3% over the period: NMS visit numbers increased by 9% in 2005/06 over 2004/05.

- Participation - to increase participation from under-represented groups in cultural activity by 5% over the period: in 2005/06 NMS increased participation, through visits or learning activities, by most target groups, which include young people age 16-24 years, older people age over 65 years, people with a disability, people from minority ethnic groups, people from rural areas, and people living in areas of deprivation.
- Public Programmes - to increase the number of cultural programmes in areas of economic and social disadvantage, or involving people from these areas, by 10% over the period: in 2005/06 NMS delivered 19 programmes in this field, up from the 14 programmes delivered in 2004/05.

## 10. Financial Review

The combined financial results and appropriations are shown in full in the Consolidated Income and Expenditure Account on Page 16. The accounts consolidate the results of NMS's wholly-owned trading subsidiary NMS Enterprises Ltd (NMSE). An Income and Expenditure Account for NMS alone is included at Page 22.

The accounts meet the requirements of the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board so far as they are appropriate. They also comply with SORP 2005, the Statement of Recommended Practice on the preparation of accounts of charitable organisations.

The summary operational results and reserves for NMS and NMSE combined (described as 'the group') were as follows:

	2006 £m	2005 £m
<b>Income</b>		
Grants received, net of transfers to reserves	18.2	17.4
Release from capital, donated assets and revaluation reserves	5.0	4.4
Other Income	3.8	3.0
<b>Total Income</b>	<b>27.0</b>	<b>24.8</b>
<b>Expenditure</b>		
Staff Costs	12.7	11.5
Other Operating Charges	9.0	9.0
Depreciation	5.0	4.4
<b>Total Expenditure</b>	<b>26.7</b>	<b>24.9</b>
<b>Surplus/(Deficit)</b>	<b>0.3</b>	<b>(0.1)</b>

The surplus for 2005/6 has been transferred to the Revenue Board Reserve.

### Reserves available for use by NMS Revenue Board Reserve (Note 21)

	2006 £m	2005 £m
<b>At 31 March</b>	<b>1.7</b>	<b>1.5</b>
Commitments made :		
Revenue projects in progress	(0.2)	-
Capital projects in progress	(0.4)	(0.5)
Royal Museum Project – HLF Stage 2	(0.5)	-
<b>Total Commitments</b>	<b>(1.1)</b>	<b>(0.5)</b>
<b>Uncommitted reserves</b>	<b>0.7</b>	<b>1.0</b>

Principal funding - grant-in-aid from SEED - increased as agreed with SEED to fund the introduction of pay progression and operational developments. The release from capital, donated assets and revaluation reserves closely matches our depreciation charges as they both relate to fixed assets. Other income increased mainly due to successful special exhibitions and an excellent return from NMSE in the year. Staff costs increased due to the implementation of a new reward framework and the filling of vacant posts after a programme of re-organisation. Other operating charges remained static in line with expectations.

NMS is required to operate within the financial limits prescribed in the Financial Memorandum, and to follow the recommendations of Government Accounting. Thus NMS is generally not permitted to borrow funds, and its powers to invest are circumscribed.

Operating surpluses which derive from revenue-earning activities, donations and other sources, excluding Grant-in-Aid, may be taken to the Board Reserve Fund, which can be used at the Board's discretion. Operating deficits or surpluses which are not taken to the Board Reserve Fund are transferred to the General Fund. Reserves are reviewed on an annual basis and appropriate levels agreed based on current requirements and circumstances.

#### 11. Risks

NMS maintains a risk register which is reviewed annually by the Audit Committee. Two potential major risks - fire safety non-compliance in the Royal Museum, and inadequate storage of collections - are being addressed through the Royal Museum Masterplan projects referred to above.

#### 12. Status of Land and Buildings and Significant Changes to Fixed Assets

NMS holds title to properties at Granton, the Museum of Flight, Leith Custom House and the former Dental Hospital in Chambers Street. Title to the Royal Museum, the Museum of Scotland and property at Port Edgar is held by Scottish Ministers. Buildings at the Museum of Scottish Country Life are owned by the National Trust for Scotland; the premises of the National War Museum of Scotland are in the care of Historic Scotland; and Shambellie House Museum of Costume is owned by the Stewart Trust; NMS owns the museum displays and other fittings and facilities. NMS has full operational use of these assets and is responsible for their upkeep and maintenance, and there has been no change in this position during the year.

In the period, the group acquired tangible and intangible assets at a cost of £5.5m. The sum of £1.1m was spent on permanent galleries, £4.1m on buildings, £0.3m on equipment purchases and £0.02 on intangible assets. There were no additions to leasehold improvements, and £0.32m on collection additions.

#### 13. Prompt Payment Code

NMS's payment policy is to comply with Government accounting rules, which stipulate that payments to suppliers must be made within 30 days of receipt of invoice. A random sample of invoices taken during 2005/06 showed that, on average, NMS paid 97% of invoices within 30 days of receipt.

CHAIRMAN

*Guy M. Mohart*

DATE 15/9/06

## STATEMENT OF BOARD'S AND DIRECTOR'S RESPONSIBILITIES

Under the National Heritage (Scotland) Act 1985, paragraph 9(3) schedule 7, Scottish Ministers have directed NMS to prepare for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction. The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of NMS and of NMS consolidated with NMS Enterprises Ltd ('the group') at the year-end, and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the Accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by Scottish Executive Accountancy Service Team, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

The Scottish Executive Accountancy Service Team has appointed the Director of the National Museums of Scotland as Accounting Officer for NMS. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding NMS's assets, are set out in the Accounting Officer's Memorandum issued by the Scottish Executive Accountancy Service Team and published in the Scottish Public Finance Manual issued by Scottish Ministers.



## STATEMENT ON INTERNAL CONTROL

### Scope of Responsibility

As Accounting Officer and Trustees of the National Museums of Scotland, we have joint responsibility for maintaining a sound system of internal control that supports the achievement of NMS's policies, aims and objectives, whilst safeguarding the public funds and assets for which the Accounting Officer is personally responsible, in accordance with the responsibilities assigned to us in Government Accounting. NMS works closely with the Scottish Executive Education Department (SEED) in developing overall financial strategies, and NMS informs SEED of issues relating to internal control, including reports of internal audit and of fraud, whether incurred or not.

### The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of NMS's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in NMS for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to Handle Risk

The Corporate Management Team reviews the risk register regularly, to consider its completeness, to assess the materiality of the risks, and to consider the likelihood that the events will arise. Where staff training needs are identified in relation to the risk process, these are taken forward in the NMS staff training plans. These are designed to meet the identified needs of the staff, appropriate to their level of responsibility and duties.

### The Risk and Control Framework

Risks are identified also at departmental level, and are evaluated for materiality and probability. Control mechanisms are identified and reviewed for effectiveness, and "ownership of the risks" is assigned to individual managers.

### Review of Effectiveness

As Accounting Officer and Trustees we also have responsibility for reviewing the effectiveness of the system of internal control. Our review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers in NMS who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. We have been advised on the implications of our review of the effectiveness of the system of internal control by the board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place

During the year, the following processes were in place in NMS:

- Regular reports by internal audit, to standards defined in the Government Internal Audit Manual, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of NMS's system of internal control together with recommendations for improvement.
- Implementation of a robust prioritisation methodology based on risk ranking.
- Maintenance of an organisation-wide risk register.
- Establishment of key performance indicators.
- As appropriate, formal project management disciplines.

