

NATIONAL MUSEUMS OF SCOTLAND

STATEMENT OF ACCOUNTS

For the year ended 31 March 2003

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REPORT OF THE BOARD OF TRUSTEES INCORPORATING FOREWORD

1. History of Body

The National Museums of Scotland (NMS) was set up on 1 October 1985 by the amalgamation of the National Museum of Antiquities of Scotland (NMAS) and the Royal Scottish Museum (RSM). Prior to this date the NMAS was a body funded by the then Scottish Office Education Department (SOED) under a separate Vote while the RSM was for funding and administrative purposes a part of SOED.

2. Statutory background

The NMS and its activities are controlled primarily by the terms of the National Heritage (Scotland) Act 1985.

3. Legal and administrative information

NMS has been granted charitable status; the charity number is SC 011130 and the principal place of business is Chambers Street, Edinburgh EH1 1JF. NMS's banker is the Royal Bank of Scotland, 6-8 George Street Edinburgh EH2 2SA. The external auditor is PricewaterhouseCoopers, 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. Principal functions of NMS and its activities during the year

The functions of the 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.

Commercial interests of NMS are promoted by NMS Enterprises Ltd, which, on 1 December 2002, took over the operations previously carried on by three trading subsidiaries - NMS Hospitality and Events Ltd, NMS Retailing Ltd and NMS Publishing Ltd. - which ceased trading from that date, but remain extant. A fourth subsidiary company, The Multimedia Team Ltd, was sold on 31 January 2003.

The aims of NMS Enterprises are:

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

The Board of NMS controls NMS Enterprises Ltd, which in turn controls the three (now dormant) subsidiaries.

5. Activities in the field of research and development

During the year ended 31 March 2003, NMS staff members published 96 significant research articles and books (2002-83), while the total number of publications by NMS staff was 138 (2002- 106). During the same period, NMS staff collaborated on 77 research projects (2002- 108) while 83 loans were made from the collections for research purposes (2002- 72).

6. Recent developments in NMS's activities

During 2002, NMS embarked on a review of its corporate structure, vision and values. Following an extensive consultation exercise involving trustees, staff, volunteers and other stakeholders, NMS developed a new corporate vision and set of values to inform priority activities over the coming years.

NMS has reassessed the accommodation required to provide good quality, accessible storage conditions for the collections, and to ensure compliance with fire safety regulations in the areas used by the public and staff. In the course of 2003/04 NMS will embark on a series of major upgrades to the Royal Museum and to buildings at the Granton centre. Phase 1 of this work is expected to be completed in 2006/07 at a cost of £7.5 million. While funding of £2.7 million has been made available by the SEED, the balance of the costs will be met from NMS's own resources, including the Board Reserve. For

this purpose, NMS transferred a further £0.8 million to the Board Reserve at 31 March 2003.

7. Financial results and appropriations

The combined financial results and appropriations are shown in the Consolidated Income and Expenditure Account on page 7. The accounts consolidate the results of NMS's wholly-owned trading subsidiaries. An Income and Expenditure Account for NMS alone is included at page 11.

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.

The Consolidated Income and Expenditure account reports an operating surplus of £10k, which together with the release from the revaluation reserve of £408k gives a retained surplus of £418k. NMS retained a surplus of £833k with the subsidiaries retaining a loss of £415k. The retained surplus in NMS is seen as exceptional being due to higher than expected income on special exhibitions and subsidiary gift aid, delayed revenue and capital expenditure, which is not expected to recur in future years. The entire surplus has been transferred to the Board Reserve for application to the deferred revenue expenditure and the Royal Museum fire upgrade/Granton accommodation development.

The commercial companies' combined turnover in 2002/03 was £1.6 million (2001/02 £1.7 million). Excluding the Multimedia Team (TMT), the companies made trading profits of £341k (2002 £289k) and paid gift aid to NMS amounting to £355k (£296k).

TMT incurred a loss of £172k up to the date of its disposal, while a further loss of £233k was incurred on the sale of the company.

In the consolidated income and expenditure account, operations of the commercial subsidiaries recorded a loss of £415k (2002- profit £2k) after payment of gift aid and after the loss on disposal of TMT.

With the disposal of TMT now complete, NMS can look forward to strong income generation from NMS Enterprises in the years to come.

