

NATIONAL MUSEUMS OF SCOTLAND

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2005

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REPORT OF THE BOARD OF TRUSTEES

1. A Brief Organisational History

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). 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 the Granton Centre, Leith as the main location for its stored collections and conservation facilities.

The 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.

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:

- 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 - reappointed 1 April 2002.
- 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, Home Office Letter of Registration in Child Care - reappointed 1 April 2005.
- Professor Malcolm McLeod - appointed 1 April 2005.
- Neena Mahal MA, DCG - reappointed 1 April 2004.
- Professor Aubrey Manning OBE, DPhil, FRSE, FIBiol – second term completed 31 March 2005.
- Dr Stuart Monro - appointed 1 April 2005.
- Professor James Murray BSc, ARCST, CEng, FIMechE, FIEE, FIMgt – second term completed 31 March 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.
- Lord Wilson of Tillyorn KT, GCMG, PhD, FRSE (Chairman since 1 April 2002)

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).

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 and for inspection in the Royal Museum upon application to the Head of Corporate Policy and Performance.

3. Related Organisations

NMS has developed major partnerships with the National Trust for Scotland to develop the Museum of Scottish Country Life and with Historic Scotland to develop the National War Museum at Edinburgh Castle.

NMS works closely with the Scottish Executive Education Department (SEED) as its principal funder, and works closely with its fellow National Institutions (Galleries, Libraries and Royal Botanic Gardens) on common issues.

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.

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.'

In 2002 NMS defined its Vision to be 'A world class museums service that informs, educates and inspires.' The organisation has identified seven strategic aims which guide its operational planning in order to realise that Vision. These strategic aims are closely aligned to the functions identified above and the specific objectives and actions deriving from these aims are outlined in our Corporate Plan.

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:

Director
Director of Collections
Director of Facilities Management and Projects
Director of Finance and Resources
Director of Marketing and Development
Director of Public Programmes

The Head of Corporate Policy and Performance acts as the Secretary to the CMT and 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 newsletters, formal notices, emails and meetings. An Internal Communications Manager has been appointed to develop these and other channels of communication, including a staff intranet. NMS management meet staff representatives from the three Trade Unions through the mechanism of the Whitley Council and its sub-committees. In summer 2005 a new Partnership Agreement was agreed by management and unions to improve on and supersede the Whitley Council.

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

6. Key Achievements in 2004/05

NMS made progress towards all of its seven strategic aims during the year, the main developments and achievements being noted below.

The special exhibition *Dinosaurs Alive!* at the Royal Museum attracted a record 89,419 visitors, becoming the most successful charging exhibition in NMS's history. Other notable special exhibitions in the year included the international collaborations *Treasures from Tuscany* and *Claret to Concorde*, *Wildlife Photographer of the Year*, *Cloth from the Catwalk*, and a series of popular interactive science displays.

The reassembly of Concorde and development of a related exhibition, together with other improvements at the Museum of Flight, enabled this magnificent aircraft to open to the public in *The Concorde Experience* in March 2005.

The Royal Museum Masterplan received Trustee approval in September 2004, setting the framework for an extensive redevelopment of the Royal Museum and further improvements to the storage and conservation facilities at NMS's collections centre at Granton in north Edinburgh. Work was begun on the enabling phase of the Masterplan, enabling significant progress to be made in refurbishing and developing existing buildings at Granton, to increase storage capacity and house curatorial and conservation staff. The transfer of staff and collections to Granton began during the year, and part of the East Wing of the Royal Museum was closed to the public to enable improvements to be made to fire safety and to upgrade the gallery spaces. This phase is expected to be completed in 2006/07 at a 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 and buildings.

1,271 objects from the collections were loaned for display purposes to universities, museums, zoos and research institutes both in the UK and abroad.

7. Research Activities

During the year ended 31 March 2005, 121 research articles by NMS staff members were accepted for publication (compared to 100 in the previous year). 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. Two significant books were published – *Weights and Measures* and *The Thin Red Line*. A new research framework has been developed, and a Centre for the Study of Scottish History and Culture established to provide a focal point for stronger focus on research in this area.

8. Future Plans

The next stage of the Masterplan is *The Royal Museum Project* – a major redevelopment of the site which will double the number of objects on display, create sixteen new galleries and learning zones and improve public access. Further improvements will be made at Granton to improve collections storage and increase public access. This Project, with an expected cost of nearly £45 million, will take place from 2007 to 2011. NMS was pleased to announce in July 2005 that the Heritage Lottery Fund (HLF) has awarded the Royal Museum Project a Stage One Pass for a grant of £15.8 million and a Development Grant of £1 million. Discussions are underway with the Scottish Executive in relation to their support of this initiative, and a major fundraising campaign is being developed, with a target of £12m.

Meanwhile good progress is being made on the redevelopment of the ground floor of the West Wing of the Royal Museum as a permanent interactive science and technology gallery. This gallery, funded by the ReDiscover programme and a number of other donors, will be called *Connect*, and is due to open to the public in early 2006.

At the Museum of Scotland, a new *Sports Gallery*, incorporating the Scottish Sports Hall of Fame in collaboration with SportScotland, is due to open in 2006. This gallery is the first stage in much larger project to create a major new exhibition on Modern Scotland. New *discovery zones* will also be opened in a number of galleries in 2006, encouraging families and schoolchildren to explore the displays in new and creative ways.