DIRECTOR.....

CHAIRMAN.....

## REMUNERATION REPORT

### Remuneration Policy

The remuneration of the Director is set by the Board of Trustees but requires the agreement of the Scottish Executive. This remuneration is reviewed annually by the Board of Trustees. The Chairman of the Personnel and Remuneration Committee and the Chairman of the Audit Committee provide advice to the Chairman of the Board of Trustees on the salary and reward structure for the Director

The remuneration of the senior management (Corporate Management Team) is reviewed annually and agreed by the Personnel and Remuneration Committee (PARC) on the advice of the Director working within the approved pay agreement from the Scottish Executive. A formal annual performance review process is in place for all staff, including senior management.

The PARC consists of a number of Trustees. Currently these are Sir Neil McIntosh (Chairman), Christina Macaulay, and Lesley Hart. The Director, the Director of Finance and Resources and the Head of Human Resources attend meetings of the Committee.

As part of its advisory and review role, the PARC considers the following:

- The need to recruit, retain and motivate suitably able and qualified people;
- Regional variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services;
- The affordability of recommendations for salary review

### Service Contracts

Although senior management are not civil servants, NMS follows the principles of the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition.

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

## Salaries

Salary and pension entitlement of senior management (Corporate Management Team) during the year are noted below:

	2006	2005	Accrued annual pension payable 31 March 2006	Increase in accrued pension since 31 March 2005 (1)	CETV at 31/3/06	CETV at 31/3/05	Real increase in CETV funded by NMS
	Salary	Salary					
	£000	£000	£000	£000	£000	£000	£000
Gordon Rintoul	90-100	85-95	5-10	0-2.5	179	117	19
Mary Bryden	60-70	55-65	20-25 (2) plus a lump sum 70-75	0-2.5	532	397	26
Jane Carmichael	60-70	55-65	25-30	0-2.5	565	416	11
Stephen Elson (3)	40- 50 (60-70 full time equivalent)	55-65	20-25 (2) plus a lump sum 60-65	0-2.5	536	401	8
Catherine Holden	60-70	55-65	5-10 (2) plus a lump sum 25-30	0-2.5	136	96	8
Andrew Patience	60-70	55-65	5-10	0-2.5	101	64	13

- 1) The increase in accrued pension is discounted for the effect of inflation.
- 2) Lump sum is payable to PCS classic pension scheme members, being Mary Bryden, Stephen Elson and Catherine Holden
- 3) Stephen Elson ceased employment on 31 December 2005. Compensation (which is not included within the salary figure above) due to ill health was paid to him in accordance with the Civil Service Compensation Scheme.

Salaries in the above table are the amount earned in the financial year and include performance bonuses. Overtime is not paid to senior management.

## Benefits in kind

No benefit in kind was received by senior management during the year.

## Pensions

Pension benefits are provided to senior management on the same basis as all other staff through the Principal Civil Service Pension Scheme (PCSPS), which operates three defined benefit schemes, and a defined contribution scheme ("Partnership") under the Stakeholder pension framework.

The defined benefit schemes provide benefits on a 'final salary' basis at normal retirement age of 60. The newer scheme, "Premium" was introduced in 2002, while the older scheme, "Classic" remains open only to existing members as at 1 October 2002. Benefits in the Premium scheme accrue at the rate of 1/60<sup>th</sup> of pensionable salary for each year of service. Members pay contributions of 3.5% of pensionable earnings. The defined benefit schemes are unfunded, the cost of benefits being voted by Parliament each year.

Benefits in the Classic scheme accrue at the rate of 1/80<sup>th</sup> of pensionable salary for each year of service. Members pay contributions of 1.5 % of pensionable earnings. Under both schemes, a lump sum equivalent to 3 years' pension is payable on retirement.

Pensions in both schemes increase in payment in line with the Retail Price Index. On death, pensions are payable to the surviving spouse (Classic) or partner (Premium) at the rate of half the member's pension. On death in service, the schemes pay a lump sum benefit of twice pensionable pay and also provide a service enhancement on computing the spouse's (partner's) pension. The enhancement depends on the length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health.

The Principal Civil Service Pension Scheme is an unfunded multi-employer defined benefit scheme. NMS is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2005-06, employers' contributions were payable to the PCSPS at one of four rates in the range of 16.2 to 24.6 per cent of pensionable pay, based on salary bands (the rates in 2004-05 were between 12% and 18.5%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%. The contribution rates are set to meet the cost of the benefits accruing during 2005-06 to be paid when the member retire, and not the benefits paid during this period to existing pensioners.

Senior management and all other staff can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay.

#### **Cash Equivalent Transfer Values**

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

#### **Real Increase in CETV**

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

DIRECTOR.....

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE MEMBERS OF NATIONAL MUSEUMS OF SCOTLAND, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT**

We have audited the financial statements of the National Museums of Scotland for the year ended 31 March 2006 under the National Heritage (Scotland) Act 1985. These comprise the Consolidated Income and Expenditure Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Financial Activities, the NMS Income and Expenditure Account, the NMS Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **Respective responsibilities of the board, Accountable Officer and auditor**

The board and Accountable Officer are responsible for preparing the annual report and the financial statements in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Accountable Officer's Responsibilities.

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

We report our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers. We also report whether in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the body has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

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

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Board of Trustees. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

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

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

## Opinion

### *Financial statements*

In our opinion

- the financial statements give a true and fair view, in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers, of the state of affairs of the body as at 31 March 2006 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers.

### *Regularity*

In our opinion in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

*PricewaterhouseCoopers LLP*

*PricewaterhouseCoopers LLP*

*Erskine House, 68-73 Queen Street  
Edinburgh, EH2 4NH*

*5 October 2006*

# NATIONAL MUSEUMS OF SCOTLAND

## Consolidated Income and Expenditure Account For the Year Ended 31 March 2006

	Notes	Continuing Activities	
		2006 £000	2005 £000
<b>Income</b>			
Grant-in-aid received	2	23,538	20,993
Other grants & donations	3	896	530
Less grants & donations transferred to capital reserve, donated assets, and purchase fund	3	(6,241)	(4,090)
<b>Net grant</b>		<b>18,193</b>	<b>17,433</b>
Net surplus from revenue-earning activities	4	-	6
Gross income from grant-aided activities	5	14	50
Release from capital reserve and capital donations	18,19	3,156	3,830
Other income	6	1,481	1,027
Gain on sale of land		176	
Transfer to Capital Reserve		(176)	
Bank interest		98	103
Income received by NMS subsidiaries		2,261	1,822
		<b>25,203</b>	<b>24,271</b>
<b>Expenditure</b>			
Staff costs	7	12,741	11,465
Other operating charges	8	9,044	9,040
Depreciation and permanent diminution in value	1(d),10,12	4,964	4,423
		<b>26,749</b>	<b>24,928</b>
<b>Operating surplus/(deficit)</b>		<b>(1,546)</b>	<b>(657)</b>
Notional Cost of capital	29	(4,789)	(4,441)
<b>Deficit for the year before taxation</b>		<b>(6,335)</b>	<b>(5,098)</b>
Taxation	1(h)	-	-
<b>Deficit for the year after taxation</b>		<b>(6,335)</b>	<b>(5,098)</b>
Reversal of notional cost of capital	29	4,789	4,441
Release from revaluation reserve	22	1,838	558
<b>Retained (deficit)/surplus for the year</b>		<b>292</b>	<b>(99)</b>
Transfer to Board Reserve	21	-	-
Transfer to General Fund	20	324	(125)
NMS Enterprises Ltd profit/(loss) net of gift aid	26	(32)	26
		<b>292</b>	<b>(99)</b>

The notes on Pages 23 to 39 form part of these accounts.