Receipts and expenditure for the NMS group during the year to 31 March 2003 (2002) were as follows:

	2003 £000	2002 £000
Grant-in-aid:		
-Income and Expenditure account	15,187	13,921
-Fixed asset investment	855	1,750
-Collection purchases	510	510
Other income:		
-Release from deferred income	3,259	3,012
-Trading companies	1,496	1,455
-Other	1,516	1,071
-Revenue-earning activities	26	003
-Grant-aided activities	106	081
-Interest income	73	43

-Other capital receipts	-	309
Expenditure:		
-Staff costs	9,710	9,306
-Other operating charges	8,207	6,241
-Depreciation and permanent diminution in value	3,736	3,482

8. The status of land and buildings

NMS holds title to properties at Granton, the Museum of Flight, Leith Custom House, the former Dental Hospital and Bristo Church. Title to the Royal Museum, the Museum of Scotland and property at Port Edgar is held by Scottish Ministers. 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.

9. Significant changes to fixed assets

In the period, the group acquired tangible and intangible assets at a cost of £1.5 million. The sum of £133k was spent on permanent galleries, £318k on buildings, £343k on equipment purchases, £100k on intangible assets, £13k on leasehold improvements and £586k on additions to the collections.

10. Important events which have occurred since the financial year-end

No important event has occurred since 1 April 2003 to have a material effect on these accounts.

11. Names of Board members during the year

The Trustees of the National Museums are appointed by Scottish Ministers. The following were members of the Board during the period covered by these Accounts:

James A.G. Fiddes, OBE, DUniv, MA, FRICS, Dip TP
 Grenville S Johnston OBE, TD, KCSG, DL, CA
 Professor Michael Lynch PhD, FRSE, FSA (Scot)
 Christina Macaulay
 Sir Neil McIntosh, CBE
 Anne Maclean
 Neena Mahal
 Professor Aubrey Manning OBE, FRSE
 Professor James Murray BSc ARCST, CEng, FIMechE, FIEE, FIMgt
 Dr Anna Ritchie OBE BA, PhD, FSA, FSA Scot
 Ian Ritchie FEng, FRSE, FBCS
 Ian Smith
 Lord Wilson of Tillyorn KT GCMG FRSE (Chairman)

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

The Personnel and Remuneration Committee of the Board of Trustees considers senior staff remuneration issues. The

following were members of the Committee during the year: Sir Neil McIntosh (Chairman), Professor James Murray and Christina Macaulay.

12. Appointment of auditors

The firm of PricewaterhouseCoopers has been appointed external auditor by Audit Scotland.

13. Disabled Employees

The NMS adopts a positive attitude towards the employment of disabled persons both in recruitment and in the provision of suitable working conditions. Every encouragement is given to disabled staff to develop their skills.

14. Employee Consultation

The Management of NMS communicates with staff representatives on the various Trade Unions both directly and through the mechanism of the Whitley Council and its sub-committees. Staff information is distributed by way of notices, circulars and meetings.

15. 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 2002/03 showed that, on average, NMS paid suppliers 19 days after receipt of invoice, and that 95% of invoices were paid within 30 days of receipt.

CHAIRMAN

DATE

STATEMENT OF BOARD'S AND DIRECTOR'S RESPONSIBILITIES

Under schedule 1, section 9 of the National Heritage (Scotland) Act 1985, the Board of NMS is required to prepare in accordance with best commercial practice a statement of accounts for each financial year in the form and on the basis determined by Scottish Ministers. The accounts are prepared on an accruals basis and must show 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 the income and expenditure and cash flows of the group for the financial year.

In preparing the accounts the Board is required to:

- observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure

requirements, and apply suitable accounting policies on a consistent basis;

- make estimates and judgements on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the group will continue in operation.

The Accountable Officer for the Scottish Executive Education Department has designated the Director of the National Museums of Scotland as Accountable Officer for NMS. His or her relevant responsibilities as Accountable Officer, including his or her responsibility for the propriety and regularity of the public finances for which he or she is answerable and for the keeping of proper records, are set out in the financial memorandum of the National Museums of Scotland, the letter of appointment to the Director and the Memorandum to Accountable Officers issued by the Principal Accountable Officer.

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

As Accountable Officer of the National Museums of Scotland, I have 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 I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The system of internal control is designed to manage rather than eliminate the 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 the principal risks to the achievement of NMS's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them effectively, efficiently and economically. This process has been in place for the year ended 31 March 2003 and up to the date of approval of the Statement of Accounts and accords with Treasury guidance.

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. 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.

A programme of risk evaluation workshops, involving senior NMS managers, will be formalised in 2003/04.

My 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.

DIRECTOR.....