Further development is underway at the Museum of Flight, building on the success of Concorde's arrival. New aircraft are joining the collection, additional specialist staff being recruited and learning facilities improved. A new exhibition is planned on the history of flight, and a Masterplan will be created to guide the further development of the museum.

NMS is expanding the role it plays nationally in Scotland, and a National Partnerships Manager has been appointed to take forward a new programme of activity to provide services, advice and support.

The Cultural Commission reported to the Scottish Executive this summer, and NMS is working closely with the Scottish Executive and fellow National Institutions to assess the recommendations made in the Commission's Report.

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 12% in 2004/05 over 2003/04
- Participation - to increase participation from under-represented groups in cultural activity by 5% over the period: in 2004/05 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 2004/05 NMS delivered 14 programmes in this field, more than double the 6 programmes delivered in 2003/04.

10. Financial Review

The combined financial results and appropriations are shown in full in the Consolidated Income and Expenditure Account on Page 9. 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 13.

The summary operational results for NMS and NMSE combined (described as 'the group') during the year to 31 March 2005 (2004) were as follows:

	2005 £m	2004 £m Restated
Income		
Grants received, net of transfers to reserves	17.4	16.5
Release from capital, donated assets and revaluation reserves	4.4	4.0
Other Income	3.0	2.6
Total Income	24.8	23.1
Expenditure		
Staff Costs	11.5	10.6
Other Operating Charges	9.0	8.3
Depreciation	4.4	4.0
Total Expenditure	24.9	22.9
(Deficit)/Surplus	(0.1)	0.2

The deficit has been transferred to the General Fund.

Grant-in-aid from SEED increased as agreed with them 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 our commercial subsidiary 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 increased in line with expectations following the reorganisation and change programme.

A prior period adjustment due to a change in accounting policy was made to certain 2004 expenditure associated with preparing the business case for the Masterplan. Further details on this adjustment are disclosed in Note 1(b) to the accounts.

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.

11. Risks

NMS maintains a risk register which is reviewed annually by the Audit Committee. Two potential major risks - fire safety 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

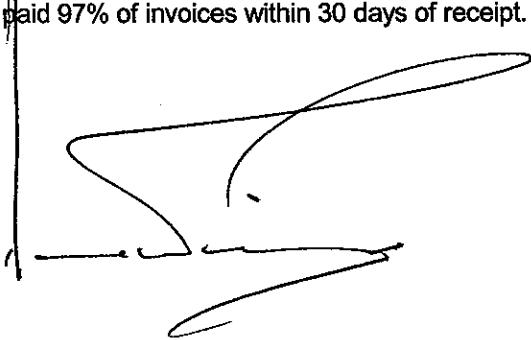
NMS holds title to properties at Granton, the Museum of Flight, Leith Custom House and the former Dental Hospital. Title to the Royal Museum, the Museum of Scotland and property at Port Edgar is held by Scottish Ministers. NMS has full operational use of these assets and is responsible for their upkeep and maintenance, and there has been no change in this position during the year.

In the period, the group acquired tangible and intangible assets at a cost of £4.4m. The sum of £1.1m was spent on permanent galleries, £2.9m on buildings, £0.3m on equipment purchases, £0.1m on leasehold improvements, £0.04m on intangible assets, and £0.5m 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 2004/05 showed that, on average, NMS paid 97% of invoices within 30 days of receipt.

CHAIRMAN



DATE

9/9/2005.

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 INTERNAL CONTROL

As Accountable 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 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. The system of internal control has been in place in NMS for the year ended 31 March 2005 and up to the date of approval of the Statement of Accounts, and accords with Treasury guidance.

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.

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.

As Accountable 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.

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.....

INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements, which comprise the Consolidated Income and Expenditure account, the Consolidated Balance Sheet, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Cash Flow Statement, the NMS Income and Expenditure account, the NMS Balance Sheet and notes 1 to 33 on pages 15 to 35, under the Public Finance and Accountability (Scotland) Act 2000. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 15 to 18.

This report is made solely to the parties to whom it is addressed, and not to individual members, 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 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, the Director and Auditor

As described in the Statement of the Board's and Director's Responsibilities on page 5, the Board and the Director are responsible for the preparation of the financial statements and for ensuring the regularity of expenditure and receipts. The Board and the Director are also responsible for the preparation of the other contents of the Annual Report. Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

We report our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder and 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 National Museums of Scotland has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the statement on page 6 complies with Scottish Executive guidance on statements on the system of internal control. We report if, in our opinion, it does not comply with the guidance, or if the statement is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider whether the statement covers all risks and controls, or to form an opinion on the effectiveness of the Board's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Report of the Board of Trustees and consider whether it is consistent with the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinions

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts shown in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board and Director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Board'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 are free from material misstatement, whether caused by fraud or other irregularity 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.

Opinions

Financial Statements

In our opinion the financial statements give a true and fair view of the state of affairs of the National Museums of Scotland at 31 March 2005 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder.