# NATIONAL MUSEUMS OF SCOTLAND

Consolidated Balance Sheet  
For the Year Ended 31 March 2006

		2006 £000	2005 £000
	<i>Notes</i>		
<b>Fixed Assets</b>			
Tangible assets	9	157,336	141,547
Collections	10	2,471	2,145
Intangible assets	11	61	94
Investments	12	1	1
		<u>159,869</u>	<u>143,787</u>
<b>Current Assets</b>			
Stocks	13	413	394
Debtors	14	1,311	1,250
Cash at bank and in hand	15	3,778	2,327
		<u>5,502</u>	<u>3,971</u>
<b>Current Liabilities</b>			
Creditors: amounts falling due within one year	16	(2,295)	(2,109)
<b>Net current assets</b>		<u>3,207</u>	<u>1,862</u>
<b>Total assets less current liabilities</b>		<u>163,076</u>	<u>145,649</u>
<b>Creditors: Amounts falling due after more than one year</b>	16	-	-
<b>Provision for liabilities and charges</b>	17	(299)	(160)
<b>Total net assets</b>		<u>162,777</u>	<u>145,489</u>
Financed by:			
<b>Capital and reserves</b>			
<b>Unrestricted funds:</b>			
Capital reserve	18	60,519	56,932
Donated assets reserve	19	14,921	14,967
General fund	20	320	320
Board reserve fund	21	2,707	2,400
NMS Enterprises Ltd	26	(250)	(221)
		<u>78,217</u>	<u>74,398</u>
<b>Restricted funds:</b>			
Revaluation reserve	22	84,323	70,989
Purchase fund	23	237	102
		<u>84,560</u>	<u>71,091</u>
		<u>162,777</u>	<u>145,489</u>

  
Accountable Officer

15/9/06

Date

The notes on Pages 23 to 39 form part of these accounts.

# NATIONAL MUSEUMS OF SCOTLAND

## Consolidated Cash Flow Statement For the Year Ended 31 March 2006

		2006 £000	2005 £000
	<i>Notes</i>		
<b>Net cash inflow/(outflow) from operating activities</b>	24	756	326
<b>Returns on investments and servicing of finance</b>			
Interest Received		98	103
<b>Taxation:</b>			
Corporation Tax	1(h)	-	-
<b>Capital expenditure and financial investment:</b>			
Payments from Purchase Fund	23	(383)	(518)
Payments to acquire tangible and intangible fixed assets	9,11	(5,418)	(4,473)
Receipts from sale of tangible and intangible fixed assets		250	-
<b>Total capital expenditure and financial investment</b>		<u>(5,551)</u>	<u>(4,991)</u>
<b>Cash outflow before financing</b>		<u>(4,697)</u>	<u>(4,562)</u>
<b>Financing:</b>			
Government grants	18	4,363	3,050
Capital grants received	18,19	1,267	530
Purchase Fund	23	518	510
		<u>6,148</u>	<u>4,090</u>
<b>(Decrease)/increase in cash in the period</b>	24	<u>1,451</u>	<u>(472)</u>

The notes on Pages 23 to 39 form part of these accounts.

# NATIONAL MUSEUMS OF SCOTLAND

## Consolidated Statement of Financial Activities For the Year Ended 31 March 2006

	2006 Unrestricted Funds £000	2006 Restricted Funds £000	2006 Total £000	2005 Total £000
<b>Incoming resources</b>				
<b>Income resources from generated funds</b>				
<b>Voluntary income</b>				
Grant-in-aid	23,028	510	23,538	20,993
Other grants	1,267	8	1,275	530
Donations	47	-	47	124
Membership income	51	-	51	49
<b>Activities for generating funds</b>				
Activities in the furtherance of the charity's objectives	1,397	-	1,397	1,244
Activities for generating funds	2,261	-	2,261	1,154
<b>Investment income</b>				
Gift aid	467	-	467	334
Interest income	98	-	98	103
<b>Other income</b>				
Proceeds on disposal of fixed asset	250	-	250	-
<b>Total incoming resources</b>	<b>28,866</b>	<b>518</b>	<b>29,384</b>	<b>24,531</b>
<b>Resources expended</b>				
<b>Cost of generating funds</b>				
Development	663	-	663	355
NMS Enterprises Ltd – Cost of goods sold	978	-	978	700
NMS Enterprises Ltd – Admin costs	868	-	868	448
NMS Enterprises Ltd – Gift aid	467	-	467	334
<b>Charitable expenditure</b>				
Curatorial	3,798	-	3,798	3,730
Conservation and Collections	1,840	-	1,840	1,651
Exhibitions	5,551	-	5,551	4,669
Security and Support Services	1,920	-	1,920	1,833
Marketing	804	-	804	973
Management and Administration	5,675	-	5,675	5,598
Estates and Buildings	4,435	-	4,435	4,450
Fieldwork and Acquisitions	-	383	383	518
<b>Governance costs</b>				
Staff costs	170	-	170	157
Trustees expenditure	7	-	7	7
Internal audit	16	-	16	6
External audit	20	-	20	18
<b>Total resources expended</b>	<b>27,212</b>	<b>383</b>	<b>27,595</b>	<b>25,447</b>
Notional cost of capital	4,789	-	4,789	4,441
<b>Total resources expended including notional costs</b>	<b>32,001</b>	<b>383</b>	<b>32,384</b>	<b>29,888</b>
<b>Net outgoing resources before revaluation, collections capitalisation and reversal of notional costs</b>				
	(3,135)	135	(3,000)	(5,357)
Revaluation of fixed assets	-	15,246	15,246	3,165
Revaluation realised on disposal of land	-	(74)	(74)	-
Capitalisation of collections purchases	327	-	327	507
Release from revaluation reserve	1,838	(1,838)	-	-
Reversal of notional cost of capital	4,789	-	4,789	4,441
<b>Net movement in funds</b>	<b>3,819</b>	<b>13,469</b>	<b>17,288</b>	<b>2,756</b>
<b>Total funds brought forward</b>	<b>74,398</b>	<b>71,091</b>	<b>145,489</b>	<b>142,733</b>
<b>Total funds carried forward</b>	<b>78,217</b>	<b>84,560</b>	<b>162,777</b>	<b>145,489</b>

## NATIONAL MUSEUMS OF SCOTLAND

### Consolidated Statement of Financial Activities (Continued) For the Year Ended 31 March 2006

	2006 Unrestricted Funds £000	2006 Restricted Funds £000	2006 Total £000	2005 Total £000
<b>Total fund balances comprise:</b>				
Fixed assets	75,546	84,323	159,869	143,787
Current assets	2,970	237	3,207	1,862
Creditors due after more than one year	-	-	-	-
Provisions for liabilities and charges	(299)	-	(299)	(160)
	<b>78,217</b>	<b>84,560</b>	<b>162,777</b>	<b>145,489</b>

Costs of generating funds are defined as the salaries, operating costs and attributable overheads of the Development department and of NMS Enterprises Ltd. Depreciation has been allocated to activities in proportion to the staff numbers involved. Administrative costs are defined as staff and operational costs of the Directorate and the Finance and Resources departments.