NATIONAL MUSEUMS OF SCOTLAND

Consolidated Income and Expenditure Account for the year ended 31 March 2003

	Notes	Continuing activities	
		2003	2002 (restated)
Income		£000	£000
Grant-in-aid received	2	16,552	16,181
Other grants	3	137	498
Less: transferred to capital reserve, donated assets, and purchase fund	2	<u>(1,502)</u>	<u>(2,758)</u>
Net grant-in-aid		15,187	13,921
Net surplus from revenue-earning activities	4	26	3
Gross income from grant-aided activities	5	106	81
Release from capital reserve and capital donations	18,19	3,259	3,012
Other income	6	1,516	1,071
Bank interest		73	43
Income received by NMS subsidiaries	26	<u>1,496</u>	<u>1,455</u>
		<u>21,663</u>	<u>19,586</u>
Expenditure			
Staff costs	7	9,710	9,306
Other operating charges	8	8,207	6,241
Depreciation and permanent diminution in value	1c, 10,12	<u>3,736</u>	<u>3,482</u>
		<u>21,653</u>	<u>19,029</u>
Operating surplus		10	557
Notional cost of capital	28	<u>(6,787)</u>	<u>(5,985)</u>
Deficit for the year before taxation	29	<u>(6,777)</u>	<u>(5,428)</u>
Taxation	1h	<u>0</u>	<u>0</u>
Deficit for the year after taxation		<u>(6,777)</u>	<u>(5,428)</u>
Reversal of notional cost of capital	28	6,787	5,985
Release from revaluation reserve	22	<u>408</u>	<u>341</u>
Retained surplus for the year		<u>418</u>	<u>898</u>
Transfer to General Fund	20	0	565
Transfer to Board Reserve	21	833	330
NMS Enterprises Ltd (loss)/profit		<u>(415)</u>	<u>3</u>
		<u>418</u>	<u>898</u>

The notes on pages 13 to 31 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

Consolidated Statement of Total Recognised Gains and Losses for the year ended 31 March 2003

		2003	2002
	Notes	£000	£000
Deficit for the year		(6,777)	(5,428)
Reversal of notional cost of capital		6,787	5,985
Unrealised gain on revaluation of fixed assets	10,22	<u>26,140</u>	<u>1,774</u>
Total recognised gains and losses during the year		<u>26,150</u>	<u>2,331</u>

The notes on pages 13 to 31 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

Consolidated Balance Sheet as at 31 March 2003

		2003	2002
	Notes	£000	£000
Fixed Assets			
Tangible assets	10	139,941	116,768
Collections	11	1,055	469
Intangible assets	12	99	16
Investments	13	<u>1</u>	<u>1</u>
		<u>141,096</u>	<u>117,254</u>
Current Assets			
Stocks	14	272	318
Debtors	15	864	677
Cash at bank and in hand	16	<u>1,614</u>	<u>1,510</u>
		2,750	2,505
Current Liabilities			
Creditors: Amounts falling due within one year	17	(641)	(999)
Net Current assets		<u>2,109</u>	<u>1,506</u>
Total Assets Less Current Liabilities		143,205	118,760
Creditors: Amounts falling due after more than one year	17	(31)	(103)
Total Net Assets		<u>143,174</u>	<u>118,657</u>
Financed by:			
Capital and Reserves			
Unrestricted funds:			
Capital reserve	18	57,680	58,857
Donated assets reserve	19	15,807	16,449
General Fund	20	446	446
Board Reserve Fund	21	2,209	1,376
NMS Enterprises Ltd		<u>(247)</u>	<u>2</u>
		75,895	77,137
Restricted funds:			
Revaluation reserve	22	67,094	41,362
Purchase Fund	23	<u>185</u>	<u>158</u>
		67,279	41,520
		<u>143,174</u>	<u>118,657</u>

Accountable Officer

Date

The notes on pages 13 to 31 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

Consolidated Cash Flow Statement for the year ended 31 March 2003

		2003	2002
	Notes	£000	£000
Net cash inflow/(outflow) from operating activities	24	<u>57</u>	<u>(163)</u>
Returns on Investments:			
Interest received		73	53
Capital expenditure and financial investment:			
Payments from purchase fund	23	(620)	(545)
Payments to acquire tangible and intangible fixed assets	10,12	(907)	(1,476)
Total capital expenditure and financial investment		<u>(1,527)</u>	<u>(2,021)</u>
Cash outflow before financing		<u>(1,397)</u>	<u>(2,131)</u>
Financing:			
Government grants	18	854	1,750
Capital receipts	19	0	309
Purchase fund	23	647	699
		<u>1,501</u>	<u>2,758</u>
Increase in cash in the period	24	<u>104</u>	<u>627</u>