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

29 September 2005

NATIONAL MUSEUMS OF SCOTLAND

Consolidated Income and Expenditure Account For the Year Ended 31 March 2005

	Notes	Continuing Activities		
		2005 £000	2004 £000 Restated note 1(b)	2004 £000 Originally stated
Income				
Grant-in-aid received	2	20,993	18,095	18,095
Other grants	3	530	36	36
Less grants transferred to capital reserve, donated assets, and purchase fund	3	(4,090)	(1,596)	(1,596)
Net grant		17,433	16,535	16,535
Net surplus from revenue-earning activities	4	6	8	8
Gross income from grant-aided activities	5	50	65	65
Release from capital reserve and capital donations	19,20	3,830	3,477	3,496
Other income	6	1,027	1,053	1,053
Bank interest		103	68	68
Income received by NMS subsidiaries		1,822	1,431	1,431
		24,271	22,637	22,656
Expenditure				
Staff costs	7	11,465	10,631	10,631
Other operating charges	8	9,040	8,309	8,023
Depreciation and permanent diminution in value	1(d),10,12	4,423	3,973	3,992
		24,928	22,913	22,646
Operating surplus/(deficit)		(657)	(276)	10
Notional Cost of capital	29	(4,441)	(4,389)	(4,389)
Deficit for the year before taxation	30	(5,098)	(4,665)	(4,379)
Taxation	1(i)	-	-	-
Deficit for the year after taxation		(5,098)	(4,665)	(4,379)
Reversal of notional cost of capital	29	4,441	4,389	4,389
Release from revaluation reserve	23	558	468	468
Retained (deficit)/surplus for the year		(99)	192	478
Transfer to Board Reserve	22	-	191	477
Transfer to General Fund	21	(125)	-	-
NMS Enterprises Ltd profit		26	1	1
		(99)	192	478

The notes on Pages 15 to 35 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

Consolidated Balance Sheet For the Year Ended 31 March 2005

		2005 £000	2004 £000 Restated note 1(b)	2004 £000 Originally stated
	Notes			
Fixed Assets				
Tangible assets	10	141,547	138,296	138,559
Collections	11	2,145	1,638	1,638
Intangible assets	12	94	131	131
Investments	13	1	1	1
		<u>143,787</u>	<u>140,066</u>	<u>140,329</u>
Current Assets				
Stocks	14	394	304	304
Debtors	15	1,250	2,040	2,040
Cash at bank and in hand	16	2,327	2,799	2,799
		<u>3,971</u>	<u>5,143</u>	<u>5,143</u>
Current Liabilities				
Creditors: amounts falling due within one year	17	(2,109)	(2,276)	(2,276)
Net current assets		<u>1,862</u>	<u>2,867</u>	<u>2,867</u>
Total assets less current liabilities		<u>145,649</u>	<u>142,933</u>	<u>143,196</u>
Creditors: Amounts falling due after more than one year	17	(135)	-	-
Provision for liabilities and charges	18	(25)	(200)	(200)
Total net assets		<u>145,489</u>	<u>142,733</u>	<u>142,996</u>
Financed by:				
Capital and reserves				
Unrestricted funds:				
Capital reserve	19	56,932	56,484	56,465
Donated assets reserve	20	14,967	15,158	15,158
General fund	21	320	446	446
Board reserve fund	22	2,400	2,400	2,686
NMS Enterprises Ltd	27	(221)	(247)	(247)
		<u>74,398</u>	<u>74,241</u>	<u>74,508</u>
Restricted funds:				
Revaluation reserve	23	70,989	68,382	68,378
Purchase fund	24	102	110	110
		<u>71,091</u>	<u>68,492</u>	<u>68,488</u>
		<u>145,489</u>	<u>142,733</u>	<u>142,996</u>


Accountable Officer

9/9/2005
Date

The notes on Pages 15 to 35 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

Consolidated Cash Flow Statement For the Year Ended 31 March 2005

		2005 £000	2004 £000 Restated note 1(b)	2004 £000 Originally stated
	<i>Notes</i>			
Net cash inflow/(outflow) from operating activities	25	326	798	1,084
Returns on investments and servicing of finance				
Interest Received		103	68	68
Taxation:				
Corporation Tax	1(i)	-	-	-
Capital expenditure and financial investment:				
Payments from Purchase Fund	24	(518)	(621)	(621)
Payments to acquire tangible and intangible fixed assets	10,12	(4,473)	(1,256)	(1,542)
Receipts from sale of tangible and intangible fixed assets		-	600	600
Total capital expenditure and financial investment		<u>(4,991)</u>	<u>(1,277)</u>	<u>(1,563)</u>
Cash outflow before financing		<u>(4,562)</u>	<u>(411)</u>	<u>(411)</u>
Financing:				
Government grants	19	3,050	1,050	1,050
Capital grants received	20	530	-	-
Purchase Fund	24	510	546	546
		<u>4,090</u>	<u>1,596</u>	<u>1,596</u>
(Decrease)/increase in cash in the period	25	<u>(472)</u>	<u>1,185</u>	<u>1,185</u>

The notes on Pages 15 to 35 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