The notes on Pages 23 to 39 form part of these accounts.

# NATIONAL MUSEUMS OF SCOTLAND

## NMS Income and Expenditure Account For the Year Ended 31 March 2005

	Notes	Continuing Activities	
		2006 £000	2005 £000
<b>Income</b>			
Grant-in-aid received	2	23,538	20,993
Other grants & donations	3	896	530
Less grants & donations transferred to Capital Reserve, Donated Assets, and Purchase Fund	3	(6,241)	(4,090)
<b>Net grant</b>		<b>18,193</b>	<b>17,433</b>
Net surplus from revenue-earning activities	4	-	6
Gross income from grant-aided activities	5	14	50
Release from capital reserve and capital donations	18, 19	3,156	3,830
Other Income	6	1,948	1,361
Gain on sale of land		176	-
Transfer to capital reserve		(176)	-
Bank interest		76	82
		<b>23,387</b>	<b>22,762</b>
<b>Expenditure</b>			
Staff costs	7	12,191	10,970
Other operating charges	8	7,767	8,070
Depreciation and permanent diminution in value	1(d),10,12	4,943	4,406
		<b>24,901</b>	<b>23,446</b>
<b>Operating surplus/(deficit)</b>		<b>(1,514)</b>	<b>(684)</b>
Notional cost of capital	29	(4,789)	(4,441)
<b>Deficit for the year before taxation</b>		<b>(6,303)</b>	<b>(5,125)</b>
Taxation	1(h)	-	-
<b>Deficit for the year after taxation</b>		<b>(6,303)</b>	<b>(5,125)</b>
Reversal of notional cost of capital	29	4,789	4,441
Release from revaluation reserve	22	1,838	558
<b>Retained (deficit)/surplus for the year</b>		<b>324</b>	<b>(126)</b>
Transfer to Board Reserve	21	-	-
Transfer to General Reserve	20	324	(126)
		<b>324</b>	<b>(126)</b>

The notes on Pages 23 to 39 form part of these accounts.

# NATIONAL MUSEUMS OF SCOTLAND

NMS Balance Sheet as at 31 March 2006

		2006 £000	2005 £000
	<b>Notes</b>		
<b>Fixed Assets</b>			
Tangible Assets	9	157,279	141,469
Collections	10	2,471	2,145
Intangible Assets	11	61	94
Investment in Subsidiary	12	500	500
		<b>160,311</b>	<b>144,208</b>
<b>Current Assets</b>			
Debtors receivable within 12 months	14	1,807	1,719
Cash at Bank and in Hand	15	3,247	1,763
		<b>5,054</b>	<b>3,482</b>
<b>Current Liabilities</b>			
Creditors: Amounts falling due within one year	16	(2,039)	(1,820)
<b>Net current assets</b>		<b>3,015</b>	<b>1,662</b>
<b>Total assets less current liabilities</b>		<b>163,326</b>	<b>145,870</b>
<b>Creditors: Amounts falling due after more than one year</b>	16	-	-
<b>Provision for liabilities and charges</b>	17	(299)	(160)
<b>Total net assets</b>		<b>163,027</b>	<b>145,710</b>
Financed by:			
<b>Capital and Reserves</b>			
<b>Unrestricted funds:</b>			
Capital Reserve	18	60,519	56,932
Donated Assets Reserve	19	14,921	14,967
General Fund	20	320	320
Board Reserve Fund	21	2,707	2,400
		<b>78,467</b>	<b>74,619</b>
<b>Restricted Funds:</b>			
Revaluation Reserve	22	84,323	70,989
Purchase Fund	23	237	102
		<b>84,560</b>	<b>71,091</b>
		<b>163,027</b>	<b>145,710</b>

  
Accountable Officer

15/9/06  
Date

The notes on Pages 23 to 39 form part of these accounts.

# NATIONAL MUSEUMS OF SCOTLAND

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006

### 1. Accounting Policies

#### a) *Basis of Accounting*

The accounts have been prepared under the historical cost convention modified by the revaluation of fixed assets and stocks and by the inclusion of notional costs and are in accordance with directions given by Scottish Ministers in accordance with the National Heritage (Scotland) Act 1985. The Accounts Direction is reproduced as an appendix to the accounts.

Without limiting the information given, the accounts meet the requirements of the Companies Act 1985 and accounting standards issued or adopted by the Accounting Standards Board so far as they are appropriate. They also comply with SORP 2005, the Statement of Recommended Practice on the preparation of accounts of charitable organisations.

#### b) *Basis of Consolidation*

The accounts consolidate those of the National Museums of Scotland (NMS) and its subsidiary company, NMS Enterprises Ltd.

The National Museums of Scotland Charitable Trust ("The Charitable Trust") exists to assist NMS and other bodies or persons in the furtherance of museum-related activities. NMS cannot exercise control over the Charitable Trust, and the accounts of the Charitable Trust are not consolidated with those of NMS.

#### c) *Tangible Fixed Assets and Depreciation*

Title to most of the NMS estate is held in the name of Scottish Ministers. Nevertheless, on the direction of Scottish Ministers, all land and buildings administered by the Board are valued every five years by a professional valuer and revalued annually using appropriate indices and included in the Balance Sheet. The method of valuation for specialised properties, that is land and buildings for which there is effectively no market, is depreciated replacement cost. Other properties are valued at open market value for existing use. Equipment is valued at current replacement cost less depreciation.

Depreciation is not provided on land or on buildings under construction, while depreciation is provided in equal annual instalments on the current cost of all other tangible fixed assets over their estimated useful lives, or the expected remaining useful lives of revalued assets. These are principally:

Equipment	3 years to 7 years
Buildings	19 years to 50 years
Buildings improvements	5 years to 15 years
Permanent Galleries	15 years

Items costing less than £2,000 are written off in the year of purchase.

Where assets are sold or written off as it is recognised that they are of no further economic use, they are shown as disposals in the accounts. Annual impairment reviews are undertaken to ensure that the service of potential assets remains undiminished.

Further information about capitalisation and valuation is included at note 9.

#### d) *Intangible Assets*

Intangible assets are valued at their purchase price less depreciation. Depreciation is calculated to write off the assets in equal annual instalments over their useful economic lives.

Intangible Assets	3 to 7 years
-------------------	--------------

**NATIONAL MUSEUMS OF SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**e) Government Grants**

Grant-in-aid is credited to income in the year in which it is received. Any portion relating to the acquisition of tangible fixed assets, intangible fixed assets or investments is credited to the capital reserve, which is written down over the expected useful lives of the assets acquired. The full amount of purchase grant is transferred to the purchase fund.

**f) Stocks**

Stocks are stated at the lower of cost or net replacement cost (or historical cost if this is not materially different) and net realisable value.

**g) Board Reserve Fund**

The net proceeds derived from revenue-earning activities, donations and other sources, excluding Grant-in-Aid, may be taken to the Board Reserve Fund. These funds shall be used at the Board's discretion.

**h) Taxation**

NMS has been granted charitable status by the Inland Revenue.

In respect of 2005/06 the subsidiary companies will pay £467k by Gift Aid to NMS, thereby eliminating any liability of the subsidiaries to Corporation Tax in that year.