The notes on pages 13 to 31 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

Income and Expenditure Account for the year ended 31 March 2003

		Continuing activities	
		2003	2002
			(restated)
	Notes	£000	£000
Income			
Grant-in-aid received	2	16,552	16,181
Other grants	3	137	498
Less: transferred to capital reserve, donated assets, and purchase fund	2	<u>(1,502)</u>	<u>(2,758)</u>
Net grant-in-aid		15,187	13,921
Net surplus from revenue-earning activities	4	26	3
Gross income from grant-aided activities	5	106	81
Release from capital reserve and capital donations	18,19	3,259	3,012
Bank interest		69	44
Other income	6	<u>1,871</u>	<u>1,367</u>
		<u>20,518</u>	<u>18,428</u>
Expenditure			
Staff costs	7	9,259	8,656
Other operating charges	8	7,128	5,766
Depreciation and permanent diminution in value	1c, 10,12	<u>3,706</u>	<u>3,452</u>
		<u>20,093</u>	<u>17,874</u>
Operating surplus		425	554
Notional cost of capital	28	<u>(6,787)</u>	<u>(5,985)</u>
Deficit after charging notional costs		<u>(6,362)</u>	<u>(5,431)</u>
Reversal of notional cost of capital		6,787	5,985
Release from revaluation reserve	22	<u>408</u>	<u>341</u>
		<u>833</u>	<u>895</u>
Transfer to/(from) General Fund	20	0	565
Transfer to Board Reserve	21	<u>833</u>	<u>330</u>
		<u>833</u>	<u>895</u>

The notes on pages 13 to 31 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

Balance Sheet as at 31 March 2003

		2003	2002
		£000	£000
Fixed Assets			
Tangible assets	10	139,919	116,713
Collections	11	1,055	469
Intangible assets	12	99	16
Investment in subsidiary	13	63	63
		<u>141,136</u>	<u>117,261</u>
Current Assets			
Stocks	14	7	7
Debtors:			
-Receivable within 12 months	15	1,508	979
-Receivable after 12 months	15	88	88
Cash at bank and in hand	16	1,275	1,247
		<u>2,878</u>	<u>2,321</u>
Current Liabilities			
Creditors: Amounts falling due within one year	17	(562)	(831)
Net Current assets		<u>2,316</u>	<u>1,490</u>
Total Assets Less Current Liabilities		143,452	118,751
Creditors: Amounts falling due after more than one year	17	(31)	(103)
Total Net Assets		<u>143,421</u>	<u>118,648</u>
Financed by:			
Capital and Reserves			
Unrestricted funds:			
Capital reserve	18	57,680	58,857
Donated assets reserve	19	15,807	16,449
General Fund	20	446	446
Board Reserve Fund	21	2,209	1,376
		<u>76,142</u>	<u>77,128</u>
Restricted funds:			
Revaluation reserve	22	67,094	41,362
Purchase Fund	23	185	158
		<u>67,279</u>	<u>41,520</u>
		<u>143,421</u>	<u>118,648</u>

Accountable Officer

Date

The notes on pages 13 to 31 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2003

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 SORP2000, 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 companies, NMS Enterprises Ltd, NMS Retail Ltd, NMS Publishing Ltd, NMS Hospitality and Events Ltd for the year ended 31 March 2003. The results of The Multimedia Team Ltd are included up to the time of the disposal of the company at 31 January 2003.

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	4 years to 7 years
Buildings	19 years to 72 years
Permanent galleries	15 years

Items costing less than £2000 are written off in the year of purchase.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2003

1. ACCOUNTING POLICIES (continued)

(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.

(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

The Board of NMS has been granted charitable status by the Inland Revenue. In respect of 2002/03 the subsidiary companies will pay £355k 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 28.

(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.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2003

1. ACCOUNTING POLICIES (continued)

(l) Investments

Investments in subsidiary companies represent the value at cost of assets transferred to the companies at the time of incorporation.

(m) 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.

(n) Finance leases and operating leases

NMS did not hold any finance lease during 2002/03. 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.

(o) 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.

(p) Collections acquisitions

Objects forming part of NMS's collections as at 1 April 2001 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.