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

	Notes	Continuing Activities		
		2005 £000	2004 £000 Restated note 1(b)	2004 £000 Originally stated
Income				
Grant-in-aid received	2	20,993	18,095	18,095
Other grants	3	530	36	36
Less grants transferred to Capital Reserve, Donated Assets, and Purchase Fund	3	(4,090)	(1,596)	(1,596)
Net grant		17,433	16,535	16,535
Net surplus from revenue-earning activities	4	6	8	8
Gross income from grant-aided activities	5	50	65	65
Release from capital reserve and capital donations	19, 20	3,830	3,477	3,496
Other income	6	1,361	1,323	1,323
Bank interest		82	54	54
		22,762	21,462	21,481
Expenditure				
Staff costs	7	10,970	10,187	10,187
Other operating charges	8	8,070	7,598	7,312
Depreciation and permanent diminution in value	1(d), 10, 12	4,406	3,954	3,973
		23,446	21,739	21,472
Operating surplus/(deficit)		(684)	(277)	9
Notional cost of capital	29	(4,441)	(4,389)	(4,389)
Deficit for the year before taxation	30	(5,125)	(4,666)	(4,380)
Taxation	1(i)	-	-	-
Deficit for the year after taxation		(5,125)	(4,666)	(4,380)
Reversal of notional cost of capital	29	4,441	4,389	4,389
Release from revaluation reserve	23	558	468	468
Retained (deficit)/surplus for the year		(126)	191	477
Transfer to Board Reserve	22	-	191	477
Transfer to General Reserve	21	(126)	-	-
		(126)	191	477

The notes on Pages 15 to 35 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

NMS Balance Sheet as at 31 March 2005

		2005 £000	2004 £000 Restated note 1(b)	2004 £000 Originally stated
	Notes			
Fixed Assets				
Tangible Assets	10	141,469	138,259	138,522
Collections	11	2,145	1,638	1,638
Intangible Assets	12	94	131	131
Investment in Subsidiary	13	500	500	500
		144,208	140,528	140,791
Current Assets				
Debtors receivable within 12 months	15	1,719	2,443	2,443
Cash at Bank and in Hand	16	1,763	2,283	2,283
		3,482	4,726	4,726
Current Liabilities				
Creditors: Amounts falling due within one year	17	(1,820)	(2,074)	(2,074)
Net current assets		1,662	2,652	2,652
Total assets less current liabilities		145,870	143,180	143,443
Creditors: Amounts falling due after more than one year	17	(135)	-	-
Provision for liabilities and charges	18	(25)	(200)	(200)
Total net assets		145,710	142,980	143,243
Financed by:				
Capital and Reserves				
Unrestricted funds:				
Capital Reserve	19	56,932	56,484	56,465
Donated Assets Reserve	20	14,967	15,158	15,158
General Fund	21	320	446	446
Board Reserve Fund	22	2,400	2,400	2,686
		74,619	74,488	74,755
Restricted Funds:				
Revaluation Reserve	23	70,989	68,382	68,378
Purchase Fund	24	102	110	110
		71,091	68,492	68,488
		145,710	142,980	143,243


Accountable Officer

9/9/2005
Date

The notes on Pages 15 to 35 form part of these accounts.

NATIONAL MUSEUMS OF SCOTLAND

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

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 2000, the Statement of Recommended Practice on the preparation of accounts of charitable organisations.

b) *Prior year adjustment*

NMS has capitalised development costs or feasibility study expenditure in previous years as these costs were relatively immaterial, while the likelihood of progression to full development was very high.

In the year 2003/04 £266,000 was spent on consultant fees developing the Royal Museum Masterplan (RMMP) and although this was a high sum the costs were low relative to the development proposal (£70m) and the likelihood of progression in some form was high. As a result the development costs were capitalised.

In the year 2004/05 a further £435,000 was spent on development proposals for the RMMP and a funding bid to the Heritage Lottery Fund (HLF). Given the significance of the development costs, and the number of options in the RMMP and the HLF proposals, a change in accounting policy was proposed so that development costs or feasibility study expenditure would be expensed as incurred.

This more prudent accounting policy change was accepted by the Board of Trustees on 20 May 2005 for current and future development expenditure. The new policy has been applied in the 2004/05 Accounts, and a prior year adjustment has been made to the 2003/04 Accounts. The restated 2003/04 figures are, where appropriate, shown alongside the original figures for comparison purposes.

c) *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.

d) *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:

**NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005**

d) *Tangible Fixed Assets and Depreciation (continued)*

Equipment	3 years to 7 years
Buildings	19 years to 50 years
Buildings improvements	4 years to 15 years
Permanent Galleries	15 years

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

Further information about capitalisation and valuation is included at note 10.

e) *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 years
--------------------------	----------------

f) *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.

g) *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.

h) *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.

i) *Taxation*

NMS has been granted charitable status by the Inland Revenue.

In respect of 2004/05 the subsidiary companies will pay £334k by Gift Aid to NMS, thereby eliminating any liability of the subsidiaries to Corporation Tax in that year.

j) *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.

k) *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.

l) *Other Receipts*

Donations are recognised in the financial statements only when received.

**NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005**

m) *Subsidiary companies*

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

n) *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.

o) *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.

p) *Finance Leases and Operating Leases*

NMS did not hold any finance lease during 2004/05. 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.

q) *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.

r) *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.

s) *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.

t) *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.

u) *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.

v) *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 THE YEAR ENDED 31 MARCH 2005**

w) **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. 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.