**i) Notional Costs**

In accordance with accounting requirements, the Income and Expenditure Accounts include notional costs to reflect the full costs of NMS's activities. The calculation of the notional cost of capital is explained in note 29.

**j) Capital Receipts**

Donations, Lottery and other non-government receipts are credited to income in the year in which they are received. Any portion which is applied to capital expenditure is credited to the donated assets reserve and amortised over the expected useful lives of the assets acquired and released to the Income and Expenditure Account over the corresponding period.

**k) Other Receipts**

Donations are recognised in the financial statements only when received. Donations receivable for the general purposes of the charity are credited to Unrestricted Funds. Donations for purposes restricted by the wishes of the donor are taken to Restricted Funds where these wishes are legally binding, except that any amounts required to be retained as capital in accordance with the donor's wishes are accounted for instead as endowments

Receipts from outside bodies in relation to specific projects received prior to any project spend being incurred, may where it is regarded as material to the financial report be deferred to the year in which the spend takes place.

**l) Subsidiary companies**

NMS owns the share capital of five subsidiary companies. All but one, NMS Enterprises Ltd, are dormant.

**m) Investments**

Investments in subsidiary companies represent the value at cost of assets transferred to the companies at the time of incorporation. NMS considers that the cost of obtaining a current market valuation is prohibitive.



**NATIONAL MUSEUMS OF SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**n) Foreign Exchange Gains and Losses**

Amounts held in foreign currency are translated to the Sterling equivalent at the Balance Sheet date. Gains and losses on translation are taken to the Income and Expenditure Account.

**o) Finance Leases and Operating Leases**

NMS did not hold any finance lease during 2005/06. Various operating leases exist, principally for the rental of computer equipment over a three-year period. Such equipment is not included in the balance sheet.

**p) Non-Recoverable VAT**

Non-recoverable VAT is recorded as an expense as it is incurred and is attributed to the activity on which it was incurred.

**q) Collections Acquisitions**

Objects forming part of NMS's collections as at 1 April 2001 or objects gifted are not included in the balance sheet. Objects purchased since 1 April 2001 are included in the balance sheet at cost. Depreciation is not charged.

**r) Receipts**

All income is credited to the income and expenditure account. Amounts applied to the acquisition of fixed assets are transferred from the income and expenditure account to an appropriate reserve, as described in note 1(e) and 1(j) above.

**s) Pension Contributions**

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is a defined benefit scheme and is unfunded and largely non-contributory. NMS recognises the expected cost of providing pensions on a systematic and rational basis over the period during which NMS benefits from employees' services by payment to the PCSPS of amounts calculated on an accruals basis. Liability for payment of future benefits is a charge on the PCSPS. Further information about the pension schemes is disclosed in Note 7.

**t) Grants to Outside Bodies**

NMS makes limited sums available to outside bodies whose objectives coincide with those of NMS, or if the work will result in additions to NMS's collections.

**u) Funds Structure**

Grant-in-aid received for collections purchases cannot be applied to any other purpose. The incoming resource is recorded as a restricted fund.

**v) Statement of Financial Activities**

Within the statement of financial activities the expenditure categories development, and the work of NMS Enterprises, have been separated from the other categories as they are deemed to be activities for generating funds. Staff and operating costs incurred in relation to governance are shown separately. The other categories of expenditure are deemed to be activities in the furtherance of the NMS's objectives. Indirect costs between expenditure categories are allocated on the basis of staff numbers in each category, (see note 7). Costs of generating funds are defined as the salaries, operating costs and attributable overheads of the Development department and of NMS Enterprises Ltd. Depreciation has been allocated to activities in proportion to the staff numbers involved. Administrative costs are defined as staff and operational costs of the Directorate and the Finance and Resources departments. The format of the Statement of Financial Activities has changes from the previous year in order to comply with the Charities SORP 2005.

**NATIONAL MUSEUMS OF SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

Grant in aid income is shown net of recruitment costs of £12.5k paid for directly by SEED in relation to the recruitment of the new NMS Chairman, as grant income is reported in order to match the actual receipts from SEED.

**w) Liabilities**

Liabilities are recognised as resources expended as soon as there is a legal or constructive obligation committing the charity to the expenditure.

**2. Government Grant-In-Aid  
(See Notes 1(f), 19 & 24)**

	GROUP AND NMS	
	2006	2005
	£000	£000
<b>Grant-in-aid received:</b>		
Running Costs	18,193	17,433
Major Capital	4,835	3,050
	<b>23,028</b>	<b>20,483</b>
Purchase Grant	510	510
<b>Total received during year</b>	<b>23,538</b>	<b>20,993</b>

**3. Other Grants & Donations**

	GROUP AND NMS	
	2006	2005
	£000	£000
<b>Other grants &amp; donations received:</b>		
Purchase fund receipts	8	-
Donated assets reserve receipts	888	530
	<b>896</b>	<b>530</b>
<b>Total grants &amp; donations transferred:</b>		
Grant-in-aid transferred (see Note 2):		
Capital reserve (Note 18)	4,835	3,050
Purchase fund (Note 24)	510	510
	<b>5,345</b>	<b>3,560</b>
<b>Other grants &amp; donations transferred:</b>		
Purchase fund	8	-
Donated assets reserve	888	530
	<b>896</b>	<b>530</b>
<b>Total grants &amp; donations transferred to reserves</b>	<b>6,241</b>	<b>4,090</b>

**NATIONAL MUSEUMS OF SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**4. Revenue-Earning Activities**

	GROUP AND NMS	
	2006	2005
	£000	£000
Sales	-	6
Cost of Sales	-	-
Net Surplus	-	6

**5. Grant-Aided Activities**

	GROUP AND NMS	
	2006	2005
	£000	£000
Rental of Facilities, etc	14	50

**6. Other Income**

	GROUP		NMS	
	2006	2005	2006	2005
	£000	£000	£000	£000
Provision of Services, by Department	74	59	74	58
Membership Scheme	52	48	52	48
Entrance Charges	969	481	969	481
Gift Aid from Subsidiary Company	-	-	467	334
NMS Charitable Trust	16	111	16	111
Misc Sponsorship	61	35	61	35
Miscellaneous Grants	140	212	140	212
Donations	32	13	32	13
Other	137	68	137	69
	<b>1,481</b>	<b>1,027</b>	<b>1,948</b>	<b>1,361</b>

Entry to the Museums in Chambers Street is free, made possible by additional grant in aid for the purpose provided by the Scottish Executive Education Department. Entrance charges are retained at other museums.

**NATIONAL MUSEUMS OF SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**7. Employees**

*Staff Costs during the Year:*

	GROUP		NMS	
	2006	2005	2006	2005
	£000	£000	£000	£000
Salaries	10,046	9,626	9,561	9,190
Social Security Costs	740	637	699	602
Pension Costs	1,629	1,121	1,605	1,097
Restructuring costs	-	-	-	-
Early Retirement	326	81	326	81
<b>Total</b>	<b>12,741</b>	<b>11,465</b>	<b>12,191</b>	<b>10,970</b>

Pension benefits are provided to NMS staff through the Principal Civil Service Pension Scheme (PCSPS), which operates three defined benefit schemes, and a defined contribution scheme ("Partnership") under the Stakeholder pension framework. Staff of NMS Enterprises Ltd are ineligible for membership of the PCSPS, but may join the NMSE Group Personal Pension Plan, a defined contribution scheme.