(q) Changes in accounting policy

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. Previously, the portion of receipts applied to capital expenditure was excluded from the income and expenditure account. Comparative figures for 2001/02 have been adjusted in the income and expenditure account to reflect this change in policy.

(r) 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.

(s) 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.

(t) 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.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2003

2. GOVERNMENT GRANT-IN-AID

(See Notes 1(e), 18 & 23)

	Group and NMS	
	2003	2002
	£000	£000
Grant-in-aid received:		
Running Costs	15,592	14,367
Major Capital	<u>450</u>	<u>1,304</u>
	16,042	15,671
Purchase Grant	<u>510</u>	<u>510</u>
Total received during year	<u>16,552</u>	<u>16,181</u>
Grant-in-aid transferred:		
Capital reserve (note 18)	855	1,750
Purchase fund (note 23)	<u>510</u>	<u>510</u>
	<u>1,365</u>	<u>2,260</u>
Other grants transferred: (see note 3)		
Purchase fund	137	189
Donated assets reserve	-	<u>309</u>
	<u>137</u>	<u>498</u>
Total grants transferred to reserves	<u>1,502</u>	<u>2,758</u>

3. OTHER GRANTS

	Group and NMS	
	2003	2002
	£000	£000
Purchase fund receipts	137	189
HLF grants to buildings programme	-	<u>309</u>
	<u>137</u>	<u>498</u>

4 NMS REVENUE-EARNING ACTIVITIES

	Group	
	2003	2002
	£000	£000
Sales	36	26
Cost of Sales	<u>10</u>	<u>23</u>
Gross profit	<u>26</u>	<u>3</u>

Stock values were reviewed at 31 March 2003 resulting in provisions to bring the valuations into line with the market.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2003

5 GRANT-AIDED ACTIVITIES

	Group	
	2003 £000	2002 £000
Rental of facilities etc	<u>106</u>	<u>81</u>

6 OTHER INCOME

	Group		NMS	
	2003 £000	2002 £000	2003 £000	2002 £000
Provision of Services:				
- Curatorial	61	60	61	60
- Conservation	25	19	25	19
- Documentation	-	33	-	33
- Membership scheme	56	61	56	61
- Other	94	95	94	95
Entrance Charges	371	195	371	195
Gift Aid from subsidiary companies	-	-	355	296
NMS Charitable Trust	85	57	85	57
Misc Sponsorship	356	106	356	106
Misc Grants	268	286	268	286
Other	<u>200</u>	<u>159</u>	<u>200</u>	<u>159</u>
	<u>1,516</u>	<u>1,071</u>	<u>1,871</u>	<u>1,367</u>

Entrance charges were removed from the Museums in Chambers Street on 1 April 2001, made possible by additional grant in aid for the purpose provided by the Scottish Executive Education Department. Entrance charges were retained at other museums.

7 EMPLOYEES

Staff costs during the year:

	Group		NMS	
	2003 £000	2002 £000	2003 £000	2002 £000
Salaries	8,138	7,791	7,750	7,222
Social Security Costs	521	501	489	457
Pension Costs	1,008	937	977	900
Early Retirement	<u>43</u>	<u>77</u>	<u>43</u>	<u>77</u>
Total	<u>9,710</u>	<u>9,306</u>	<u>9,259</u>	<u>8,656</u>

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2003

7 EMPLOYEES (continued)

Pension benefits are provided to NMS staff through the Principal Civil Service Pension Scheme, which operates two 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 1/60th of pensionable salary for each year of service. Members pay contributions of 3.5% of pensionable earnings.

Benefits in the Classic scheme accrue at the rate of 1/80th of pensionable salary for each year of service. Members pay contributions of 1½ % 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.

Pension contributions are paid to the Paymaster General at rates determined by the Government Actuary and advised by the Treasury. For 2002/03, these rates were 12% to 18.5% (2001/02: 12% to 18.5%).

The Partnership scheme is a defined contribution arrangement that conforms to the stakeholder framework. NMS contributes an amount between 3% and 12.5% of pensionable earnings, depending on age. In addition, NMS makes a contribution matching that of the employee, up to a limit of 3% of salary.

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.