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

	GROUP AND NMS	
	2005	2004
	£000	£000
Grant-in-aid received:		
Running Costs	17,433	16,535
Major Capital	3,050	1,050
	20,483	17,585
Purchase Grant	510	510
Total received during year	20,993	18,095

3. Other Grants

	GROUP AND NMS	
	2005	2004
	£000	£000
Other grants received:		
Purchase fund receipts	-	36
Donated assets reserve receipts	530	-
	530	36
Total grants transferred:		
Grant-in-aid transferred (see Note 2):		
Capital reserve (Note 19)	3,050	1,050
Purchase fund (Note 24)	510	510
	3,560	1,560
Other grants transferred:		
Purchase fund	-	36
Donated assets reserve	530	-
	530	36
Total grants transferred to reserves	4,090	1,596

**NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005**

4. Revenue-Earning Activities

	GROUP AND NMS	
	2005	2004
	£000	£000
Sales	6	8
Cost of Sales	-	-
Net Surplus	6	8

5. Grant-Aided Activities

	GROUP AND NMS	
	2005	2004
	£000	£000
Rental of Facilities, etc	50	65

6. Other Income

	GROUP		NMS	
	2005	2004	2005	2004
	£000	£000	£000	£000
Provision of Services, by Department	59	140	59	140
Membership Scheme	48	49	48	49
Entrance Charges	481	238	481	238
Gift Aid from Subsidiary Company	-	-	334	270
NMS Charitable Trust	111	20	111	20
Misc Sponsorship	35	263	35	263
Miscellaneous Grants	212	275	212	275
Other	81	68	81	68
	1,027	1,053	1,361	1,323

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 2005**

7. Employees

Staff Costs during the Year:

	GROUP		NMS	
	2005	2004	2005	2004
	£000	£000	£000	£000
Salaries	9,626	8,725	9,190	8,318
Social Security Costs	637	591	602	570
Pension Costs	1,121	1,047	1,097	1,031
Restructuring costs	-	200	-	200
Early Retirement	81	68	81	68
Total	11,465	10,631	10,970	10,187

Pension benefits are provided to NMS staff through the Principal Civil Service Pension Scheme, 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 1/60th 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 1/80th 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.

Pension contributions are paid to the Paymaster General at rates determined by the Government Actuary and advised by the Treasury. For 2004/05, these rates were 12% to 18.5% (2003/04: 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 441 staff during 2004/05 (2003/04 = 437 staff), while benefits accrued under money purchase schemes to 6 staff during 2004/05 (2003/04 = 6 staff).

**NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005**

No remuneration was paid to members of the Board of Trustees during 2004/2005 (2003/04 - nil). During 2004/2005 NMS paid a total of £6,750 in reimbursement of travel expenses to 8 Trustees for attending meetings at the National Museums of Scotland, while in 2003/04 a total of £5,374 was reimbursed to 6 Trustees. No benefit in kind accrued to Trustees during the year.

Salary and pension entitlement of senior management during the year are noted below:

No benefit in kind was receivable by any staff during the year.

	2005	2004	Accrued annual pension payable	Increase in accrued pension since	CETV at 31/3/05	CETV at 31/3/04	Real increase in CETV funded by NMS
	Salary £000	Salary £000	31 March 2005 £000	31 March 2004 (1) £000	£000	£000	£000
Gordon Rintoul	85-95	85-95	5-10	0-2.5	117	94	21
Mary Bryden	55-65	55-65	20-25 (2) plus a lump sum 55-60	0-2.5	397	360	19
Jane Carmichael	55-65	40-50 (55-65 full year equivalent)	25-30	2.5-5.0	416	340	52
Stephen Elson	55-65	55-65	20-25 (2) plus a lump sum 40-45	0-2.5	401	360	20
Catherine Holden	55-65	0-10 (55-65 full year equivalent)	5-10	2.5-5.0	96	60	32
Andrew Patience	55-65	45-55 (55-65 full year equivalent)	5-10	5-7.5	64	35	22

- 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.

NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

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.

Higher-paid Employee Costs:

Emoluments (£000s)	Number of Employees	
	2005	2004
85-95	1	1
70-80	-	-
60-70	4	2
50-60	4	3

The average full-time equivalent number of employees was:

	GROUP		NMS	
	2005	2004	2005	2004
Directorate	13	12	13	12
Finance and Resources	25	21	25	21
Facilities Management and Projects	100	105	100	105
Collections	109	106	109	106
Public Programmes (including Visitor Services)	153	152	153	152
Marketing and Development	13	13	13	13
NMS Enterprises Ltd	18	18	-	-
Total	431	427	413	409

NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

8. Other Operating Charges

	GROUP			NMS		
	2005	2004	2004	2005	2004	2004
	Restated			Restated		
	£000	£000	£000	£000	£000	£000
Board Expenses	19	15	15	19	15	15
Expenses - Staff	220	247	247	220	247	247
Administration Expenses	676	617	617	676	545	545
Internal Audit	6	19	19	6	19	19
Other External Charges	2,371	1,850	1,850	1,401	1,214	1,214
Consultancy:						
– Masterplan	427	58	58	427	58	58
– Directorate & Resources	72	139	139	72	139	139
– Estates	105	81	81	105	81	81
– Collections	140	260	260	140	260	260
– Public Programmes	204	177	177	204	177	177
Marketing & Development	77	94	94	77	94	94
Advertising	243	267	267	243	267	267
Fuel and Utilities	638	694	694	638	694	694
Rents and Rates	240	234	234	240	234	234
Furniture and Furnishings	144	119	119	144	119	119
Repairs and Renewals	3,336	3,258	2,972	3,336	3,258	2,972
Operating Leases	104	107	107	104	107	107
Loss on Disposal of Bristo Church	-	52	52	-	52	52
Audit Fee	18	21	21	18	18	18
Total	9,040	8,309	8,023	8,070	7,598	7,312

NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

9. Consolidated Statement of Financial Activities

	2005 Unrestricted Funds	2005 Restricted Funds	2005 Total	2004 Restated	2004 Originally Reported
	£000	£000	£000	£000	£000
Incoming resources					
Donations, legacies and grants					
Grant-in-aid	20,483	510	20,993	18,095	18,095
Other grants	530	-	530	36	36
Incoming resources from operating activities					
Activities in the furtherance of the charity's objectives	1,417	-	1,417	2,971	2,971
Activities for generating funds	1,488	-	1,488	1,486	1,486
Investment income					
Interest income	103	-	103	68	68
Total incoming resources	24,021	510	24,531	22,656	22,656
Resources expended					
Cost of generating funds					
Development	355	-	335	341	341
NMS Enterprises Ltd	1,482	-	1,482	1,445	1,445
Charitable expenditure					
Curatorial	3,730	-	3,730	3,684	3,684
Conservation and Collections Management	1,651	-	1,651	1,441	1,441
Exhibitions	4,669	-	4,669	4,718	4,718
Security and Support Services	1,833	-	1,833	1,741	1,741
Marketing	973	-	973	694	694
Management and Administration	5,786	-	5,786	4,451	4,451
Estates and Buildings	4,450	-	4,450	6,296	6,033
Fieldwork and Acquisitions	-	518	518	621	621
Total resources expended	24,929	518	25,447	25,432	25,169
Notional cost of capital	4,441	-	4,441	4,389	4,389
Total resources expended including notional costs	29,370	518	29,888	29,821	29,558
Net outgoing resources before revaluation, collections capitalisation and reversal of notional costs					
	(5,349)	(8)	(5,357)	(7,165)	(6,902)
Revaluation of fixed assets	-	3,165	3,165	1,752	1,752
Capitalisation of collections purchases	507	-	507	583	583
Release from revaluation reserve	558	(558)	-	-	-
Reversal of notional cost of capital	4,441	-	4,441	4,389	4,389
Net movement in funds	157	2,599	2,756	(441)	(178)
Total funds brought forward	74,241	68,492	142,733	143,174	143,174
Total funds carried forward	74,398	71,091	145,489	142,733	142,996
Total fund balances comprise:					
Fixed assets	72,798	70,989	143,787	140,066	140,329
Current assets	1,760	102	1,862	2,867	2,867
Creditors due after more than one year	(135)	-	(135)	-	-
Provisions for liabilities and charges	(25)	-	(25)	(200)	(200)
	74,398	71,091	145,489	142,733	142,996

**NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005**

Consolidated Statement of Financial Activities (continued)

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.

NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

10. Fixed Assets (See note 1[d])

GROUP

	Buildings	Leasehold	Permanent	Equipment	Totals
Cost or valuation	£000	Improvements	Galleries	£000	£000
		£000	£000		
1 April 2004	135,427	1,830	21,973	3,910	163,140
Adjustment	-	-	(282)	-	(282)
1 April restated	135,427	1,830	21,691	3,910	162,858
Additions	2,889	125	1,125	293	4,432
Disposals	-	-	-	(2,191)	(2,191)
Revaluations	<u>2,677</u>	<u>44</u>	<u>1,164</u>	<u>(105)</u>	<u>3,780</u>
31 March 2005	<u>140,993</u>	<u>1,999</u>	<u>23,980</u>	<u>1,907</u>	<u>168,879</u>
Depreciation					
1 April 2004	13,043	146	7,867	3,526	24,582
Adjustment	-	-	(19)	-	(19)
1 April restated	13,043	146	7,848	3,526	24,563
Charge for year	2,470	45	1,598	194	4,307
Disposals	-	-	-	(2,191)	(2,191)
Revaluations	<u>301</u>	<u>3</u>	<u>416</u>	<u>(67)</u>	<u>653</u>
31 March 2005	<u>15,814</u>	<u>194</u>	<u>9,862</u>	<u>1,462</u>	<u>27,332</u>
Net Book Value					
31 March 2005	<u>125,179</u>	<u>1,805</u>	<u>14,118</u>	<u>445</u>	<u>141,547</u>
1 April 2004	<u>122,384</u>	<u>1,684</u>	<u>13,843</u>	<u>384</u>	<u>138,295</u>