The defined benefit schemes provide benefits on a 'final salary' basis at normal retirement age of 60. The newer scheme, "Premium" was introduced in 2002, while the older scheme, "Classic" remains open only to existing members as at 1 October 2002. Benefits in the Premium scheme accrue at the rate of 1/60<sup>th</sup> of pensionable salary for each year of service. Members pay contributions of 3.5% of pensionable earnings. The defined benefit schemes are unfunded, the cost of benefits being voted by Parliament each year.

Benefits in the Classic scheme accrue at the rate of 1/80<sup>th</sup> of pensionable salary for each year of service. Members pay contributions of 1.5 % of pensionable earnings. Under both schemes, a lump sum equivalent to 3 years' pension is payable on retirement.

Pensions in both schemes increase in payment in line with the Retail Price Index. On death, pensions are payable to the surviving spouse (Classic) or partner (Premium) at the rate of half the member's pension. On death in service, the schemes pay a lump sum benefit of twice pensionable pay and also provide a service enhancement on computing the spouse's (partner's) pension. The enhancement depends on the length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health.

The Principal Civil Service Pension Scheme is an unfunded multi-employer defined benefit scheme. NMS is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary (Hewitt Bacon Woodrow) valued the scheme as at 31 March 2003. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2005-06, employers' contributions of £1,604k were payable to the PCSPS (2004-05 £1,096k) at one of four rates in the range of 16.2 to 24.6 per cent of pensionable pay, based on salary bands (the rates in 2004-05 were between 12% and 18.5%). The Scheme Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07, the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%. The contribution rates are set to meet the cost of the benefits accruing during 2005-06 to be paid when the member retire, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £1k (2004-05 £1k) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay.

**NATIONAL MUSEUMS OF SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

The NMS Enterprises Group Personal Pension Plan is a defined contribution scheme. NMS Enterprises contributes between 8% and 12.5% of pensionable salary, depending on age. For 2005-06, employers' contributions of £24k were payable (2004-05 £24k)

Defined contribution scheme pension contributions were not paid in respect of staff earning more than £50,000. Retirement benefits accrued under the defined benefit schemes to 445 staff during 2005/06 (2004/05 = 441 staff), while benefits accrued under defined contribution schemes to 6 staff during 2005/06 (2004/05 = 6 staff).

No remuneration was paid to members of the Board of Trustees during 2005/2006 (2003/04 - nil). During 2005/2006 NMS paid a total of £6,836 in reimbursement of travel expenses to 9 Trustees for attending meetings at the National Museums of Scotland, while in 2004/05 a total of £6,750 was reimbursed to 8 Trustees. No benefit in kind accrued to Trustees during the year.

**The Cash Equivalent Transfer Value (CETV)**

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

**Real Increase in CETV**

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

*The average full-time equivalent number of employees was:*

	GROUP		NMS	
	2006	2005	2006	2005
Directorate	12	13	12	13
Finance and Resources	28	25	28	25
Facilities Management and Projects	94	100	94	100
Collections	109	109	109	109
Public Programmes (including Visitor Services)	147	153	147	153
Marketing and Development	12	13	12	13
NMS Enterprises Ltd	18	18	-	-
<b>Total</b>	<b>420</b>	<b>431</b>	<b>402</b>	<b>413</b>

**NATIONAL MUSEUMS OF SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**8. Other Operating Charges**

	GROUP		NMS	
	2006	2005	2006	2005
	£000	£000	£000	£000
Board Expenses	17	19	17	19
Expenses - Staff	240	220	240	220
Administration Expenses	636	676	636	676
Internal Audit	16	6	16	6
Other External Charges	2,570	2,371	1,293	1,401
Consultancy:				
– Masterplan	32	427	32	427
– Directorate & Resources	161	72	161	72
– Estates	49	105	49	105
– Collections	48	140	48	140
– Public Programmes	317	204	317	204
– Marketing & Development	209	77	209	77
Advertising	145	243	145	243
Fuel and Utilities	1,004	638	1,004	638
Rents and Rates	270	240	270	240
Furniture and Furnishings	124	144	124	144
Repairs and Renewals	3,079	3,336	3,079	3,336
Operating Leases	107	104	107	104
Audit Fee	20	18	20	18
<b>Total</b>	<b>9,044</b>	<b>9,040</b>	<b>7,767</b>	<b>8,070</b>

**NATIONAL MUSEUMS OF SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**9. Fixed Assets (See note 1[d])**

**GROUP**

	Land & Buildings	Under Construction	Leasehold Improvements	Permanent Galleries	Equipment	Totals
<b>Cost or valuation (£000)</b>						
1 April 2005	140,993	-	1,999	23,980	1,907	168,879
Additions	179	4,094	-	974	280	5,527
Disposals	(74)	-	-	-	(30)	(104)
Revaluations	<u>16,802</u>	=	<u>240</u>	<u>217</u>	<u>(21)</u>	<u>17,238</u>
31 March 2006	<u>157,900</u>	<u>4,094</u>	<u>2,239</u>	<u>25,171</u>	<u>2,136</u>	<u>191,540</u>
<b>Depreciation</b>						
1 April 2005	15,814	-	194	9,862	1,462	27,332
Charge for year	2,890	-	45	1,761	206	4,902
Disposals	-	-	-	-	-	-
Revaluations	<u>1,901</u>	=	<u>23</u>	<u>89</u>	<u>(44)</u>	<u>1,969</u>
31 March 2006	<u>20,605</u>	=	<u>262</u>	<u>11,712</u>	<u>1,624</u>	<u>34,203</u>
<b>Net Book Value</b>						
31 March 2006	<u>137,295</u>	<u>4,094</u>	<u>1,977</u>	<u>13,459</u>	<u>512</u>	<u>157,336</u>
1 April 2005	<u>125,179</u>	=	<u>1,805</u>	<u>14,118</u>	<u>445</u>	<u>141,547</u>

**NMS**

	Land & Buildings	Under Construction	Leasehold Improvements	Permanent Galleries	Equipment	Totals
<b>Cost or valuation (£000)</b>						
1 April 2005	140,993	-	1,999	23,980	1,682	168,654
Additions	179	4,094	-	974	280	5,527
Disposals	(74)	-	-	-	-	(74)
Revaluations	<u>16,802</u>	=	<u>240</u>	<u>217</u>	<u>(21)</u>	<u>17,238</u>
31 March 2006	<u>157,900</u>	<u>4,094</u>	<u>2,239</u>	<u>25,171</u>	<u>1,941</u>	<u>191,345</u>
<b>Depreciation</b>						
1 April 2005	15,814	-	194	9,862	1,315	27,185
Charge for year	2,890	-	45	1,761	185	4,881
Disposals	-	-	-	-	-	-
Revaluations	<u>1,901</u>	=	<u>23</u>	<u>89</u>	<u>(13)</u>	<u>2,000</u>
31 March 2006	<u>20,605</u>	=	<u>262</u>	<u>11,712</u>	<u>1,487</u>	<u>34,066</u>
<b>Net Book Value</b>						
31 March 2006	<u>137,295</u>	<u>4,094</u>	<u>1,977</u>	<u>13,459</u>	<u>454</u>	<u>157,279</u>
1 April 2005	<u>125,179</u>	=	<u>1,805</u>	<u>14,118</u>	<u>367</u>	<u>141,469</u>

**NATIONAL MUSEUMS OF SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**Fixed Assets (Continued)**

To comply with the requirements of the Government Financial Reporting Manual NMS includes its fixed assets at their value to the business by reference to current costs for the year ended 31 March 2006. This replaced the previous requirement to include assets at historical cost. Accordingly, NMS instructed the Valuation Office, an executive agency of the Inland Revenue, to undertake a valuation as at 31 March 2005 of the estates and other assets in accordance with RICS Appraisal and Valuation manual. The more specialised buildings were valued at depreciated replacement cost while the remainder were valued at open market value. These valuations obtained as at 31 March 2005 have been revised at 31 March 2006 using appropriate indices, resulting in a significant upward revaluation to Buildings of approximately 12% reflecting the high demand in the sector over the last year.