Money purchase pension contributions were not paid in respect of staff earning more than £50,000. Retirement benefits accrued under the defined benefit schemes to 435 staff during 2002/03 (2001/02 425 staff), while benefits accrued under money purchase schemes to 7 staff during 2002/03 (2001/02 13 staff)

No remuneration was paid to members of the Board of Trustees during 2002/2003 (2001/02 - nil). During 2002/2003 NMS paid a total of £8,451 in reimbursement of expenses to 8 Trustees, while in 2001/02 a total of £2,943 was reimbursed to 5 Trustees. No benefits in kind were paid to senior staff or to trustees during the year.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2003

7. EMPLOYEES (continued)

Remuneration and pension costs of senior management during the year were:					
		2003	2002	Accrued annual pension payable at age 60	Increase in accrued pension since
	Age	Remuneration £000	Remuneration £000	31 March 2003 £000	31 March 2002 (1) £000
Gordon Rintoul	48	84	9	1	-
<i>(Director from 25 Feb 2002)</i>					

(1) The increase in accrued pension is discounted for the effect of inflation. Benefits in kind, other than a largely contribution-free pension, were not receivable by any staff during the year.

Other employee costs:

Emoluments (£000s)	Number of Employees	
	2003	2002
50-60	6	4

The average full-time equivalent number of employees was:

	Group		NMS	
	2003	2002	2003	2002
Curatorial	112	112	112	112
Collection Services	40	38	40	38
Technical Services	74	74	74	74
Public Affairs (including Visitor Services)	144	143	144	143
Administration	27	28	27	28
NMS Enterprises Ltd	<u>17</u>	<u>28</u>	=	=
	<u>414</u>	<u>423</u>	<u>397</u>	<u>395</u>

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR YEAR ENDED 31 MARCH 2003

8. OTHER OPERATING CHARGES

	Group		NMS	
	2003	2002	2003	2002
	£000	£000	£000	£000
Board expenses	17	12	17	12
Expenses – staff	235	200	235	200
Administration				
expenses	622	602	552	458
Internal audit	11	11	11	11
Other external charges	3,040	2,257	2,268	1,930
Loss on disposal of				
TMT	233	-	-	-
Fuel and utilities	582	571	582	571
Rents and rates	279	242	279	242
Furniture and				
Furnishings	40	23	40	23
Repairs and renewals	3,040	2,255	3,040	2,255
Operating leases	87	53	87	53
Audit Fee	21	15	17	11
	<u>8,207</u>	<u>6,241</u>	<u>7,128</u>	<u>5,766</u>

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2003

9. CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

(see note 1(t))

	Unrestricted Funds 2003 £000	Restricted Funds 2003 £000	Totals 2003 £000	2002 £000
Incoming resources				
Grant-in-Aid	16,042	510	16,552	16,181
Other income	1,721	137	1,858	1,397
Trading subsidiaries	1,496	-	1,496	1,445
Heritage Lottery Fund	-	-	-	309
Total incoming resources	<u>19,259</u>	<u>647</u>	<u>19,906</u>	<u>19,332</u>
Resources expended				
Fundraising	422	-	422	460
Curatorial	4,385	-	4,385	4,390
Conservation & Documentation Services	1,592	-	1,592	1,422
Exhibitions	4,433	-	4,433	4,741
Security	1,292	-	1,292	1,162
Administration	2,154	-	2,154	2,404
Trading subsidiaries	1,915	-	1,915	1,146
Estates and Buildings	5,302	-	5,302	3,275
Grants to outside bodies	-	-	-	29
Fieldwork and Acquisitions	-	620	620	545
Total resources expended	<u>21,495</u>	<u>620</u>	<u>22,115</u>	<u>19,574</u>
Net outgoing resources				
before revaluation and collections capitalisation	(2,236)	27	(2,209)	(242)
Revaluation of fixed assets	-	26,140	26,140	1,774
Capitalisation of collections purchases	586	-	586	469
Release from revaluation reserve	408	(408)	-	-
Net movement in funds	(1,242)	25,759	24,517	2,001
Total funds brought forward	<u>77,137</u>	<u>41,520</u>	<u>118,657</u>	<u>116,656</u>
Total funds carried forward	<u>75,895</u>	<u>67,279</u>	<u>143,174</u>	<u>118,657</u>
Total fund balances comprise:				
Fixed assets	74,002	67,094	141,096	117,254
Current assets	1,924	185	2,109	1,506
Creditors due after more than one year	(31)	-	(31)	(103)
	<u>75,895</u>	<u>67,279</u>	<u>143,174</u>	<u>118,657</u>

Costs of generating funds are defined as the salaries, operating costs and attributable overheads of the Development department.

Depreciation has been allocated to activities in proportion to the staff numbers involved.

Administrative costs are defined as the staff and operational costs of the Directorate, and the Finance, Personnel, IT and Public Affairs departments.