NMS

	Buildings	Leasehold	Permanent	Equipment	Totals
Cost or valuation	£000	Improvements	Galleries	£000	£000
		£000	£000		
1 April 2004	135,427	1,830	21,973	3,744	162,974
Adjustment	-	-	(282)	-	(282)
1 April restated	135,427	1,830	21,691	3,744	162,692
Additions	2,889	125	1,125	234	4,373
Disposals	-	-	-	(2,191)	(2,191)
Revaluations	<u>2,677</u>	<u>44</u>	<u>1,164</u>	<u>(105)</u>	<u>3,780</u>
31 March 2005	<u>140,993</u>	<u>1,999</u>	<u>23,980</u>	<u>1,682</u>	<u>168,654</u>
Depreciation					
1 April 2004	13,043	146	7,867	3,396	24,452
Adjustment	-	-	(19)	-	(19)
1 April restated	13,043	146	7,848	3,396	24,433
Charge for year	2,470	45	1,598	177	4,290
Disposals	-	-	-	(2,191)	(2,191)
Revaluations	<u>301</u>	<u>3</u>	<u>416</u>	<u>(67)</u>	<u>653</u>
31 March 2005	<u>15,814</u>	<u>194</u>	<u>9,862</u>	<u>1,315</u>	<u>27,185</u>
Net Book Value					
31 March 2005	<u>125,179</u>	<u>1,805</u>	<u>14,118</u>	<u>367</u>	<u>141,469</u>
1 April 2004	<u>122,384</u>	<u>1,684</u>	<u>13,843</u>	<u>348</u>	<u>138,259</u>

**NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005**

Fixed Assets (Continued)

To comply with the requirements of "Executive NDPBs Annual Reports and Accounts Guidance," Scottish Ministers directed NMS to include its fixed assets at their value to the business by reference to current costs for the year ended 31 March 2004. 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 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. The remaining valuations obtained as at 31 March 2004 have been revised in 2005 using appropriate indices.

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:

	2005	2004	2004
	£000	Restated £000	£000
NMS tangible assets depreciation	4,290	3,861	3,880
NMS intangible assets depreciation (Note 12)	63	52	52
NMS Permanent diminution in value – tangible assets	38	34	34
NMS Permanent diminution in value – intangible assets	15	7	7
NMS Enterprises tangible assets depreciation	17	19	19
	4,423	3,973	3,992

Asset useful lives

The expected useful lives of the Royal Museum, and the properties at Bristo Place and Shambellie, have been reduced from 72 - 62 years to 50 years. The effect of this change is not material, and is matched by a corresponding adjustment to the release from reserves.

**NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005**

11. 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	
	2005	2004
	£000	£000
1 April	1,638	1,055
Additions	507	583
31 March	2,145	1,638

12. Intangible Assets

	GROUP AND NMS	
	2005	2004
	£000	£000
1 April	196	120
Software Acquired During Year	41	91
Revaluation	(23)	(15)
31 March	214	196
Amortisation:		
1 April	65	21
Charge for the Year	63	52
Revaluation	(8)	(8)
31 March	120	65
Net Book Value:		
31 March	94	131

NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

13. Investments

	GROUP		NMS	
	2005 £000	2004 £000	2005 £000	2004 £000
Opening Balance 1 April	1	1	500	63
Repayment of Initial Capital Investment	-	-	-	(63)
Issue of Additional Share Capital	-	-	-	500
Closing Balance 31 March	1	1	500	500

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

14. Stocks

(See Note 1[g])

	GROUP		NMS	
	2005 £000	2004 £000	2005 £000	2004 £000
Stocks Held for Resale	394	304	-	-

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

15. Debtors

	GROUP		NMS	
	2005 £000	2004 £000	2005 £000	2004 £000
Receivable Within 1Year:				
Prepayments and Sundry Debtors	324	147	324	147
Pay Bureau Deposit	-	850	-	850
Season Ticket Advances	11	14	11	14
Trade Debtors	517	665	239	182
Less:				
Provision for Amounts not recoverable	(87)	(13)	(87)	(13)
Subsidiary Company	-	-	746	636
Loan to NMS Enterprises	-	-	-	250
VAT Recoverable	485	377	486	377
	1,250	2,040	1,719	2,443

**NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005**

16. Cash at Bank and in Hand

	GROUP		NMS	
	2005 £000	2004 £000	2005 £000	2004 £000
Cash and commercial accounts	2,310	2,793	1,746	2,277
Paymaster General Account	17	6	17	6
	2,327	2,799	1,763	2,283

17. Creditors

	GROUP		NMS	
	2005 £000	2004 £000	2005 £000	2004 £000
Amounts falling due within one year:				
Trade Creditors	720	973	562	846
Other Creditors	56	49	34	25
Accruals	1,191	1,225	1,082	1,174
Deferred Income	142	29	142	29
	2,109	2,276	1,820	2,074
Amounts Falling Due After More than One Year:				
Early retirement costs	135	-	135	-

18. Provision for liabilities and charges

	GROUP AND NMS	
	2005 £000	2004 £000
Restructuring costs	-	200
Other claims	25	-
	25	200

**NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005**

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

	GROUP AND NMS				
	2005 £000 Utilised	2005 £000 Unutilised	2005 £000 Total	2004 £000 Restated	2004 £000 Total
Opening Balance 1 April	55,997	487	56,484	57,680	57,680
Grant-in-Aid Transferred	3,050	-	3,050	1,050	1,050
Asset replacement	487	(487)	-	-	-
Released in Year	(2,602)	-	(2,602)	(2,246)	(2,265)
Closing Balance 31 March	56,932	-	56,932	56,484	56,465

20. Donated Asset Reserve
(See Notes 1[k])

	GROUP AND NMS	
	2005 £000	2004 £000
Opening Balance 1 April	15,158	15,807
Capitalisation of Collection Purchases	507	582
Capital donations received	530	-
Released in Year	(1,228)	(1,231)
Closing Balance 31 March	14,967	15,158