Equipment was valued at current replacement cost using appropriate indices. As NMS is generally unable to dispose of the properties and apply the proceeds for charitable purposes, the revaluation reserve in respect of the land and buildings is treated as a restricted fund under the charities SORP.

The charge for depreciation and diminution in value comprises:

	2006 £000	2005 £000
NMS tangible assets depreciation	4,881	4,290
NMS intangible assets depreciation (Note 12)	56	63
NMS Permanent diminution in value – tangible assets	7	38
NMS Permanent diminution in value – intangible assets	-	15
NMS Enterprises tangible assets depreciation	20	17
	<b>4,964</b>	<b>4,423</b>

**10. Collections**  
(See Note 1[q])

NMS and its predecessor bodies have acquired objects for the collections over the previous two centuries. The collections cover geological, archaeological, scientific, engineering, artistic, historic and cultural subjects. Treasury guidance requires NMS to capitalise the cost of artefacts acquired since 1 April 2001. Artefacts acquired in the centuries prior to 1 April 2001 are excluded because reliable cost information is not available. NMS considers that valuation of the 3 million objects in the collections would be impracticable.

	GROUP AND NMS	
	2006 £000	2005 £000
1 April	2,145	1,638
Additions	326	507
31 March	<b>2,471</b>	<b>2,145</b>



**NATIONAL MUSEUMS OF SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**11. Intangible Assets (Software Licences)**

	GROUP AND NMS	
	2006 £000	2005 £000
1 April	214	196
Software Acquired During Year	22	41
Revaluation	5	(23)
<b>31 March</b>	<b>241</b>	<b>214</b>
Amortisation:		
1 April	120	65
Charge for the Year	56	63
Revaluation	4	(8)
<b>31 March</b>	<b>180</b>	<b>120</b>
Net Book Value:		
<b>31 March</b>	<b>61</b>	<b>94</b>

**12. Investments**

	GROUP		NMS	
	2006 £000	2005 £000	2006 £000	2005 £000
Opening Balance 1 April	1	1	500	500
Repayment of Initial Capital Investment	-	-	-	-
Issue of Additional Share Capital	-	-	-	-
<b>Closing Balance 31 March</b>	<b>1</b>	<b>1</b>	<b>500</b>	<b>500</b>

NMS Enterprises Ltd, a wholly-owned subsidiary of NMS, holds 600 ordinary shares of £1 each in the Scottish Book Source.

**13. Stocks**  
(See Note 1[g])

	GROUP		NMS	
	2006 £000	2005 £000	2006 £000	2005 £000
Stocks Held for Resale	413	394	-	-

The current cost value of stocks is not materially different from historical cost and, accordingly, no adjustment has been made to reflect current cost.

**NATIONAL MUSEUMS OF SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**14. Debtors**

	GROUP		NMS	
	2006 £000	2005 £000	2006 £000	2005 £000
Receivable Within 1Year:				
Prepayments and Sundry Debtor	464	324	464	324
Season Ticket Advances	14	11	14	11
Trade Debtors	283	517	84	239
Less:				
Provision for Amounts not recoverable	(3)	(87)	(3)	(87)
Subsidiary Company	-	-	695	746
VAT Recoverable	553	485	553	486
	<b>1,311</b>	<b>1,250</b>	<b>1,807</b>	<b>1,719</b>

Balances due from other bodies within the boundary set for the Whole of Government Accounts included in Debtors above at 31<sup>st</sup> March 2006 was £Nil

**15. Cash at Bank and in Hand**

	GROUP		NMS	
	2006 £000	2005 £000	2006 £000	2005 £000
Cash and commercial accounts	3,767	2,310	3,236	1,746
Paymaster General Account	11	17	11	17
	<b>3,778</b>	<b>2,327</b>	<b>3,247</b>	<b>1,763</b>

**16. Creditors**

	GROUP		NMS	
	2006 £000	2005 £000	2006 £000	2005 £000
Amounts falling due within one year:				
Trade Creditors	1,095	720	957	562
Other Creditors	119	56	113	34
Accruals	1,011	1,191	899	1,082
Deferred Income	70	142	70	142
	<b>2,295</b>	<b>2,109</b>	<b>2,039</b>	<b>1,820</b>
Amounts Falling Due After More than One Year:				
Creditors > 1 Year	-	-	-	-

Balances due to other bodies within the boundary set for the Whole of Government Accounts included in Creditors above at 31<sup>st</sup> March 2006 was £0.5k

**17. Provision for liabilities and charges**

	GROUP AND NMS	
	2006 £000	2005 £000
Early retirement & injury benefit costs	299	135
Other claims	-	25

**NATIONAL MUSEUMS OF SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

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**18. Capital Reserve**  
(See Notes 1[f] and 2)

	GROUP AND NMS			
	2006 £000 Utilised	2006 £000 Unutilised	2006 £000 Total	2005 £000 Total
Opening Balance 1 April	56,932	-	56,932	56,484
Grant-in-Aid Transferred	4,635	200	4,835	3,050
Other Grants & Donations transferred	-	378	378	-
Sale of land	-	176	176	-
Revaluation gain on sale of land	-	74	74	-
Released to I&E Account	(1,876)	-	(1,876)	(2,602)
<b>Closing Balance 31 March</b>	<b>59,691</b>	<b>828</b>	<b>60,519</b>	<b>56,932</b>

**19. Donated Asset Reserve**  
(See Notes 1[j])

	GROUP AND NMS	
	2006 £000	2005 £000
Opening Balance 1 April	14,967	15,158
Capitalisation of Collection Purchases	326	507
Capital donations received	888	530
Released to income & expenditure account	(1,260)	(1,228)
<b>Closing Balance 31 March</b>	<b>14,921</b>	<b>14,967</b>

**20. General Fund**

	GROUP AND NMS	
	2006 £000	2005 £000
Opening balance 1 April	320	445
(Deficit)/surplus in the year	324	(125)
Transfer from Board Reserve	(324)	-
<b>Closing Balance 31 March</b>	<b>320</b>	<b>320</b>

**21. Board Reserve Fund**

	GROUP AND NMS			
	2006 £000 Revenue	2006 £000 Capital	2006 £000 Total	2005 £000 Total
Balance at 1 April	1,463	937	2,400	2,400
Transfer (to)/from Income and Expenditure Account	324	-	324	-
Release to I&E account	-	(17)	(17)	-
<b>Closing Balance 31 March</b>	<b>1,787</b>	<b>920</b>	<b>2,707</b>	<b>2,400</b>

NMS is permitted to credit to the Board Reserve Fund sums earned through its own revenue raising activities. The capital element has been applied to the acquisition of fixed assets.

**NATIONAL MUSEUMS OF SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**22. Revaluation Reserve**

	GROUP AND NMS	
	2006	2005
	£000	£000
Balance as 1 April	70,989	68,382
Revaluation of buildings, leasehold improvements and permanent galleries, net of backlog depreciation	15,246	3,165
Disposal of Land	(74)	
Release to Income and Expenditure Account	(1,838)	(558)
<b>Closing balance at 31 March</b>	<b>84,323</b>	<b>70,989</b>

The revaluation reserve was created following the revaluation of the land and buildings occupied by NMS. As NMS is generally unable to dispose of the properties and apply the proceeds for charitable purposes, the revaluation reserve is treated as a restricted fund under the Charities Statement of Recommended Practice.

**23. Purchase Fund**  
(See Notes 2 and 3)

	GROUP AND NMS	
	2006	2005
	£000	£000
<b>Income</b>		
Balance at 1 April	102	110
Scottish Executive Education Dept	510	510
Other Contributions	8	-
	<b>620</b>	<b>620</b>
<b>Expenditure</b>		
Purchases	327	507
Fieldwork, etc	56	11
	<b>383</b>	<b>518</b>
<b>Closing balance at 31 March</b>	<b>237</b>	<b>102</b>

**24. Reconciliation of Operating Deficit to Net Cash Outflow from Operating Activities**

	GROUP	
	2006	2005
	£000	£000
Net outgoing resources before revaluation, collections capitalisation and reversal of notional costs	(3,000)	(5,357)
Reversal of Notional Cost of Capital	4,789	4,441
Grant-in-Aid – Major Capital	(4,363)	(3,050)
Other Capital Grants	(1,989)	(530)
Interest Received	(98)	(103)
Depreciation, permanent diminution in value and loss on disposal	4,964	4,423
Transfer to capital	474	-
Movement in restricted funds	(135)	8
(Increase) in stocks	(19)	(90)
(Increase)/decrease in Debtors	(61)	790
Increase/(decrease) in Creditors	55	(31)
Increase/(decrease) in Provisions for Liabilities and Charges	139	(175)
<b>Net Cash Inflow from Operating Activities</b>	<b>756</b>	<b>326</b>

**NATIONAL MUSEUMS OF SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**Analysis of changes in net funds in the year**

NMS has no current asset investment and no net borrowing or finance lease obligation, and accordingly the Group net funds as defined in Financial Reporting Standard 1 (revised) are equal to its cash balance. The movement in the cash balance during the year was as follows:

	GROUP	
	2006 £000	2005 £000
Opening Cash Balance	2,327	2,799
Change in Year	1,451	(472)
<b>Closing Cash Balance</b>	<b>3,778</b>	<b>2,327</b>

**25. Capital Commitments**

	GROUP	
	2006 £000	2005 £000
<b>Contracted but not provided for in the Accounts</b>	<b>3,751</b>	<b>1,387</b>

**26. Subsidiary Company**

NMS Enterprises Ltd, a company registered in Scotland, is a wholly owned subsidiary of NMS set up to promote and develop NMS's commercial activities. The results for the year to 31 March are summarised in the following table:

	GROUP	
	2006 £000	2005 £000
Trading profits from continuing operations	413	339
Gift aid to NMS	(467)	(334)
Profit/(loss) after gift aid	(54)	5
Interest Income	22	21
Profit reported in Consolidated Income and Expenditure Account	(32)	26
Reserves at 1 April	(218)	(247)
Transferred from Income and Expenditure Account	(32)	26
<b>Reserves at 31 March</b>	<b>(250)</b>	<b>(221)</b>

**27. Related Party Transactions**

The National Museums of Scotland is a Non-Departmental Public Body (NDPB) sponsored by the Scottish Executive Education Department (SEED) which is regarded as a related party. During the year NMS has had various material transactions with SEED. None of the Trustees, members of key management staff or other related parties has entered into any material transaction with NMS during the year.

The National Museums of Scotland Charitable Trust ("NMSCT") exists, inter-alia, to advance education in matters agricultural, archaeological, architectural, cultural, environmental, historical, industrial, military, scientific, and social. During the year James Fiddes, a trustee of NMS was also a trustee of NMSCT. NMS received £127k in grants and donations from NMSCT during the year (2005 £626k).

The following trustees were also members of the NMS Enterprises Board: Lord Wilson (resigned 27 January 2006), Grenville Johnston (resigned 17 March 2006), Sir Angus Grossart (appointed 17 March 2006) and Michael Kirwan (appointed 7 June 2005).

**NATIONAL MUSEUMS OF SCOTLAND  
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**28. Cost of Capital**

Notional interest is based on the following balances in respect of grant-aided activities at a rate of 3.5% (2004/05- 3.5%) applied to the average balance during the year.

	2006	2005
	£000	£000
General Fund	319	319
Capital Reserve	60,519	56,932
Purchase Fund	237	102
Revaluation Reserve	84,323	70,989
	145,398	128,342
Average Balance During the Year	136,870	126,882
<b>Notional Interest at 3.5%</b> <b>(2005 =3.5%)</b>	<b>4,790</b>	<b>4,441</b>

Guidance on appropriate rates is contained in the publication "Executive non-departmental public bodies: annual reports and accounts guidance". The rate of 3.5% is suggested as being appropriate to NDPBs which are not engaged in activities which compete directly with the private sector.

**29. Loss After Notional Costs**

In accordance with requirements, the loss for the year is stated after charging the notional cost capital (see note 29). As there is no matching funding of this notional cost, the loss for the year after notional costs is not indicative of the financial result for the year.

The result for the year is as follows:

	GROUP		NMS	
	2006 £000	2005 £000	2006 £000	2005 £000
(Deficit)/surplus before Notional Costs	(1,546)	(657)	(1,514)	(684)
Notional Cost of Capital (Note 29)	(4,789)	(4,441)	(4,789)	(4,441)
<b>Deficit After Notional Costs</b>	<b>(6,335)</b>	<b>(5,098)</b>	<b>(6,303)</b>	<b>(5,125)</b>

**30. Leases**

NMS operates computer equipment under rental agreements. Future rental commitments at 31 March were as follows:

	GROUP AND NMS	
	2006 £000	2005 £000
Payable Within One Year	37	75
Payable After One Year	6	17

**31. Contingent Liabilities**

There are no contingent liabilities as at the 31 March 2006.

**NATIONAL MUSEUMS OF SCOTLAND**  
**NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**32. National Fund for Acquisitions**

NMS administers on behalf of Scottish Ministers the National Fund for Acquisitions (NFA). Funds held by NMS for the NFA are not available for NMS's purposes and are not included in the Balance Sheet. Separate accounting arrangements are made for the fund.

	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April	29	92
Grant Received	200	200
Disbursements	(170)	(263)
<b>Balance at 31 March</b>	<b>59</b>	<b>29</b>

**NATIONAL MUSEUMS OF SCOTLAND  
APPENDIX TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2006**

**FINANCIAL MEMORANDUM: APPENDIX 2**



**NATIONAL MUSEUMS OF SCOTLAND**

**DIRECTION BY THE SCOTTISH MINISTERS**

1. The Scottish Ministers, in pursuance of paragraph 9(3) of Schedule 1 to the National Heritage (Scotland) Act 1985, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2006, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 21 November 2002 is hereby revoked.

A handwritten signature in black ink, appearing to read 'David Steel'.

Signed by the authority of the Scottish Ministers

Dated 31 March 2006