21. General Fund

	GROUP AND NMS	
	2005 £000	2004 £000
Opening balance 1 April	446	446
(Deficit)/surplus in the year	(126)	477
Transfer from Board Reserve	-	(477)
Closing Balance 31 March	320	446

**NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005**

22. Board Reserve Fund

	GROUP AND NMS				
	2005 £000	2005 £000	2005 £000	2004 £000	2004 £000
	Revenue	Capital	Total	Restated Total	Total
Balance at 1 April	1,794	606	2,400	2,209	2,209
Transfer (to)/from Income and Expenditure Account	-	-	-	191	477
Transfer to capital	(331)	331	-	-	-
Closing Balance 31 March	1,463	937	2,400	2,400	2,686

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.

23. Revaluation Reserve

	GROUP AND NMS		
	2005 £000	2004 Restated £000	2004 £000
Balance as 1 April	68,382	67,094	67,094
Revaluation of buildings, leasehold improvements and permanent galleries, net of backlog depreciation	3,165	1,756	1,752
Release to Income and Expenditure Account	(558)	(468)	(468)
Closing balance at 31 March	70,989	68,382	68,378

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.

24. Purchase Fund
(See Notes 2 and 3)

	GROUP AND NMS	
	2005 £000	2004 £000
Income	-	-
Balance at 1 April	110	185
Scottish Executive Education Dept	510	510
Other Contributions		36
	620	731
Expenditure		
Purchases	507	582
Fieldwork, etc	11	39
	518	621
Closing balance at 31 March	102	110

NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

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

	2005	GROUP	2004
	£000	Restated £000	£000
Operating (deficit)/surplus	(657)	(276)	10
Interest Received	(103)	(68)	(68)
Depreciation, permanent diminution in value and loss on disposal	4,423	4,023	4,042
Transfer from Donated Asset Reserve and Capital Reserve	(3,830)	(3,477)	(3,496)
(Increase) in stocks	(90)	(32)	(32)
Decrease/(increase) in debtors	790	(1,176)	(1,176)
(Decrease)/increase in Creditors	(32)	1,604	1,604
(Decrease)/increase in Provisions for Liabilities and Charges	(175)	200	200
Net Cash Inflow from Operating Activities	326	798	1,084

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	
	2005 £000	2004 £000
Opening Cash Balance	2,799	1,614
Change in Year	(472)	1,185
Closing Cash Balance	2,327	2,799

26. Capital Commitments

	GROUP	
	2005 £000	2004 £000
Contracted but not provided for in the Accounts	1,387	381

27. 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:

	2005 £000	2004 £000
Trading profits from continuing operations	339	257
Gift aid to NMS	(334)	(270)
Profit/(loss) after gift aid	5	(13)
Interest Income	21	14
Profit reported in Consolidated Income and Expenditure Account	26	1
Reserves at 1 April	(247)	(248)
Transferred from Income and Expenditure Account	26	1
Reserves at 31 March	(221)	(247)

**NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005**

28. 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 the following trustees of NMS were also trustees of NMSCT: Professor James Murray and James Fiddes. NMS received £626k in grants and donations from NMSCT during the year (2004 £85k).

The following trustees were also members of the NMS Enterprises Board: Lord Wilson and Grenville Johnston.

The Director of NMS, Gordon Rintoul, is a member of the Board of the Scottish Cultural Access Network (SCRAN). During the year NMS invoiced SCRAN for £70k + VAT for work done (2004 = £2k). This amount was disputed by SCRAN, and as a result subsequent to the year-end NMS undertook further rework, issued a credit note without prejudice for £2,695 and agreed settlement of the balance in two payments in August and September. NMS due to the above has deferred the recognition of the income from 2004/05 to 2005/06 as the value of the work was undetermined at 31 March.

29. Cost of Capital

Notional interest is based on the following balances in respect of grant-aided activities at a rate of 3.5% (2003/04- 3.5%) applied to the average balance during the year.

	2005	2004	2004
	£000	Restated £000	£000
General Fund	319	446	446
Capital Reserve	56,932	56,484	56,465
Purchase Fund	102	110	110
Revaluation Reserve	70,989	68,382	68,378
	128,342	125,422	125,399
Average Balance During the Year	126,882	125,413	125,402
Notional Interest at 3.5% (2004 =3.5%)	4,441	4,389	4,389

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.

NATIONAL MUSEUMS OF SCOTLAND
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2005

30. 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	
	2005 £000	2004 £000	2005 £000	2004 £000
(Deficit)/surplus before Notional Costs	(657)	10	(684)	9
Notional Cost of Capital (Note 29)	(4,441)	(4,389)	(4,441)	(4,389)
Deficit After Notional Costs	(5,098)	(4,379)	(5,125)	(4,380)

31. Leases

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

	GROUP AND NMS	
	2005 £000	2004 £000
Payable Within One Year	75	80
Payable After One Year	17	57

32. Contingent Liabilities

A claim has been made by a visitor for injuries sustained at an NMS site. NMS has made full provision for the settlement on the basis of independent legal advice.

33. 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.

	2005 £000	2004 £000
Balance at 1 April	92	194
Grant Received	200	200
Disbursements	(263)	(302)
Balance at 31 March	29	92